

Expert Witness Statement of Jonathan Geoffrey Stanford

Engaged by Gunns Limited

In the matter of the Bell Bay Pulp Mill Project: A project of State Significance Resource Planning and Development Commission Inquiry

Proponent: Gunns Limited

1 Name and address

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2 Area of expertise

My area of expertise is economic impact evaluations.

My qualifications and experience are detailed in Attachment 1.

I am sufficiently expert to make this statement because I have more than 10 years experience in undertaking economic impact assessments, for both government and private clients, as a Director of both Insight Economics and previously the Allen Consulting Group. Before that, I worked in economic policy at senior levels of Government in a number of roles, including Director of the Bureau of Industry Economics, which undertook a number of economic impact assessments, and latterly as a division head in the Department of the Prime Minister and Cabinet.

I have Masters and Bachelors degrees in Economics from Manchester University in the UK. I also have a MBA from the London Business School.

3 Scope

3.1 Instructions

The Economic Impact Assessment (EIA) was exhibited in Volume 8, Appendix 15 of the Draft Integrated Impact Statement (IIS) on the proposed Bell Bay Pulp Mill. I have adopted the EIA as the basis for this expert witness statement and evidence. This expert witness statement contains a summary of the EIA findings, which represented our final report on the matter. This expert witness statement contains no additional analysis to that which is presented in my EIA. However, it also includes opinions in response to submissions as detailed in Section 5 of this expert witness statement. None of the material contained in those submissions has caused me to alter my conclusions regarding the likely economic impact of the proposed Bell Bay Pulp Mill.

The persons who worked on the EIA at the Allen Consulting Group were myself (project director), Catherine Rooney and Melanie Kelly. During the course of the project Catherine Rooney went on maternity leave, while at the same time Melanie

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Kelly and I left the Allen Consulting Group to form a new company, Insight Economics. Insight Economics completed the Economic Impact Statement as a sub-consultant to the Allen Consulting Group.

The Allen Consulting Group was engaged by Gunns to complete the following tasks for the Draft IIS:

- estimate the economic impact of the Pulp Mill on the Australian, Tasmanian and regional Tasmanian economies of the Bell Bay Pulp Mill, using a computable general equilibrium (CGE) model;
- prepare an economic impact report that drew upon the findings of the modelling results and previous work that had been undertaken by Gunns and another consulting firm, GHD;
- consider any submissions that may have been raised by the RPDC, relevant government authorities or the public; and
- participate in the RPDC inquiry process.

The persons at the Allen Consulting Group and subsequently Insight Economics ('the consultants') were engaged because of the depth and breadth of their experience in EIAs. The Monash Multi-Regional Forecasting (MMRF-Green) CGE model was employed to estimate the economic impact of the mill. MMRF-Green is owned and operated by the Centre of Policy Studies at Monash University and is widely considered to be the pre-eminent economic model available in Australia. The Monash suite of economic models have been developed over the last thirty years, are well documented, have been subject to extensive peer review and are used extensively by governments at both the State and Commonwealth levels. CGE models also offer a far more accurate means of estimating the impact of major projects than simple input-output models. This is because CGE models factor in resource constraints whereas input-output models generally do not.¹

¹ Public documentation of the MMRF-Green model is available at: Pezzey, J.C.V. and Lambie, N.R., 2001, *Computable general equilibrium models for evaluating domestic greenhouse policies in Australia: A comparative analysis*, Report to the Productivity Commission, AusInfo, Canberra; and Adams, P.D., Horridge, J.M. and Parmenter, B.R., 2000, *MMRF-Green: A Dynamic, Multi-sectoral Model of Australia*, Centre of Policy Studies, Monash University, Melbourne. Examples of other major EIAs modeled by MMRF-Green in the last 12 months include:

1. Impacts of a proposed new Coal Export Terminal in Newcastle (Allen Consulting and private sector client) (August 2006).
2. Impacts of the Proposed SE Victoria Water Recycling Project (PriceWaterhouseCoopers) (March 2006-June 2006).
3. Evaluation of the proposed Browse LNG/LPG Project (Insight Economics and private sector client) (June 2006).
4. Development of the Aurukun Bauxite and Alumina Project (QLD Treasury) (June 2006-July 2006).
5. Impacts of the PNG gas pipeline (MMA and private sector client) (June 2006 – August 2006).
6. Modelling the Effects of Deepening the Port Phillip Bay Shipping Channel (PriceWaterhouseCoopers) (April 2006 – June 2006).

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Section 8 of the RPDC Final Scope Guidelines are relevant to the EIA.

3.2 Process and methodology

At all stages I directed and worked with the other consultants to complete the EIA. The methodology for this work was as follows.

The main input for the economic modelling was the financial model supplied by Gunns. In developing this financial model, Gunns and its advisers had regard to a range of sources of information and data. The final version of the model was put together by Jaakko Pöyry and, in view of the fact that it included detailed projections of costs, revenues and profit margins, it was supplied to me by Gunns only on a strict commercial-in-confidence basis. The data set identified both the construction and operational phases of the mill. It included the number of workers estimated to be required for both phases and the expected regional sourcing of all inputs to the mill, including all labour and capital. Regions included all States and territories and 'overseas'.

The information outlined in the previous paragraph was supplied by me to Professor Philip Adams, Director of the Centre of Policy Studies at Monash University, who undertook the modelling. Professor Adams used this information to allocate expenditure across relevant industries and regions. These direct impacts were then run through the MMRF-Green model to estimate the full general equilibrium impacts of the mill. The model produced outputs that measured the broad economic impacts (Guidelines Section 8.3), the impacts on public revenues and expenditures (Section 8.4), employment impacts (Section 8.5), impacts on other industries (Section 8.6) and the impact of the project not proceeding (Section 8.7).

The results of the MMRF-Green model were analysed by me and the other consultants, under my direction, which then produced a detailed report setting out the findings. In parallel with the MMRF-Green modelling, we also undertook research on the existing economic profile of Tasmania and regions of Tasmania, and the forestry industry. Key documents reviewed are summarised below. We synthesised the results of the CGE analysis with this research to produce the final assessment contained in Volume 8, Appendix 15 of the Draft IIS.

7. Modelling the Expansion of the Glennies Creek Mine (Allen consulting and private sector client) (March 2006-April 2006).

8. Evaluation of the proposed Pluto LNG Project (Allen consulting and private sector client) (January 2006-March 2006).

9. "Changes in the Composition of Motor Vehicle Manufacturing (private sector client and the Allen Consulting Group) (December 2005-January 2006).

10. "Impact of the Victorian Racing Industry and implications of changes in government support" (IEA) (January 2006-February 2006).

11. "Economic Contribution of the Victorian Spring Racing Carnival" (IEA) (December 2005-January 2006).

12. "Revised Estimates of the Impacts of a new pulp paper mill for Tasmania" (Tasmanian Treasury and Allen Consulting) (December 2005-January 2006).

13. "Impacts of the new Iluka Mineral Sands project in SA" (Allen Consulting Group) (November 2005).

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3.3 Reports reviewed

Key reports reviewed included:

- ABARE, 2005, *Australian Commodity Statistics 2005*, p 131-145.
- ABARE, 2005, *Outlook 2005: Future Developments in the Pulp and Paper Industry*.
- ABARE, 2005, *Wood and Paper Products: Recent Trends in the Australian Trade*.
- ABS, 2005, *Australian Year Book*.
- Centre of Policy Studies, 2004, *Economic Impacts of a New Pulp Mill in Tasmania*, Report to the Tasmanian Department of Treasury and Finance.
- Department of Agriculture, Fisheries and Forestry, 2000, *Forest and Wood Futures: An Action Agenda to Pursue the Vision for Australia's Forest and Wood Products Industry*.
- Various documents produced by Gunns and available on the company's website.
- Gunns Project Summary, *Bell Bay Pulp Mill Project: the World's Greenest Pulp Mill*.
- Gunns, 2005, *Proposed Bleached Kraft Pulp Mill in Northern Tasmania: Revised Project Scope*, May.
- Gunns, 2006, *Northern Tasmanian Pulp Mill, Potential EIA Report*, prepared by GHD, January (commercial-in-confidence).
- Gunns, Innovation or Technical Development for the Bell Bay Pulp Mill Project.
- Jaakko Pöyry, 2005, Information Memorandum for a Greenfield Pulp Mill in Tasmania (commercial-in-confidence).
- RPDC Final Scope Guidelines for the IIS.
- RPDC website.
- the Tasmanian government's *Tasmania Together 2020 Strategy*.

3.4 Assumptions

The standard MMRF-Green assumptions are summarised in Volume 8, Appendix 15 of the Draft IIS.

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The proposed pulp mill was modelled as a new project, that is, relative to a base case projected on the basis of a business as usual assumption in which the mill is not built. All economic impacts were expressed in real terms (that is, with no allowance made for future inflation) relative to base case outcomes.

The modelling projections terminated in 2030 and so did not cover the full life of the proposed mill, which is assumed to extend to 2038. This is because the modellers consider that a projection period beyond about 25 years contains too many uncertainties in the later years, particularly in terms of the base (business-as-usual) case.

The net present value (NPV) analysis of the impacts was based on a discount rate of 5 per cent. This is considered a conservative discount rate for 'real' data. This discount rate does not account for any risk that the values of impacts projected in later years will not eventuate or attempt to measure their opportunity cost. Its purpose is solely to account for the impact of the passage of time on their value today.

There is sometimes some confusion regarding the treatment of GST in reporting the MMRF-Green modelling results. GST is a Commonwealth tax but revenue from GST is distributed to the States on the basis of complex formulae determined by the Commonwealth Grants Commission (CGC). The MMRF-Green model does not estimate the amount of GST revenue that will be returned to Tasmania, only the GST revenue expected to be collected in Tasmania. Tasmania always receives more in GST revenue than is collected from GST within the State. Because of uncertainty regarding outcomes from the CGC process, in reporting the impact of the proposed mill on Tasmania's government revenues, we have compared GST revenue collected within Tasmania with the pulp mill relative to GST collections in the base case projections.

Finally, the chemical plant was modelled as a separate merchant operation and not as part of Gunns' capital expenditure.

3.5 Limitations and exclusions

The consultants have no expertise in property valuation, and therefore the assessment of the impact on housing prices was limited to existing research that had been undertaken by GHD and Gunns.

The MMRF-Green model also did not value the impact of the mill for all of the elements identified in Section 8. Excluded from the analysis was the possible impact of the mill on marine fisheries and environmental management industries, as well as possible changes in the pattern of land and water use or the productivity and viability of rural operations.

Since we prepared the EIA, we have had the opportunity to examine some further work on the likely impact of the proposed mill on property values (Brothers Newton)

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and marine fisheries (David Balloch). Nothing in these reports has led us to believe that the additional information would lead to any material changes to our findings.

Subsequent analysis of transport impacts by GHD suggest that, as a consequence of the mill, there would be an increase of approximately 8 per cent, other things being equal, in the aggregate kilometres travelled by road in Tasmania. On the other hand, if rail transport were used, there would be a 5 per cent decrease, other things being equal, in the aggregate kilometres travelled by road in Tasmania.

We do not know what the likely impact of these changes would be on fatalities. In terms of economic impact, any change in our estimates would be at the margin. It should also be noted that increased government revenue as a consequence of the mill could be spent by the State government on improving the quality of Tasmania's roads.

4 Findings

4.1 Summary of opinions on Bell Bay Pulp Mill

The EIA finds that Tasmania has historically lagged behind the mainland in terms of economic growth and living standards. In order to address this, the State government is pursuing a strategy directed towards, *inter alia*, creating an internationally-focused business culture that fosters business investment and growth, and encourages enterprise, innovation and excellence through:

- enhancing Tasmania's business operating environment in the international context;
- increasing the rate of economic growth;
- fostering a culture of enterprise;
- increasing access to global knowledge and productive business investment;
- increasing business confidence; and
- increasing value-adding.

The EIA concluded that if Tasmania is to attain a higher rate of economic growth, then a higher level of investment will need to be sustained over a considerable period of time. This has been acknowledged by the *Tasmania Together 2020 Strategy*, which is discussed below. The EIA also concluded that a major new investment project is likely to be particularly beneficial if it builds on Tasmania's competitive advantages, in terms of resource endowments, and provides the opportunity for further development. Given demand and supply constraints that restrict raising the volume of exports of some commodities, in particular the supply side restrictions on wood products, the key to raising the contribution of international trade to the future

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wealth of the Tasmanian community lies in increasing the value added component of exports.

Overall, the modelling shows that the proposed pulp mill would yield substantial economic benefits to Tasmania and produce outcomes which would be strongly aligned with the objectives of the *Tasmania Together 2020 Strategy*.

The capital expenditure of \$1.45 billion proposed by Gunns would represent the largest private investment ever made in Tasmania and the largest forestry industry investment in Australia. This would:

- raise the level of aggregate investment in Tasmania, which is essential if economic growth is to be increased on a sustained basis and living standards improved;
- help to shift the State's production and export profiles away from basic commodities and into greater value-adding;
- create an estimated 2,000 additional jobs in the Tasmanian economy by 2030, many of them in higher value occupations; and
- have a major positive impact on Tasmania's gross State product (GSP), with a NPV of \$6.7 billion and a projected value 2.5 per cent higher than otherwise in 2030,

The main projected economic impacts of the mill are presented in Table 1.

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Table 1

SUMMARY OF KEY ECONOMIC IMPACTS

Measure	Impact of Bell Bay mill (2007-2030) ^a	Percentage growth above base case projections in 2030
NPV ^b of Gross Domestic (State) Product impacts (\$billion) ^c		
Australia	\$3.8 billion	+0.03%
Tasmania	\$6.7 billion	+2.5%
NPV of investment impacts (\$billion)		
Australia	\$2.3 billion	+0.02%
Tasmania	\$3.1 billion	+2.2%
NPV of consumption impacts (\$billion)		
Australia	\$2.7 billion	+0.04%
Tasmania	\$3.3 billion	+2.6%
Average annual construction phase employment impacts ^d		
Australia	696 persons	-
Tasmania	2187 persons	-
Greater Hobart	659 persons	-
Southern	60 persons	-
Northern	1303 persons	-
Mersey-Lyell	164 persons	-
Average annual operating phase employment impacts ^e		
Australia	+284 persons	0.0% ^g
Tasmania	+1,617 persons	+2.0%
Greater Hobart	+297 persons	+0.7%
Southern	+98 persons	+1.2%
Northern	+1,044 persons	+4.4%
Mersey-Lyell	+177 persons	+0.8%
Tasmanian industry impacts (\$million)		
Construction	\$1,125 million	+2.3%
Trade and accommodation	\$601 million	+1.3%
Biomass	\$192 million	+206.3%
Road transport – freight	\$160 million	+2.3%
Private transport	\$124 million	+2.6%
Chemicals	\$8 million	+4.1%
Agriculture	\$1 million	0.0%

Note ^a: All results are presented relative to a base case where no new pulp mill investment is made. Note ^b All NPV calculations are taken over the 2007-2030 period, discounted at a real social discount rate of five per cent. Note ^c: All impacts, except employment, are in constant (\$2005) prices. Note ^d: Construction phase employment impacts are presented as average annual increases over 2007-2009. Note ^e: Operational phase employment

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impacts are presented as average annual increases over operational life of the mill (2009-2030). Note ¹: The mill will have an estimated operational life of 30 years (2007-2039). Financial modelling was conducted by Jaakko Pöyry² separate to the preparation of this chapter. The results presented in Section 8.6 are based on computable general equilibrium modelling (which is based on the financial projections but separate from their development). The economic modelling results were not projected past 2030 due to concerns for increasing uncertainty of outcomes over long time frames. Note ⁹: Note that this is an increase in the time that persons are employed, which is slightly different to the number of persons employed. The MMRF-Green model assumes that employed persons become more productive. In 2030 employment (hours worked) increases relative to its base case level by 2.0 per cent. In 2030 the number of persons employed in Tasmania (persons employed includes full and part-time workers as defined by the ABS for its labour survey) in the base case is 286 thousand. In 2030 employment (persons employed) increases relative to its base case level by 2,020 persons (this is equivalent to 0.7 per cent of base case employment in persons). Thus the increase in hours worked has been met by a combination of a 0.7 per cent increase in the number of full and part-time jobs and a 1.3 per cent increase in the number of hours worked per person employed.

4.2 Short term impacts

In the short term, investment would be expected to rise sharply relative to the base case. In Tasmania, the peak expansion in investment is projected to occur in 2008. Investment for the State in that year would be \$1,067 million (or 20.0 per cent) higher if the mill were constructed than it would be under base case projections. Although no one project can be reasonably expected to generate long run convergence with mainland investment rates, this would significantly contribute to the goal of 'parity' with the mainland in terms of investment as a proportion of total economic activity.

Again in the short term, this significant boost to aggregate investment would drive a strong increase in the output of the construction sector.

In terms of possible adverse impacts, three effects would be:

- a small appreciation of the Australian dollar due to (by assumption) the large sourcing of capital from overseas, which at the margin would tend to reduce the competitiveness of export-oriented industries and result in a depreciation of the trade balance in the short run relative to base case projections;
- an increase in competition for building sector labour, which may cause wages in some labour categories to rise and could result in some delay to the commencement of some other projects beyond their intended start-up period; and
- increased pressure to accommodate the construction labour force, which could create an artificial 'boom' in the Tasmanian housing sector.

Gunns has reported that it has management strategies in development for the management of construction force accommodation to minimise the effect on the regional economy, and for the training of workers for various construction and operational phase labour positions.

² Jaakko Pöyry is a consulting firm that provides engineering and project implementation services. It specialises in the forestry and pulp and paper industries.

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4.3 Long term impacts

In the long run, the mill would provide an ongoing boost to Tasmania's economy due to:

- *Value-adding to Tasmania's export profile* — In the longer run, in line with the core value-adding element of the project, Tasmania's export profile would be expected to increase relative to the base case once exports of pulp begin from 2009 onwards (Figure 8.7). By 2030, Tasmanian exports would be expected to rise to \$204 million (2.3 per cent) above base case projections. In NPV_{5%} terms over the operating phase from 2009-2030, exports would be \$2.3 billion greater than under base case projections.

Table 2

SUMMARY OF PROJECT COMPONENTS

Project costs and benefits	Percentage of inputs sourced from Tasmania	Nature of the cost, benefit
Project costs		
Operating phase personnel	100% ^a	Fixed
Wood and chipping costs (including road and rail transport)	100%	Variable
Chemicals	80%	Variable
Fuel (gas, biofuel)	100%	Variable
Water	100%	Variable
Sewage disposal	100%	Variable
Solid waste disposal	100%	Variable
Operating and packing materials	90%	Variable
Maintenance materials	90%	Fixed

Source: Gunns Limited. Note ^a: It is assumed that 80 per cent of the personnel that will work at the Gunns plant will be already living in Tasmania. A further 15 per cent are expected to be hired from mainland states, and a further five per cent are expected to be hired from overseas. However, Gunns does not intend to operate a fly-in, fly-out workforce. Therefore 100 per cent will live in Tasmania for the life of the mill once it is operational.

- *The large local component sourcing expected by Gunns* (Table 2) — As the table demonstrates, most of the mill's inputs will be sourced from businesses in Tasmania. The utilisation of a wide range of services (gas, electricity, water, sewerage, solid waste removal) will result in increased service revenue and increased utilisation of existing service infrastructure in Tasmania. Bulk purchase contracts of natural gas, via the Tasmania Gas Pipeline, will produce a stimulus to Tasmanian gas service providers. Other Tasmanian firms will benefit from purchases by Gunns of potable water and sewerage and solid waste removal. For

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example, Gunns has estimated that water supply and effluent disposal expenditures will amount to \$3.6 million per annum over the life of the mill.³

- *Increased purchasing power for chemicals products for other Tasmanian businesses* — Other Tasmanian manufacturers will have the opportunity to access certain chemical products at world competitive rates. Increased access to chemicals at cost effective prices could potentially provide the impetus for new businesses to develop.
- *The introduction of new technologies* — Exposure to these new technologies may have spillover benefits to other existing industries or help to provide a platform from which new businesses may develop.
- *An increase in electricity supply to the Tasmanian grid* — Gunns intends to sell around 60 MW of power surplus into the Tasmanian grid. This would equate to roughly two per cent of Tasmania's total installed current generator capacity and five per cent of average total energy demand. If competition resulted in lower energy prices, this would benefit businesses and consumers who currently pay the highest prices in the National Electricity Market (NEM) (roughly 29 per cent higher than other NEM regions).
- *The training of a large number of workers in trades and processing skills* — During the construction phase, TAFE Tasmania would plan to focus on providing accelerated training programs so workers could be skilled up in particular aspects of construction, including: electrical cable tray installation; electrical termination; stainless steel welding; other specialised welding; targeted training in facets of building construction; and site health and safety requirements.

During the operational life of the mill, Gunns would intend to provide its staff with ongoing TAFE training courses. Again, most of the operational phase workers would also be expected to be generally inexperienced in pulp manufacture prior to working with Gunns. Of the 292 full-time jobs to be supported, Gunns would expect that more than 60 per cent of the jobs (both salaried and production line) would require additional technical training, in addition to on-site, mill-specific training. This would be likely to generate additional TAFE training opportunities (possibly as many as 6-8 new TAFE training positions in specific aspects of process engineering, plant supervisor, electrical equipment maintenance and material handling etc).

- *Knowledge transfer to local industry* — From our consultations with TAFE Tasmania, it is clear that the institution sees the opportunity for strong reputational benefits to be created through both the initial construction training courses and the ongoing standard operating procedure training if the mill is

³ As the mill ramps up, expenditure will rise from \$2.3 million to \$3.6 million per annum.

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constructed. In particular, it sees potential for the creation of a centre of excellence at TAFE Tasmania around wood manufacturing technologies.

- *Increased business confidence* — A large investment, such as the proposed pulp mill, that significantly increases activity in the region could be expected to give rise to a perception that Tasmania is ‘open’ for business and new investment. The converse is that if this investment does not go ahead, there may be considerable damage to the perception of the State as a place to do business.
- *An increase in Government revenues* — Substantial additional government revenue would be generated at both a national and Tasmanian level, if the pulp mill goes ahead. In total, annual taxation revenues to all Australian Governments are expected to increase by \$76 million above base case expectations by 2030. In NPV_{5%} terms, this would amount to an additional \$834 million in taxation revenue from 2007-2030 relative to the base case.

4.4 Impact of the project not proceeding

If the project were not to occur, none of these social and economic benefits would be realised. Tasmania’s employment profile would remain much the same, as Gunns would continue to produce forest and wood products in a similar way to the current profile. Tasmanians would need to look to other industries to sustain their future living standards. After a negative experience with this project and the previous decision on Wesley Vale, it would seem very unlikely that any other investor would develop a major project proposal in this industry again. The prospects of adding value to Tasmania’s greatest natural resource would therefore appear limited.

In the event that the project does not go ahead, it may well be that the present gap between living standards in Tasmania and on the mainland would widen over time. Tasmania remains a small and open economy. Adding value to its principal natural resource would offer a pathway to underpin ongoing economic growth. While Tasmania may have some advantages in other high value activities, due to the skills of its workforce, it will be difficult to attract investment in many of these areas in competition with States such as Victoria and New South Wales which have more of a critical mass in terms of related industries and markets. As in the past with call centres, other businesses may be attracted to Tasmania because of its lower labour costs, but this approach is unlikely to increase economic growth and sustain higher living standards in the long term.

5 Response to community concerns and key submissions

I reviewed all submissions that were assessed to relate to economic impacts. The review found that most submissions centred on a few key issues. My response is organised around these key areas of concern. No response has been prepared on issues that have already been addressed by the EIA.

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It should be noted that many submissions turned on questions of impacts of increased harvesting on water catchments, agriculture, Tasmanian tourism, Forestry Tasmania and other sectors. The EIA was based on an assumption, based on the wood supply section of the Draft IIS, that there would be no intensification of harvesting relative to the base case.

The main economic issues raised in the submissions were:

- the credibility of the model and the way it was employed;
- economic effects of possible transport impacts;
- possible economic impacts of the mill on tourism;
- economic effects of possible environmental impacts of the mill; and
- possible project risks.

These are discussed below.

5.1 Issues of model credibility

The MMRF-Green model has a very high level of credibility. It has been developed over thirty years, is well documented and has been subject repeatedly to exhaustive academic peer review. For example, ACIL Tasman, in its report to Beca AMEC analysing the Allen Consulting Group's methodology and findings confirmed this. Public documentation of the MMRF-Green model is available at:

- Pezzey, J.C.V. and Lambie, N.R., 2001, *Computable general equilibrium models for evaluating domestic greenhouse policies in Australia: A comparative analysis*, Report to the Productivity Commission, AusInfo, Canberra.
- Adams, P.D., Horridge, J.M. and Parmenter, B.R., 2000, *MMRF-Green: A Dynamic, Multi-sectoral Model of Australia*, Centre of Policy Studies, Monash University, Melbourne.

In regard to the way the model was used, the modelling was undertaken by Professor Philip Adams, Director of the Centre of Policy Studies at Monash University. He has undertaken a very large number of assessments of the economic impacts of major projects and we have full confidence both in his professional abilities and that the modelling was conducted in a neutral and unbiased way. For example, no attempt was made to boost the economic impacts of the mill in any respect.

We calculated the net present value (NPV) of various economic impacts, as estimated by the model. There are always different views on the appropriateness of different discount rates and in using a real discount rate of 5 per cent, I assume that the mill will continue to operate as projected during its life. Other economic consulting firms,

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such as Access Economics and ACIL Tasman, commonly use 5 per cent as a discount rate for estimating NPVs for the economic impact of major projects. In this case, even if the discount rate was increased to 6 per cent, the NPV of the impact of the mill on Tasmania's GSP would be reduced from \$6.7 billion to \$6.0 billion, still a very high figure.

5.2 Issues of transport impacts

Recent estimates provided by GHD suggest an increase in kilometres travelled on Tasmania's road network of around 8 per cent (or a decrease of 5 per cent if rail transport were used). I do not know the likely impact of this on fatalities, although the additional revenue accruing to the State as a consequence of the mill would allow an enhanced road improvement program to be undertaken. The effect of the increase in road traffic on the economic impact of the mill would be small.

5.3 Issues of tourism impacts

Some submissions suggest we failed to model the economic impact of the mill on the Tasmanian tourism industry.

The modelling assumed a zero impact on the tourism industry. This needs to be understood in the context of the fact that the Bell Bay Precinct is already the most significant industrial estate in Tasmania with a number of major operations within its borders. It is difficult to see why adding one more industrial project to the many others in this precinct would discourage tourism in Tasmania.

5.4 Issues of environmental impacts

We did not model the economic impact of any significant adverse environmental impacts because we were not advised that there would be any such impacts.

5.5 Issues of project risks

A number of submissions focus on the supposed financial risks of the pulp mill. My response to this is that it is difficult to see why this is anything other than a matter for Gunns and the company's financiers. There is no obvious reason why government or the community generally has a legitimate interest in the projected rates of return of major industrial projects.

Obviously if the mill does not go ahead because of financial risks, or if it goes ahead and fails, then the projected economic benefits will not eventuate. I have undertaken a large number of economic impact studies of major investment projects and I have never included an analysis of project risks when evaluating and reporting the economic outcomes.

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6 Conclusion

At around \$1.45 billion in capital expenditure, the proposed pulp mill would represent a significant opportunity for Tasmania's economy to grow through adding value, in a sustainable way, to one of its most valuable natural resources. By converting exports of woodchips into exports of pulp, the project offers the prospect of playing a catalytic role in moving the Tasmanian economy up the value chain.

The broad economic impacts of the Bell Bay Pulp Mill would be expected to be strongly stimulatory to the Tasmanian economy across all its regions, with the greatest growth expected in the Northern region of Tasmania. GDP, GSP, consumption, investment, government revenue, employment and consumer confidence would all be expected to increase over base case projections. Substantial new infrastructure would need to be in place to respond to the increase in economic activity.

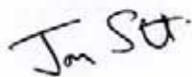
7 Provisional opinion

The opinions that I have expressed in this report are based on my experience and the experience and advice provided to me by Gunns Limited and the consultants engaged to carry out specialist studies for the Bell Bay Pulp Mill project. Subject to any limitations and exclusions identified in this statement, I consider that my opinions and the opinions of consultants at the Allen Consulting Group and Insight Economics who assisted me in preparing the economic impact assessment are complete and based on the best available evidence.

I am satisfied through my inquiries that the opinions I have expressed are reasonable in regard to the economic impact of the Pulp Mill, which will provide a very positive stimulus to the Tasmanian economy.

8 Declaration

I have made all the inquiries that I believe are desirable and appropriate and no matters of significance which I regard as relevant have, to my knowledge, been withheld from the Commission.



Jon Stanford

Co-Chairman, Insight Economics

30 November 2006



Attachment 1

Jon Stanford

Co-Chairman

Insight Economics

Jon Stanford, Co-Chairman of Insight Economics, was born and educated in England. His qualifications include a MBA from London Business School and a Master's degree in Economics from Manchester University.

For most of the past decade, before helping to establish Insight Economics, Jon was a Director of the Allen Consulting Group. He has developed a strong consultancy practice in economics and policy issues related to greenhouse, the resources sector, industry development and defence. He is a regular contributor to The Australian Financial Review and The Age on these issues.

In the mid-1990s, Jon was Chair of the Council of Australian Governments' Gas Reform Implementation Group, which developed and implemented the National Gas Code. He has been heavily involved in economic modelling and policy analysis related to climate change since the late 1990s and has undertaken a number of important studies in this area for business and governments. Jon has also worked closely with several major corporations in successfully seeking support for investment projects through the Commonwealth's Strategic Investment Coordination process.

Apart from providing confidential advice to business, Jon has played a leading role in authoring a number of significant published consultancy reports, including most recently:

- A study for the Victorian Government on impediments to investment in infrastructure.
- An analysis of the economics of naval shipbuilding in Australia, including the local construction of three air warfare destroyers.
- A major project for the Victorian Government on the Greenhouse Challenge for Energy.
- A study for the Western Australian Government on the economic, social and strategic implications of developing the Gorgon gas resource on Barrow Island.

In the course of his consulting career, Jon has developed a strong partnership with the Centre of Policy Studies (CoPS) at Monash University. This provides an excellent capacity in economic modelling, since CoPS has developed the most comprehensive and highly regarded suite of computable general equilibrium models available in Australia.

Before becoming a consultant, Jon Stanford had a significant career with the Australian Public Service in Canberra. His final position with government was as head of the Industries, Resources and Environment Division in the Department of the Prime Minister and Cabinet. Before that, in the early 1990s, he was Director of the Bureau of Industry Economics.