

Committee Secretary  
 Senate Economics Committee  
 Department of the Senate  
 PO Box 6100  
 Parliament House  
 Canberra ACT 2600  
 Australia

15<sup>th</sup> September 2008

**RE: Varanus Island Gas Explosion and resultant limitations on gas supply to the South West**

Dear Sir / Madam,

**Introduction:**

Dynea Australia Pty Ltd is the only manufacturer of amino resins for use in the Particleboard, Medium Density Fibreboard (MDF) and Paper Treater applications for the timber industry in Western Australia. Dynea also toll manufactures polyacrlimide flocculants on behalf of Cytec Australia Pty Ltd for consumption in the local Alumina refinery operations.

Dynea Australia has a plant in Dardanup West, Western Australia, which runs on a 24hrs a day / 7 days a week continuous basis. We employ 27 Full Time Equivalents (FTE's) with 20 of these directly involved in the running of the production facility.

The resin manufacturing facility has two primary components. A continuous formaldehyde production facility and a batch process for manufacturing different resins depending on the application they are to be consumed within. Typically formaldehyde has a shelf life of approximately 60 days assuming that the storage tanks can be maintained at approx 60°C and receives regular agitation. The resins manufactured have varying shelf lives of between 10-40 days depending on application. (Once resin has been manufactured it is an irreversible reaction that will eventually become a single molecule if not consumed within its normal shelf life.)

Dynea Australia has two primary customers, The Laminex Group and Cytec Australia Pty Ltd. Each of these customers have sub customer groups within them which we supply independently as follows:

The Laminex Group	Particle Board Plant	Dardanup West
	MDF Plant	Welshpool, Perth
	Paper Treater Line	Dardanup West

Cytec Australia Pty Ltd	Alcan Gove	Gove
	Alcoa of Australia	Pinjarra
	Alcoa of Australia	Wajerup
	BHP Biliton – Worsley Alumina	Worsley

#### Impact of Gas Explosion:

Dynea was not directly impacted by the explosion and subsequent gas supply disruption from the Apache gas production facility on Varanus Island due to our small requirement for natural gas. However, all of our customers were impacted to one extent or another which of course had a flow on affect to our ability to manufacture and subsequently supply product.

The Laminex Group had Force Majeure notices issued upon them by the Gas distributor Alinta, which effectively shut all of their production facilities down in the South West. With Laminex being non-operational this effectively meant we had no customers available to consume product manufactured and in storage, and due to the nature of the force majeure and the manner in which it was being communicated we did not know from one day to the next whether or not we would be required to supply and or manufacture product.

Dynea managed to avoid having to enforce any shutdown period, by offering short notice leave, and allowing a degree of flexibility around manning requirements. This had its own set of issues, as when gas was allocated to The Laminex Group, we didn't necessarily have enough manning on site to meet the needs for production and had to use overtime to cover the short fall. The communication from Alinta, and the State Government was entirely inadequate with regards the magnitude of the problem, and then subsequently the rationing and issuance of gas to the Alinta customers.

The intermittent gas supply situation made it very difficult to plan with any degree of certainty, and also made it very difficult with regards maintaining manning structures and morale in an environment where staff could easily have left for more lucrative opportunities in the North West.

Fortunately the particleboard plant in Dardanup had the ability to invest in an alternative fuel supply option that allowed them to operate using Liquid Petroleum Gas, and their Paper Treater line made some modifications to allow them to run on diesel fuel. I understand that this was at considerable cost to Laminex, but better to be running their plants at high cost rather than not at all. The MDF plant in Perth did not have the ability to easily change over to an alternative fuel source and so was constantly at the mercy of the rather arbitrary gas allocation system that was in effect.

The upgrade of the plants in Dardanup allowed these lines to run independently of the gas supply from Alinta and allowed Dynea to operate its facility at approx 50-60% of normal output, which while not being terribly efficient meant that we could offer some degree of certainty and continuity to our staff.

Dynea has calculated that we have lost approx AUD545,000 in EBITDA as at 31<sup>st</sup> July 2008 through lost sales, and increased costs associated with overtime payments necessary to get staff back in at short notice to run our plant to ensure continuity of supply to The Laminex Group and reworking of product that was deemed not acceptable for production into board products by our customers.

Position Now:

The Laminex Group continue to be allocated gas on a daily basis, however they are now receiving weekly allocations with daily confirmation, which is allowing both Laminex and Dynea to run our plants with some degree of certainty. The Laminex Group plants are currently running in what could be described as normal fashion and hence Dynea Australia has been running at normal outputs since the beginning of August, when the bulk of the gas supply was resumed.

The only concerns at present are in relation to the constant rumours that the gas supply is not certain, and that there is the possibility of future rationing as some of the larger industrial customers come back on line after extended enforced and maintenance shuts.

If you require any clarification or further detail on Dynea Australia's position either now or as we move forward through the ongoing crisis please feel free to contact me and discuss.

Yours Sincerely

Brian Backhouse

Brian Backhouse  
General Manager