

Monday, 17 August 2015

Anything but solid

Opinion Editorial

The demise of a once thriving coal mining company will leave taxpayers facing a loss of at least \$128million from the decision to place Solid Energy into voluntary administration.

The voluntary administration at least staves off any immediate redundancies for the remaining 740 staff, the majority of whom are in the South Island.

What makes the administration more difficult is the proposal must be accepted by up to 1500 creditors in a mid September meeting or the company could be forced into liquidation with at least \$320 million of debt outstanding.

Solid Energy has experienced a chequered few years. At one stage, the company was soaring high on the back of record coal prices, employing nearly 2000 people and being prepared for a sell down with other state owned energy assets - Meridian Energy, Mighty River Power and Genesis.

Falling global coal prices, lower demand from countries like China, and some bad investments, meant the Government had no choice but to remove the company from the asset sale programme.

Taxpayer money was used to bail the company out but the damage was done. Workers were made redundant, communities were devastated.

Looking back, it is hard to believe Solid Energy's top team of chairman John Palmer and chief executive Don Elder could not see the bad news ahead of the company.

Like any commodity, coal prices are cyclical and we are now observing the same problem with Fonterra as executives express their surprise milk prices have fallen so low, despite being paid millions of dollars to predict just that.

Documents eventually released by the Treasury showed the management of Solid Energy had a mindset of living in a false paradise. The Government did not accept Solid Energy's grandiose plans but nor did it pull the management into line.

Finance Minister Bill English says the demise of Solid Energy is due to a combination of excessive ambition, high debt and dropping coal prices.

However, he acknowledges, as a shareholder, the Government had to take some responsibility and says it could have shut down Solid Energy earlier. Prime Minister John Key says the Government did all it could to try to keep Solid Energy afloat but falling international coal prices meant it simply was not sustainable.

Mr English now says the Government will recover nothing from the sale of Solid Energy. Encouragingly, at least for the workers, two companies are already expressing an interest in buying parts of the operation. But they will expect a bargain price for the assets.

While the banks may recover some of their losses through the process, taxpayers will be out of luck from a company which, at one stage, claimed it was worth close to \$3 billion.

It is not true for Mr English to say the Government can recover nothing from the current situation.

When nearly 900 people were originally made redundant, the Canterbury rebuild was heading towards a peak with skilled workers being sought to repair earthquake damaged buildings or demolish those past saving.

In somewhat trite comments, government ministers of the day suggested there was plenty of work for redundant miners and contractors in Canterbury and those on the West Coast should get in their cars and head over the hills for work.

That proved to be more difficult than it seemed as not every redundant miner was a skilled electrician, plumber or builder.

It should have been a duty or responsibility of the Government to provide training for those people rather than leaving them to their own devices. Despite the walls of indifference, the redundant people were state employees.

Lastly, the Government should learn valuable lessons from the downfall of Solid Energy. If current and future MPs want to remain owning businesses, being able to read market signals is imperative. An apology is no replacement for early intervention to prevent a financial and personnel disaster.