

# FINANCIAL REVIEW

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HD **Murdoch's \$30m carbon raspberry**  
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Exclusive The frequent folly of a carbon abatement scheme and the bizarre events which cost a media giant and others dearly, is unwound by Matthew Cranston and Rory Callinan.

Exclusive | In the plush leather seated board room overlooking a wintry Sydney Harbour, the talk was of feral camels and flatulence that could blow into oblivion a \$30 **million** investment by Rupert Murdoch's News Corp. Listening on the line were News Corp's lawyers. It was all business as usual at RM Williams Agricultural Holdings in 2012.

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Armed with \$10 **million** of taxpayers' money, the private investment **company** RM Williams Agricultural Holdings was trying to establish the world's largest carbon farm. Incredibly, one of its main goals was to help Murdoch's media empire go carbon neutral.

Heading the venture was Murdoch lieutenant Ken Cowley, who had brought in the iconic brand of legendary bushman RM Williams, while a high-powered committee boasting former deputy prime minister Mark Vaile and climate change expert Tim Flannery was engaged to provide advice.

Hitched to this uncertain venture through an earlier investment was a disparate group of investors ranging from a Papua New Guinean retirement fund, Australian superannuates, Greens-party donor Piers Dawson-Damer, New Hampshire **millionaires** and even the Australian Competition and Consumer Commission head Rod Sims.

If successful, the operation would have created the largest-ever carbon farm, an example to businesses seeking to reduce carbon footprints. Spectacular collapse

Within a year of that board meeting, and despite Qantas offering to buy a **million** tons of carbon offsets from the farm, greed, egos, camels, conservation, cattle and the global financial crisis collided, causing the **company** to implode spectacularly owing \$100 **million** dollars.

The collapse led to extraordinary allegations of "dishonest" share deals, breaches of the **company's** code of conduct, claims of nepotism, tracing of personal emails, theft of a crocodile skin and legal actions. So bitter would the internal strife become, it led to a security guard being put on standby to ensure order in case of trouble in the boardroom while the **company** tried to sack the managing director over everything from alleged biosecurity breaches and corporate credit card personal expenditure, to relocating his home to central Australia.

Meanwhile, the ambitious dream which sucked **millions** of dollars from some of the world's most canny investors, was absorbed faster than the methane from a feral camel's fart into a dusty Territory clay-pan.

Now, in a timely reminder of the frequent folly of carbon abatement schemes, Fairfax unravels the bizarre tale of how one of the world's most powerful media barons and a host of other high-flyers did their dough on an adventurous carbon trading scheme at the expense of Australian taxpayers.

In 2007, News Corp's employees were surprised to hear a speech from boss Rupert expressing concern about the lack of rain in his home town of Melbourne and a heat-wave that was scorching down under.

Murdoch said climate change was a "clear catastrophic threat" and News Corp would reduce **energy** use, switch to renewable power and offset emissions "we can't avoid". He said the vast media **company** was emitting 641,150 tons of carbon every year, but that by 2010 it would be carbon neutral. Murdoch lectures

As Murdoch lectured his staff on climate change, some businessmen in Australia were establishing an agricultural development operation called Primary Holdings International. One of its first investors, **China**-based Origo Sino-India, provided \$11 **million** of finance and put an employee, David Pearce, as a nominee for the **company**.

Pearce, a former commodities trader was also a trained geologist who worked around the world for companies such as Cargill in Africa and would regale acquaintances with tales of how he rowed across the Atlantic.

PHI acquired a series of blue-chip assets, including an option to pay \$72 **million** for the spectacular adjoining properties, Labelle and Welltree – the highest price ever for an Northern Territory cattle station operation.

Locked into the \$72 **million** deal and already juggling the operating costs of other investments, PHI Group looked for more financiers. They found one in Cowley, who had served as chairman and chief executive of Murdoch's Australian subsidiary News Ltd from 1980 to 1997 and who was also then still on the board of News Corp.

PHI merged into a new **company** called RM Williams Agricultural Holdings, chaired by Cowley, who also owned the historic RM Williams apparel **company**.

In return for using the RM Williams name, Cowley's apparel **company** would get two A-class shares worth 14 per cent of the total shareholdings.

Other directors of the new **company** included RM Williams's chief Hamish Turner, a past general manager of the Sydney Royal Easter Show – and of course, Cowley. In keeping with the sustainability theme, Pearce encouraged renowned international carbon expert Ken Newcombe and his **company** C-Quest to become both adviser on carbon and investor. Challenging

Finding other major backers was slightly more challenging as the GFC began to bite. Investment banks Bank of America Merrill Lynch and Moelis were called in to assist at different stages.

Fairfax understands the bankers raised questions about the two A-class shares which were owned by the original RM Williams **company**. Insiders say the **company** declined to agree to any dilution of the two shares which spooked potential investors.

"It became clear that once potential new investors understood the role of those class A shares, no rational investor would put money in under those terms," shareholder Alan Gayer recalled of the dealings to Fairfax this week.

But one potential investor who was not spooked was Rupert Murdoch's News Corp. Newcombe says he believes Pearce had meetings with Murdoch to brief him on the carbon potential of the operation.

In 2009, News Corp agreed to put in \$30 **million** but the investment came with a catch. **Company** documents sighted by Fairfax reveal RM Williams Agricultural granted News Corp an option to **purchase** up to 100,000 tonnes of additional carbon credits every year for five years, starting in 2012. And if the **company** failed to meet those obligations it would have to buy back News Corp's share.

Despite its \$30 **million** investment, News Corp did not take up a seat on the board but directed lawyers to sit in on meetings to keep watch over the **company**'s investment. Watching carefully

Another player carefully watching the deal was Westpac which lent more than \$50 **million** to the **company**.

Pearce travelled the world seeking new investors and in 2010, went on a trade mission to the Middle East with former prime minister Bob Hawke and former federal treasurer Peter Costello, among others.

About the same time the **company** welcomed some new employees, including Rebecca Pearce, David Pearce's wife, who would take up the well-paid position of "head of environmental business".

Eventually the **company** would end up employing Pearse's son Martin as a tourism manager. Martin's girlfriend also worked on one of the **company's** stations and Hamish Turner's sister became the **company's** human resources manager.

Ms Pearse helped the **company** apply for a grant under the federal government's Caring for our Country program, scoring \$480,000 of taxpayer money to restore and protect the national assets surrounding catchment on Labelle's flood plains.

**Company** insiders have said it was around this time Pearse began to push hard for carbon farming and biodiversity, something that some on the board thought sounded like gobbledygook, but talk of immense profits dispelled concerns. The move coincided with a dramatic falling-out between Pearse and Newcombe.

Newcombe says Pearse decided to scrap C-Quest's agreement to provide carbon advice to the **company**. Still sitting in on board meetings as an observer, Newcombe said Pearse told the board the station would produce three tonnes of carbon a hectare. Carbon denial

"I made it clear to the board that there was no way that Henbury could produce carbon at the level Pearse was proposing. It was absolutely impossible to imagine getting three tonnes per hectare, per year."

Newcombe said his advice to reject the deal was ignored.

The **company** successfully applied again for a Caring for our Country grant and netted around \$9.1 **million** from the program's National Reserve System component – the largest grant of its type.

RM Williams Agricultural then purchased the remote Henbury Station, 125 kilometres south of Alice Springs, on the edge of the desert, from long-time pastoralist family, the Mortons, for \$13 **million**.

In the deal the station was destocked, the Mortons got \$9 **million** in cash up front and \$4 **million** in shares in the **company** that could be sold back to the **company** a year later.

The deal sparked controversy, unsettling NT cattlemen, who were concerned at the stations being turned into national parks amidst talk of a vast "eco-corridor" that would stretch from Arafura Sea in the far north down to Adelaide.

But then Environment Minister Tony Burke, told parliament RM Williams Agricultural would "provide a template, a canvas", to drive business models for carbon farming. The hot air was rising.

"Just before question time I received a text from David Pearse who let me know they have already been approached about international linking by major European insurance companies wanting to invest in Carbon in Australia," Burke said.

But with the Henbury deal, the **company** was still struggling and by 2012 when the Mortons sought to cash in their shares, **company** representatives begged them to wait. Insiders believed if the Mortons had gone ahead the **company** might have imploded right then.

Pearse decided to relocate permanently to Henbury at which time he was being paid an estimated \$500,000 a year, while his wife Rebecca was also rumoured to be getting more than \$150,000 a year. Board meetings were held, where Pearse phoned in from the station. One insider recalled a meeting where Murdoch's lawyers had phoned in and Pearse, who was on Henbury, was also on a phone line.

Pearse briefed the meeting on the 100 or so feral camels that had trespassed into the station and needed be removed to preserve carbon status. Cowley in jeans

What Cowley thought about this was hard for other **company** officer holders to gauge. "He used to turn up in jeans and let Turner and Pearse run things," says a source.

One occasion at a meeting Cowley had stated he represented News's interests – but the News Corp lawyer on the line said he did not, according to sources.

News Corp press have since reported that Lachlan Murdoch was approached by Cowley seeking a last-minute investment but the media scion refused.

Finally, things came to a head when allegations emerged Pearse had a secret stash of the undilutable A shares that had originally been given to RM Williams.

The **company** moved to sack Pearce. Fairfax has sighted an extraordinary email which "the board" sent to him, raising allegations he had not declared the shareholding in breach of the **company's** corporate code of conduct, and other issues.

These included claims he used his corporate credit card for personal expenses, and a reference to him breaching **company** biosecurity policy by letting his dog into the **company's** organic chicken farm, where it was poisoned by rat bait. There was even a claim about "unacceptable treatment" of a low-ranking staff member which sources say was over a bill for chicken feed on Labelle. Questions were also put to a Pearce relative about a missing crocodile skin which had been on Labelle.

Pearce went on leave and vigorously disputed the allegations. He sued for wrongful dismissal and settled, receiving \$50,000.

Origo, meanwhile, filed suit against the Pearses in the NSW Supreme Court.

It alleged by taking the secret share, Pearce "dishonestly" breached his fiduciary duty at Origo.

Pearce denied the allegations but in April 2013, Origo received \$200,000 worth of shares in RM Williams Agricultural Holdings as a "claim settlement" from Mr Pearce.

Two months later, Westpac put the **company** into the hands of receivers PPB Advisory. A month after that, ACCC chairman Rod Sims, who had been an adviser to the federal government's high-level committee on carbon pricing, granted an attorney full control of his own shares in the **company** and directed any "net proceeds" to be donated to charity, basically writing off more than \$1 **million**.

Pearce has repeatedly refused to answer questions on the issue. Nothing to discuss

"There is nothing to discuss," he told Fairfax Media. "This has all been addressed. It was all settled and all proven to have no consequences," he said.

Mr Turner declined to comment and Mr Cowley says he "could not answer one question" about the **company** for which he had been "mainly an investor, nothing else".

"I couldn't pass an exam on it," the chairman and director of the **company** said.

Earlier this month, receivers sold Henbury for just over half what it was purchased for, but how much taxpayers will get back is still unknown.

Perhaps, with talk in Canberra of an emissions trading scheme coming back from the dead, dreams of Henbury as a "carbon farm" may live again.

One thing remains certain. While the money, the camels, the cattle and their farts have disappeared, the **company** directors' responsibility for what exactly took place remains. And that is something of which the receivers are well aware.

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