

Qenos submission to the Productivity Commission Review of General Tariff Arrangements

January 12, 2000

Overview

Qenos believes that there should be no early move to lower the current general tariff rates in Australia. We believe current rates for chemical products should remain in place until lower tariffs are implemented by other countries; as per APEC and other agreements.

Qenos Overview

Qenos is a major part of the Australian Plastics Industry. The company was formed in 1999 combining the resources of Kemcor Australia and Orica Plastics.

We operate plants in Altona, Vic and Botany, NSW producing polyethylene, polypropylene, and synthetic rubber. We also have plants at Laverton, Vic and Brookvale, NSW, which make engineering plastics. We have 1200 employees working across our sites. Qenos is the sole Australian manufacturer of polyethylene and the sole Australian manufacturer of synthetic rubber.

Our products face substantial competition from imported polymers.

Becoming more competitive

The formation of Qenos is the most recent step in the major rationalisation of our industry which has occurred over the past decade.

In seeking to remain competitive the industry has seen a number of mergers and closures, as well as downsizing, as outlined in the following tables.

Table 1:

Australian Polyethylene Industry – “Self Help” Competitiveness Improvement Programme			
Kemcor		Orica	
1992:	APC, ASR, and Compol merged	1992:	\$100m LLDPE plant startup
1997:	Acquisition of Hoechst Plastics	1994:	\$250m Moomba to Botany ethane feedstock pipeline commissioned
1997:	Engineering and Maintenance alliance formed	1997:	Engineering and Maintenance alliance formed
1997-99:	20% cost reduction programme	1998:	Polypropylene plant at Botany shut down
		1997-99:	Cost reduction programme
		1999:	Qenos joint venture formed

Table 2:

Australian Chemical Industry – Major Changes to Improve Competitiveness	
Year	Event
1993	Huntsman buys Chemplex styrene/polystyrene business – formerly Monsanto.
1996	ICI closes Botany PVC plant
1997	Australian Vinyls formed by ICI and Geon
1998	Polystyrene Australia formed by Huntsman and Dow .
2000	Shell Clyde refinery and Montell Clyde PP – future uncertain

In the push to remain competitive, and viable, our business has seen rapid and relentless change in recent years. Between 1992 and 1999 Kemcor (incl. Hoechst) achieved both business growth - polyethylene production increased over 45% - and cost reduction – fixed costs down by almost 25% in real terms.

In looking to the future this drive continues. We are reviewing the outlook for our business units and assessing their viability. As the sole remaining domestic manufacturer of polyethylene and synthetic rubber, further consolidation is unlikely and we will seek to further improve our competitiveness through continued growth and efficiency improvements.

It is also worth noting that despite these initiatives of the Australian plastics raw materials industry improving competitiveness, imports have continued to increase steadily over the past decade.

Effects

The current turnover for the Qenos business in 2000 is forecast to be around A\$ 700 million.

The products we sell are readily available commodities in the world market. In Australia our pricing is driven by the prices available from Asia, the USA and Europe. As our competition is fully imported a reduction in the tariff on chemical products by 5% would drive an immediate reduction of that magnitude in our pricing. This would cost our business in the order of A\$ 25 million.

To put this in perspective it represents roughly half of our current annual business earnings. Hence, a change in the general tariff for our products, in the near term, would necessitate the reexamination of the viability of all of our business units.

For our business inputs, the major raw materials are gas and oil. These are priced to world parity and would see no tariff related adjustment. A lowering of the general tariff for chemical products would lower the prices of our imported catalysts but this would offer an inconsequentially small benefit to our business.

Trade aspects

Our business contributes around A\$700 million to the Australian economy. As we are the sole Australian manufacturer of our products, a shift to our competitors would see products of this value being imported - with the corresponding effect on the trade deficit.

A reduction in our production would be likely to bring about a reduction in Australian LPG production, which is currently related to ethane extraction for our feedstock. This would be an additional significant negative impact on the Australian economy.

Our competition imports products from around the globe. The most successful include our neighbours in the Asian region who generally enjoy higher tariffs for chemical products in their own countries. The table below shows the tariff rates for our products in these countries, as we understand them.

Item \ Country	Australia	China (PRC)	Indonesia	Japan	Korea	Malaysia	Phillipines	Thailand
3901 Polyethylene ¹	5	18	40	4	8	30	15	20
390110, 390120								
3902 Polypropylene ¹	5	18	40	4	8	30	15	20
390210,								
4002 Synthetic Rubber ²	5	7	5	0	8	-	3	-
400211, 400219, 400220								

Source: ¹JCIA, JPIA ² APEC

It is important to note that in most cases international tariffs are not directly comparable to Australian tariffs. Australian tariffs are based on Free on Board (FOB) prices while the rest of the world typically bases them on Cost, Insurance and Freight (CIF) prices. FOB prices are lower than CIF prices; therefore tariff protection based on FOB prices will be lower than the same percentage based on CIF prices (ie our 5% tariff in FOB terms equates to around 3% in CIF terms.)

Goods with no significant Australian production

We are supportive of moves to discontinue the tariff concession scheme, 3% impost on goods with no significant Australian production. We feel that this is an important and sensible step forward in trade arrangements. This would be beneficial to both Australian business and to trade relations.

Scope for a post-2000 reduction in the general tariff

We firmly believe that there should be no immediate reduction in the general tariff for chemical products in Australia. We believe all countries should meet their commitments to tariff reductions as targeted in APEC agreements for 2010 and 2020. We feel that the timing of further reductions needs to be understood well in advance and reductions only implemented if implemented by all countries as agreed.

We do not believe Australia should individually take further steps to shorten this timetable. We feel that an early reduction, in Australia alone, would substantially disadvantage the competitiveness of our industry and hence have a negative impact on the economy, our industry, our business and its employees.

Within the chemical industry worldwide there has been significant effort to reach tariff agreement. The Chemical Tariff Harmonisation Agreement (CTHA) was reached in the 1990's. The Agreement obliges signatory countries to reduce their tariffs on all chemical products included in chapters 28 to 39 of the harmonised tariff schedule to an upper bound of 6.5% by 2004 – approximately 8% in FOB prices. As at January 1999, 19 countries including the United States, European Union, Japan and South Korea had signed the agreement. Australia is a *de facto* member of the Agreement since our tariffs are already lower than the 6.5% bound. PACIA, the Plastics and Chemicals Industries Association, and other stakeholders are currently trying to reach a post 2004 Agreement to enable participating countries to reduce their tariffs to zero. We feel that this agreement is the best way forward for our industry and that it is unnecessary, and probably damaging to us, for Australia to take separate steps.

Genos believe that we and our industry have shown a willingness to change substantially to become more competitive. But that this needs to be reciprocated with a sustainable and stable environment for business to operate and to invest.

Conclusion

Qenos believes that there should be no early move to lower the current tariff rates for chemical products in Australia. We believe current rates should remain in place until lower tariffs are implemented by other countries; as per CTHA, APEC and other agreements.

In the push to remain competitive, and viable, our business has seen rapid and relentless change in recent years. It is also worth noting that despite these major improvements in competitiveness, imports have continued to increase steadily in our markets.

We are supportive of moves to discontinue the tariff concession scheme, 3% impost on goods with no significant Australian production. We feel that this is an important and sensible step forward in trade arrangements that would be beneficial to both Australian business and to trade relations.