

6 December 1999

The Secretary
Productivity Commission
P.O. Box 80
BELCONNEN ACT 2616

Dear Sir,

PRODUCTIVITY COMMISSION INQUIRY INTO GENERAL TARIFF LEVELS

We wish to submit the following statement to the Commission's inquiry into General Tariff Levels.

Polystyrene Australia Pty Ltd ("PSA") is a joint venture company owned equally by local manufacturers of polystyrene resin viz. Huntsman Chemical Company Australia Pty Ltd ("HCCA") and Dow Chemical (Australia) Ltd ("DCAL").

PSA performs the sales and marketing functions on behalf of its principals in respect of their polystyrene outputs. The company is staffed by 12 secondees (from the two principals) who actively promote and sell polystyrene to major users and distributors. Both HCCA and DCAL directly employ some 35 additional personnel in Australian polystyrene manufacture.

Polystyrene is manufactured in Australia from a combination of locally produced and imported raw materials.

The first stage of the manufacturing process involves the production of styrene monomer from benzene/BTX and ethane. The styrene monomer is subsequently polymerized to form the base polymer resin known as polystyrene. The level of Australian content is in excess of 70%.

Polystyrene is used as an input in the manufacture of a variety of products including refrigerator and washing machine components, food packaging, CD covers and single-use kitchen ware. The company sells its product both domestically as well as in export markets. Our input cost and pricing structures are based upon international parity benchmarks.

Because of its international connections via HCCA and DCAL, PSA is fully attuned to global market dynamics and has a thorough understanding of the nature of its competition within the markets into which it sells its products. Its general, economic success is largely dictated by a variety of factors including cyclical demand, currency movements, input costs and significant new investments in productive capacity offshore. Its export market success is influenced principally by factors which govern accessibility.

For example, New Zealand represents our largest export market mainly because of duty free access provided by the ANZCERTA, as well as proximity, although trans-Tasman freight costs tend to mitigate against our otherwise comparative advantage. Hong Kong is also a substantial export market for which there are no significant barriers to entry and minimal protective duties.

However, our export success to Asian export markets will remain constrained by barriers that are predominantly related to tariffs. Whilst some countries in the region constitute "free markets" for polystyrene products, others have more effective tariff regimes as indicated in the following table:

Country	Tariff rate %
Japan	11
Indonesia	25
Korea	8
Taiwan	8
Thailand	8
Philippines	10
PNG	11

Due to a combination of adverse circumstances including the development of excess capacity (at exaggerated levels) and the recent economic downturn throughout Asia, many of the new plants have been sustaining considerable losses. This is reflected in their export pricing which, in recent years, has reduced to levels causing material injury to Australian producers. The matter is currently subject to further review under Australia's anti-dumping code.

PSA's position on imports is such that it welcomes competition provided it is fair and is based upon sustainable economic principals. We strongly object to the predatory practices of larger foreign producers who attempt to disrupt existing market arrangements by temporarily offering product at significant losses, with the longer term view of permanently displacing Australian producers.

Polymer manufacture within Australia is, on average, marginally profitable even when Australian producers are considered to be internationally competitive. In the circumstances, PSA believes the General substantive tariff rate of 5% serves to assist, and indeed ameliorate, the adverse effects from the types of import competition described above.

Moreover, Australian polymer manufacturers (and indeed the entire chemical industry), are generally considered to be at an economic disadvantage vis-a-vis their Asian competitors because of higher costs associated with environmental compliance in Australia. We estimate such costs represent approximately 1.5% of our total cost for polystyrene manufacture in Australia.

In addition, we believe there is a strong argument to suggest that such costs should be properly included in any economic assessment of the comparative performances of Australian and overseas industries.

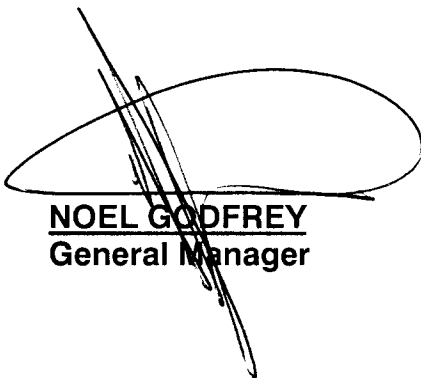
Consequently, PSA wishes to record its opposition to any reduction to the prevailing levels of General tariff until such time as there is a commensurate adjustment to the protective tariffs, non-tariff barriers and operating environment within those countries with whom we wish to trade.

Any further unilateral reductions by the Australian Government are likely to create adverse conditions for further investment in our industry, thereby making it difficult for us to attract capital for plant refurbishments and upgrades.

Please contact the undersigned should you require any further details.

Yours sincerely

POLYSTYRENE AUSTRALIA PTY LTD



NOEL GODFREY
General Manager