

**PUBLIC SUBMISSION by PENRICE SODA PRODUCTS (PSP)
TO THE PRODUCTIVITY COMMISSION'S DRAFT REPORT
"REVIEW OF AUSTRALIA'S GENERAL TARIFF ARRANGEMENTS"**

28 JUNE 2000

Penrice Soda Products is very critical of the proposed elimination of tariffs as proposed in the draft Productivity Commissions report.

We are gravely concerned that the Australian government does not understand the important positive economic impact of having major manufacturing industries in Australia.

In support of retention of the current tariff structure and harmonization with our trading partners we offer the following comments:

International Trade

Penrice does not compete on a level playing field with its main competition from China and USA. A duty rate of 12% on soda ash and sodium bicarbonate imports into China and non-tariff barriers with other countries, clearly disadvantage Penrice.

Australia has only 2.5%(DC) and 5% tariff on soda ash and zero on sodium bicarbonate, yet we export 18% of our volume to developing countries. Table 1 illustrates the level of tariffs for key chemical commodities and the bias with manufacturing countries.

The submission by BHP in the first round of the Productivity Commissions review also clearly highlights the lack of reciprocity of Australia in comparison with the rest of the world.

In addition, we call on the Federal government to review the anomaly with the duty rate for sodium bicarbonate and to increase it to the same level as for soda ash. This is still within the current APEC and CTHA guidelines and are bound by WTO to be of similar tariff structure with harmonization of tariffs.

Australia has not gained any trade advantage other than to “feel good” in the international community from its proactive stance on free trade and DFAT has not demonstrated any reciprocity in any trade negotiations in the reduction in tariffs or their removal.

Penrice has little evidence of developing country competitors or developed country competitors reducing Chapter 28 tariffs to our current levels let alone to zero. With little evidence of reciprocity, the Productivity Commission must demonstrate reciprocity BEFORE any tariff removal.

In comparison our current duty rates are calculated on a FOB basis while all other countries use a CIF basis this alone adds another 3% to the rate and makes us more un-competitive when we try to export to them.

In the case of both sodium bicarbonate and soda ash our access to trading partner markets has not improved with the low tariff structure in place in Australia. It will not be any better under a zero tariff regime. This will cause a review to disinvest in Australia if we cannot demonstrate fair trade practices.

The simple philosophy must be to only act in coordination with other countries in a harmonized approach and to where necessary increase and decrease tariff levels accordingly. We have gained no advantage from acting first and in fact we have lost considerable bargaining power from our weaker position.

The recent hard line stance by USA against China in their WTO discussions particularly highlighted in the soda ash industry demonstrates Australia's lack of bargaining power weakening our negotiation position.

The view that trade and investment liberalisation will be enhanced with zero tariffs is in our view not correct. The evidence is overwhelmingly that under the current tariff regime the chemical industry have invested off shore and we have not gained any better trade access from the current low Australian tariff rates. Penrice will not continue to invest in expansion programs with consequent loss of trade opportunity if it cannot achieve trade parity with regional markets.

Low priced imports from high tariff countries and the disparate duty rate cause a distortion in investment criteria in this industry.

Penrice acknowledges that a reduction in tariffs could occur in Australia but only where is it consistent with our trading partners. Any reduction here must be on the basis of reciprocity, and harmonization of tariff levels and the removal of non-tariff barriers.

Finally because of the high tariffs and our exposure to unfair trade practices the current safeguard of potential antidumping action must remain in place as an integral part of our trade balance position both now and in the foreseeable future.

Table 1: Tariff Rates for Selected Countries and Selected Key Chemical Commodities

Product	China	India	Thailand	Malaysia	Philippines	Indonesia	EU^	Japan^	Australia**
EDC	10%	10%	5%	0%	3%	5%	9%	4%	0%
VCM	10%	10%	5%	0%	0%	10%	9%	4%	0%
n-Butanol	8%	30%	10%	0%	3%	5%	6%	6%	5%
Acetic A	9%	25%	5%	0%	3%	10%	12%	2%	5%
Ethyl A	9%	30%	5%	0%	3%	10%	9%	4%	5%
Vinyl A	9%	30%	5%	0%	3%	5%	9%	4%	5%
Phthalic A	12%	30%	10%	0%	5%	15%	10%	3%	5%
LD PE	18%	30%	20%	30%	15%	40%	10%	4%	5%
HD PE	18%	30%	20%	30%	15%	40%	10%	4%	5%
PP	16%	30%	20%	30%	15%	40%	10%	4%	5%
EPS	16%	30%	20%	0%	10%	30%	10%	4%	5%
ABS	16%	30%	20%	0%	3%	-	10%	3%	5%
PVC	16%	30%	20%	20%	10%	20%	10%	4%	5%
Soda Ash	12%	30%	1%	0%	3%	5%	5.5%	4%	2.5%/5%
Sod Bicarb	12%	30%	1%	0%	3%	0%	5.5%	4%	0%

*FOB ^CTHA

World Competitiveness

PSP is a world competitive manufacturer of soda ash and sodium bicarbonate.

We are a part of a worldwide group where we are evaluated publicly in world studies of the cost competitiveness of soda ash plants as recent as this year. Internally, Penrice must meet key performance measures in line with our sister plants within our worldwide company.

We exchange technical knowledge with other manufacturers to keep abreast of plant improvements and recently undertook a staff restructuring program to further improve our competitive position.

Financial Return & Investment

The net return on investment of PSP is approximately 3% and a reduction in the tariff for soda ash from 2.5% (DC) and 5% to zero will clearly impact this result and will question PSP's economic viability.

Penrice is subject to unfair competition from China where several of the largest state sector plants have reported significant annual losses yet still continue to manufacture and cause price depression even with the current duty rates into Australia.

In addition, sodium bicarbonate (a down stream value added product of soda ash) has zero duty and this impact is holding back our ability to be competitive against predatory pricing from China in the region. Our ability to sell 25,000mt per annum into the export market at a value of A\$7.5 million clearly has balance of trade implications.

The sodium bicarbonate zero tariff rate is affecting our financial return and investment decisions.

Our parent company has invested A\$15 million in expanding our sodium bicarbonate facility in South Australia. This was on the basic assumption with the investment approval of the investment that the Government of Australia would aggressively defend its tariff position and against dumping by other countries (as is done by our trading partners in both trade and non-trade barriers).

If defense of investment decisions already made in Australia against inequitable trade measures is not a part of the Australian and State Governments platform then the potential for further investment by our parent will cease.

Economic Impact

A study by the South Australian Centre for Economic Studies recognised Penrice Soda as a major contributor to the State's economy and is vital to the growth of the wine and other key industries. The study found that Penrice's operations contribute \$120 million to gross state product and to the provision of more than 1800 jobs, generating \$68 million in household incomes.

A more recent study has listed Penrice as the eighth most important company in South Australia, a state that has lost significant manufacturing activity over recent years and as a result has the second highest unemployment rate in Australia.

The Productivity Commissions modeling underestimates the employment adjustment cost. PSP employees approx. 240 staff at an average salary of \$60,000 per annum, in addition the services provided to support this heavy chemical industry manufacturing plant requires highly trained staff for engineering etc. well above the \$29,000 per annum used. The model therefore clearly underestimates the economic impact of the potential closure of PSP due to tariff reduction.

Soda ash and sodium bicarbonate are vital key basic raw materials to industry supplied in bulk. By having a local manufacturer, users have lower inventory cost that would otherwise be passed on to customers. It also supports some key Australian industries including wine, container glass automotive, food, environment control and agriculture who's long term growth is important to Australia's future.

The Australian market for soda ash and sodium bicarbonate is in excess of 350,000 mt per annum. This is supplied mostly just in time and if this was replaced by imports the inventory cost to users will more than offset the reduction in the tariff.

Political Ramifications?

The government has recognised the importance of tariffs in the PMF and TCF industries with special treatment with respect to tariffs. Penrice is an important industry to the Australian economy and therefore the government must be consistent in keeping manufacturing jobs in Australia.

The benefit to Australian industry of micro economic reform within the National Competition Policy framework (particularly sea and rail freight) is not being realized quickly enough and further gains must be made in this area before any commitment to tariff reductions.

Attachments

1. Submission to DISR, Sodium Bicarbonate Duty rate Review, 4 pages
2. Penrice Letter to M Holley, DISR, 17/05/00, 2 pages
3. PACIA Letter to Senator Minchin, 31/05/00, 2 pages
4. DSIR Letter to Penrice, 09/06/00, 1 page
4. Penrice Letter to Senator Minchin, 13/06/00, 3 pages
5. Penrice Letter to J Dean, DISR, 14/06/00, 2 pages

Background on Penrice Soda Products

Penrice Soda Products is Australia's only manufacturer of disodium carbonate (soda ash) and sodium hydrogen carbonate (sodium bicarbonate). Soda ash is a vital ingredient in products ranging from container, automotive and construction glass to detergents, while sodium bicarbonate meets needs as diverse as stock-feed, food and pharmaceutical manufacture. These products are also supplied to a broad range of other applications including mining, textile, metals, wool, chemical and pharmaceutical industries, for building and construction, and for environmental control and water purification and is a recognized national strategic industry.

Penrice's soda ash operations began in the 1930's in Adelaide. It has continued to expand its operations and increase production to meet demand in Australia and offshore through continued major capital investment.

Penrice Soda now produces 325,000 tonnes per year of soda ash and 50,000 of sodium bicarbonate, employing 240 staff at its three sites. Its annual sales were in excess of \$110 million in 1999.

Penrice is committed to the environment, maintaining a unique habitat for one of Australia's most important nesting areas for birds and is involved in a 180-megawatt private co-generation power plant providing a reliable, long-term source of efficient steam. This will halve energy wastage and cut carbon dioxide emissions by twenty per cent.

Penrice Soda Products – Markets

Penrice is a critical supplier to many Australian industries, including the wine and automotive industries. Most of Penrice's soda ash is used in glass manufacturing, either for container glass (jars, beer, wine and soft drink bottles, and drinking glasses), flat glass (windows in houses, buildings and cars) and fibre-glass.

Soda ash is also a key ingredient in domestic and industrial cleaners, such as biodegradable detergents, for which Penrice is a major supplier, and a neutralising agent in the mining and metals industries. Soda ash also plays an important environmental function, used to adjust the alkalinity and acidity controls of soft water, to adjust pH levels in waste water streams prior to discharge to the environment.

Penrice supplies its sodium bicarbonate, a unique and versatile ingredient, to a range of products and industries from toothpaste and other cleaning agents, to the pharmaceutical, animal stockfeed and agricultural industries, and into many food products.

Sodium bicarbonate is used mostly as baking soda in food products, and this market accounts for a significant proportion of Penrice's bicarbonate output. The company also supplies sodium bicarbonate to major cattle feedlot and poultry producers as a feed supplement to prevent high acid build up from grain feed. It also plays an important health function, being the major supplier of the product in up to three million litres of sodium bicarbonate solution used each year in Australia by people suffering renal failure.

Penrice has increased its focus on new export markets for soda ash and sodium bicarbonate in recent years, such that exports now account for more than 18 per cent of total sales. The majority of export product sales are in bags into South-East Asia, primarily to the Philippines, Singapore, Malaysia, Hong Kong, Taiwan, and Thailand, where growing sodium bicarbonate demand is expected as the region continues to emerge from the economic crisis of 1997/8 and as dietary habits change towards wheat based diets and increased chicken consumption in the Asia region. New Zealand and South Africa are also important export markets.

Penrice has recently expanded its sodium bicarbonate capacity at a total cost of A\$15.5 million to take advantage of the growth in the Australian market and to export 50% of its output to take advantage of the change in dietary habits.