PERDAMAN

CHEMICALS & FERTILISERS

22 September 2011

Committee Secretary
Joint Select Committee on Australia's Clean Energy Future Legislation
PO Box 6021
Parliament House
CANBERRA ACT 2600
AUSTRALIA

Dear Sir / Madam,

RE: The EITE impact on Fertiliser supply for domestic Food production

Perdaman is proposing a $US3.7Bn urea fertiliser plant at Collie near Bunbury in Western Australia which will deliver enormous benefits not only to the region but also Australia as a whole. Most significantly the Project will deliver substantial employment opportunities and enable the development of the Government flagship Collie Hub Carbon Capture and Storage (CCS) project.

During the 3 ½ years construction period, 1,500 construction workers (on average) will be employed on site. Hiring of permanent staff will commence at least 22 months prior to commissioning which is due during 2015. Permanent direct staff numbers will be in excess of 200 people plus an estimated 650 indirect jobs will be created.

Korean company GS Engineering and Construction (GSEC) has been awarded the Engineering, Procurement and Construction (EPC) contract for our Project. GSEC will subcontract the construction work to Australian companies with an emphasis on local companies. The local EPC content is estimated to be between 50 and 60% thus creating job opportunities in the South West of WA including in the Kwinana area.

Labour Greenfields agreements have been executed with the four unions that will be involved in the construction phase. These agreements have been registered with the Australian Federal Industrial Court (Fair Work Australia). During operations, Perdaman intends to arrange specific training programs for the local workforce and the aboriginal community in the region.

All Project agreements have been finalised and the environmental approvals required to commence construction have been obtained. Five commercial banks (including one from Australia) and five Export Credit Agencies (including Australia's Export Finance and Investment Corporation (EFIC)) have accepted a mandate to fund the required $2.4Bn in senior debt and were ready to recommend the project to their credit committees.

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The proposed EITE levels of assistance (based on 2009 methodology) will have a negative impact on domestic Nitrogen based fertiliser production. The proposed EITE levels of assistance inadequately address trade exposure and they fail to provide equity to the impact carbon pricing on this vital industry. Australia is a significant food producer and exporter and Food security is seen as a priority to Energy security.

The key issues are:

1. Urea is a vital product for Australian farmers
2. Strategic weakness of Urea imports under EITE
3. Urea should not be carbon taxed
4. A fair go for local Manufacturing industry

1. Urea is a vital product for Australian farmers

It is scientifically recognised that 48% of the world population lives on food produced by use of nitrogen based fertiliser (Borealis annual review 2009). Australia is a significant food producer with a significant agriculture sector.
Nitrogen fertiliser is the key 'growth' nutrient for growing crops, as well as the chemical pre-cursor to protein.
Production, transportation and use of urea contribute directly and indirectly to emissions of greenhouse gases. At the same time, urea enhances agricultural productivity and stimulates CO2 uptake by the crop. They increase yield and reduce the necessity to cultivate new land, thus avoiding green house gas (GHG) emissions from land use change.
Arable land is a scarce resource that needs to be used in the most efficient way in order to ensure food security without further land use change. Clearing of native vegetation such as rain forest accounts for up to 20% of world GHG emissions. Stopping land use change and deforestation therefore is a primary objective in climate protection.
Optimal fertilisation, with modern agricultural practices, leads to significant yield increase. Long term trials suggest that optimal fertilisation increase yield four-fold. (Yara review, 2010)

2. Strategic weakness of Urea imports under EITE

Globally demand for urea is growing, as urea offers the ability to increase food production with less land. This competition for traded urea has led to occasional disruption of urea traded supplies and export constraints from various countries, with both price and supply instability.

Australia currently imports approximately 1.0 mtpa of urea, most of it from countries in the Middle East, but also China. Imports (without domestic supply) are expected to rise to 1.8 mtpa by 2025.

Nitrogen is the key nutrient for modern farming, and Australia is currently importing ±80% of its needed urea. This percentage is expected to increase over the coming decade.
It is noted that the carbon impact of these urea imports are not recognised in the current carbon national balances.

Thus (sensibly) reducing the dependence on imported urea with increased Australian urea production has minimal additive carbon impact to Australia when the imported carbon impact is correctly allocated.

3. Urea should not be carbon taxed

It is clear that Urea is good for farmers, and agricultural output, and is highly trade exposed.

Agriculture is exempted from carbon tax "A carbon price will not apply to agricultural emissions. This means there will be no requirement for farmers to pay for emissions from livestock or fertiliser use." (Ch 9, Securing a Clean Energy Future) thus it is strange that urea should be carbon taxed.

The competing urea importer is unlikely to face a similar carbon discrimination on the urea manufacturing chain, and more likely no carbon impost on exports.

Urea should not be taxed until at least 75% of the urea traded in the Asia Pacific region and/or imported into Australia is produced by manufacturers who face a comparable price or tax on carbon.

4. A fair go for local Manufacturing industry

The value of strengthening and developing an Australian manufacturing sector is seen in the creation of (skilled) jobs, enhancing fertiliser supply security and foreign exchange earnings.
This primary manufacturing (as opposed to direct export of un-beneficiated mining minerals) is constrained by EITE in placing development of local manufacturing at an increasing cost disadvantage until there is a global agreement on carbon pricing.
Importing urea does not make the carbon emission impact of ammonia / urea manufacture disappear - globally the (production carbon) impact is largely unchanged, whether the urea is produced in Australia or overseas. Directionally the global impact is considered lower for a modern best practice world scale Australian plant, with focus on energy efficiency; compared with (offshore) older plants with cheap energy, limited environmentally scrutiny, and greater logistics distance.

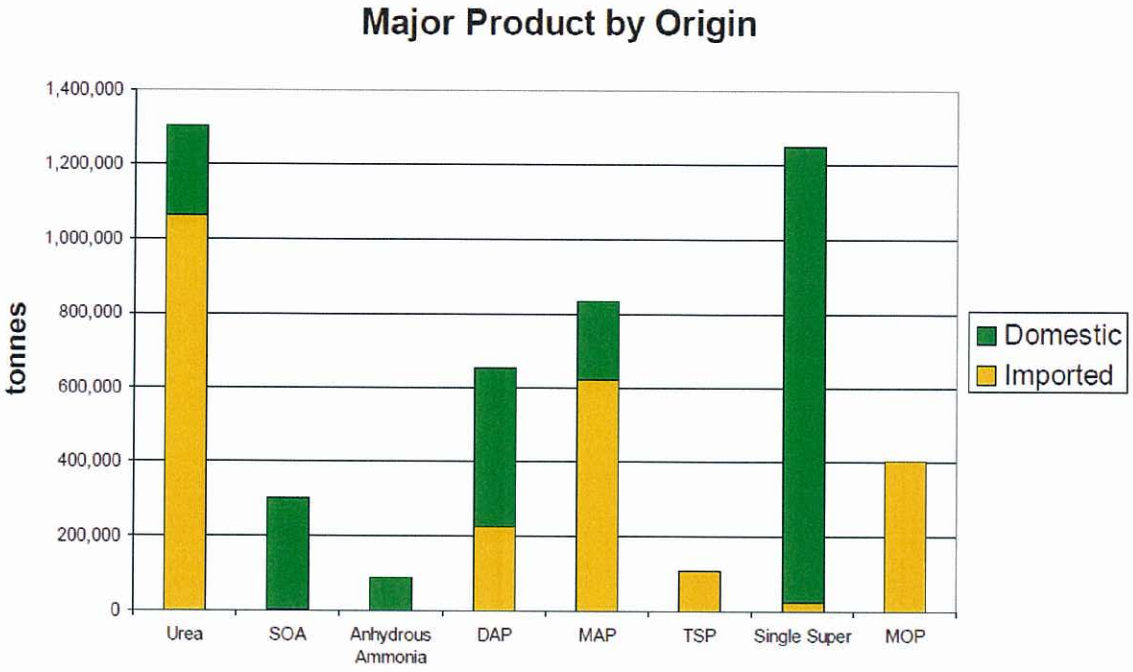
Yours Sincerely,

pp Joseph McCarthy

Andreas Walewski
Corporate Director

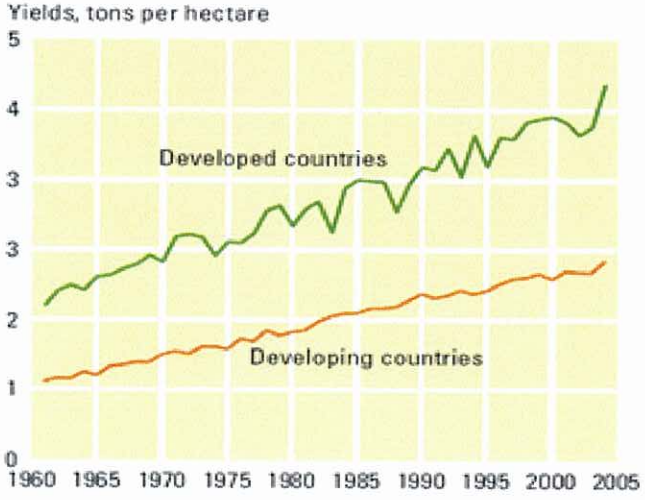
Attachments

Australia's Food production and Security is highly Trade Exposed



Source AFA 2004

Graph of cereal yields, tons per hectare between 1960 and 2005.



Source: FAO data after World Bank (2009)

The global challenge is to increase food production through raising agricultural productivity efficiently, whilst decreasing our environmental footprint.

Between 1961 and 2008, the world's population increased by 117 per cent whereas crop production rose by 179 per cent. *This is primarily made possible with use of (N) based fertilizer – more food from the land*

Source: CSIRO: Food security, 2010