



Secretary
Senate Select Committee of the FTA
Between Australia and the USA
Suite S1.30.1
The Senate
Parliament House
CANBERRA ACT 2600

Dear Sir/Madam

Re: Submission to the Senate Committee on the Free trade Agreement between Australia and the United States of America

I am advised that there is a Senate hearing into the US FTA with the deadline for submissions being Friday 30 April.

With this in mind, I make this submission on behalf of Basell Australia – Australia's largest manufacturer of Polypropylene (PP), a plastic which finds extensive application in all downstream industrial sectors, particularly automotive applications. In view of the short notice I have received, I outline the main points in this cover note. By way of background information on our company & industry, I attach a note I wrote in support of PACIA, our industry association, and its submissions made previously on the US FTA.

The main points I wish to make are:

1. The Australian petrochemical industry needs to make further investments to ensure the competitiveness of its Australian manufacturing base in a work which is quickly moving to minimise all trade barriers. One of Basell Australia's manufacturing operations, based in Sydney, has the scale & capacity to compete. The other, based in Geelong & a key supplier to Victoria's downstream & automotive industry does not. Basell Australia is spending ~\$ Aus 20m right now to maintain the operation and set it up for a further ~\$Aus 80m investment (not yet approved) in order to double its capacity by 2006.

Basell Australia seeks a phasing of the tariff reductions in the Australia – US FTA (similar to that proposed in the Australia – Thailand FTA) to allow time for completion of these Geelong plant investments. Without these investments, it can be expected that the Geelong plant will close within the next 5 years.

2. Basell Australia request that safeguard measures be applied to PP products if imports of PP products to Australia from the USA are in such increased quantities or under such conditions as to cause substantial injury or threat of injury to Basell Australia.

Additionally, although Basell Australia has never sought anti-dumping protection, Basell Australia believes that it is critical to retain the anti-dumping and countervailing rules under any Australia-US FTA.

More detail to enhance these points is included in the attachment.

Please contact me if you have any questions or require further information.

Yours faithfully

Barry Kelly
Managing Director - Basell Australia.



Polyolefins

8 February 2004

Department of Foreign Affairs and Trade
Office of Trade Negotiations
RG Casey Building
John McEwen Crescent
Barton, ACT, 0221

Dear Sirs,

RE: AUSTRALIA - US FREE TRADE AGREEMENT

I would like to offer some additional comments on behalf of Basell Australia with regard to the current Australia – US free trade agreement negotiations.

Basell Australia supports PACIA's position on a number of issues: tariff phasing, Rules of Origin, etc. Our industry's position is well documented so I do not intend to revisit these topics. Instead, I flesh out the issues which are of most importance to Basell Australia and supply Basell specific information, additional to that provided in our earlier submission (dated 10 August 2003) to support my proposals.

The main points I wish to make are:

1. Basell Australia seeks a phasing of the tariff reductions (similar to that proposed in the Australia – Thailand FTA) to allow time for completion of its Geelong plant investments (~\$Aus 100m).
2. Basell Australia request that safeguard measures be applied to PP products if imports of PP products to Australia from the USA are in such increased quantities or under such conditions as to cause substantial injury or threat of injury to Basell Australia.
3. Although Basell Australia has never sought anti-dumping protection, Basell Australia believes that it is critical to retain the anti-dumping and countervailing rules under any Australia-US FTA.

More detail to enhance these points is included in the attachment.

Please contact me if you have any questions or require further information.

Yours faithfully

A handwritten signature in black ink, appearing to read 'Barry Kelly'.

Barry Kelly
Managing Director - Basell Australia.

1. Background Information

Basell Australia Pty Ltd is the largest manufacturer of polypropylene (PP) in Australia. The company has two manufacturing sites – one at Geelong in Victoria and the other at Clyde (Sydney) in NSW.

Between the 2 sites, Basell Australia has ~230,000 tonnes per annum capacity, with plans under development to increase the Geelong plant capacity by 55,000 tonnes per annum. (Australia's total capacity is ~260,000 tonnes per annum). By comparison, the US has 7,800,000 tonnes per annum capacity with announced capacity expansions over the next 5 years in excess of 700,000 tonnes. (Reference Polypropylene Annual report –2003 by Phillip Townsend Associates.)

Basell Australia also has a 50% share in PolyPacific Australia, with compounding facilities located in Dandenong, Victoria. PolyPacific is the largest and pre-eminent supplier of polypropylene compounds to the Australian automotive industry. The value of PP to the downstream Victorian industry will be explored in a joint government – industry funded study, the Victorian Industry Value Chain Study, which will commence in Quarter 1 of this year.

The following tables demonstrate the size of the Polypropylene industry worldwide both for 2002 and for the future (2007) based on known & announced expansions. Worldwide growth is expected to be ~ 6.5%. The table clearly demonstrates the scale of the US industry versus Australian industry. In 2002, the US exported 300,000 tonnes (more than ½ of its PP exports) to the Asia Pacific region. By comparison, Australia exported less than 20,000 tonnes.

Table 1 – PP Capacity and Consumption – million tonne pa. 2002 ^(a)

	CAPACITY	DEMAND
USA	7.8	6.5
Other North America	0.6	1.2
Central & South America	1.9	1.5
Western Europe	9.2	7.3
Central & Eastern Europe	1.4	1.2
Japan	2.9	2.4
Asia Pacific	11.6	11.6
Australia	0.3	0.25
Middle East & Africa	2.0	2.4
TOTAL	38.0	34.4

(a) Polypropylene Annual report –2003 by Phillip Townsend Associates, Pages 66, 87,121, 592

Table 2 – PP Capacity and Consumption – million tonne pa. 2007 ^(b)

	CAPACITY	DEMAND
USA	8.5	8.4
Other North America	1.7	1.6
Central & South America	2.5	2.2
Western Europe	9.6	9.1
Central & Eastern Europe	2.3	1.7
Japan	3.1	2.7
Asia Pacific	14.5	17.4
Australia	0.3	0.3
Middle East & Africa	5.4	4.0
TOTAL	46.9	47.4

(b) *Polypropylene Annual report –2003 by Phillip Townsend Associates, Pages 67, 87,121, 592*

2. Tariff Classification

With respect to the Chemical and Plastic Products List, Basell Australia is involved with the following products:

3902.10 – polypropylene

3902.30 – propylene copolymers

3902.90 – other polymers of propylene or of other olefins, in primary forms, not elsewhere specified

The tariff on products listed under these reference numbers is currently 5%.

3. Tariff Phasing

The current 5% duty represents the same level as Basell Australia's EBIT / Sales ratio. An equivalent immediate domestic price reduction would reduce Basell to an EBIT breakeven position.

The duty does not prevent imports. Up to 15% of the Australian Polypropylene (PP) market is currently supplied from imports, mainly from Asia Pacific. The current Asia Pacific pricing, on which the Australian market pricing is based, is at or below the cash cost of the most efficient regional producer and so is well below reinvestment levels. Consequently, a Greenfield investment is only possible behind tariff barriers, or with Government assistance to capital programs – neither of which represents current Australian government policy

Basell Australia plans to continue to make substantial capital investments to improve the scale and efficiency of its operations to increase its international competitiveness. Basell Australia therefore seeks a phasing of the tariff reductions (similar to that proposed in the Australia – Thailand FTA) to allow time for completion of its Geelong plant investments. (Refer Table 3)

4. Safeguard Measures

PP product & propylene monomer feedstock market prices in the Asia Pacific region are denominated in \$US and linked to world crude pricing. Similar linkages exist in both the US and in Australia.

However, in these 2 countries, the 'Spread' between monomer & product prices is larger than in Asia. (This reflects both the extreme competitiveness of the region as well as the higher local Logistics costs in the US & Australia.)

The implication is that, in order to supply product into the region, it is necessary to discount substantially compared with the local price offer. Given that Asia Pacific prices for the most efficient regional producer are currently below re-investment level, the implication is that US producers supplying to the Asia Pacific region, dependent upon the price at which they are buying local monomer feedstock, are potentially supplying at dumped prices.

Basell Australia is therefore requesting safeguard measures be applied to the products listed under the reference numbers tabled above. These safeguard measures should apply if imports of the listed products to Australia from the USA are in such increased quantities or under such conditions as to cause substantial injury or threat of injury to Basell Australia

There are currently no anti-dumping duties on PP imported from the USA. There are also very limited trade imports from the USA. Basell submits that any substantial increase in tonnage beyond the current fair trading position will cause substantial injury. Basell requests safeguard measures apply when import tonnage exceeds 3000 tonne in any 12 month period. Activation of safeguard measures should result in reinstatement of the 5% tariff on an interim basis.

5. Anti-Dumping Provisions

Basell has never sought anti-dumping protection but believes that it is critical to retain the anti-dumping and countervailing rules under any Australia-US FTA. Whilst these are not a form of trade protection, they provide a means for a company suffering injury because of product dumping to take remedial action.

US based PP manufacturers have available capacity and a track record of significant price discounting into Asia Pacific. This FTA will leave Australia similarly exposed. Continued access to these measures will be required to respond to such practices in a FTA environment.

6. Basell Australia's Journey to Improved Competitiveness

The following table chronicles the progressive changes (involving significant expenditure) that have occurred over the last 15 years in Basell Australia's polypropylene business aimed at ensuring its long-term competitiveness.

Table 3. Chronicle of Basell Australia's Improved Competitiveness Program

1991	Construction was completed & a new 'Unipol' (state of the art) Polypropylene plant was started up at Basell's (then Shell Chemicals) Clyde site. Total cost was approximately \$Aus 200m. The new plant, with a capacity of 80,000 tonnes per annum, replaced an existing, old technology 30,000 tonnes per annum facility.
1994	A de-bottleneck of the Clyde plant to a capacity of 120,000 tonnes per annum was completed, enabling the plant to receive feedstock (propylene, which is a refinery by-product stream) from other refinery suppliers. Total cost was approximately \$Aus 25m.
1998	Rationalisation of the Clyde operations & out-sourcing of the Packaging & Logistic operations. Approximately \$5m revenue expenditure was involved with manpower reductions of greater than 25%.
1998	Buy-out of the ICI Australia PP business and closure of its Botany Bay plant. This secured additional feedstock for the Clyde plant, thereby allowing it to operate at higher capacity. The process took almost 2 years and involved extensive negotiations and consultations with regulatory authorities.
2000	Studies to upgrade & modernise the Geelong Plant infrastructure & technology commenced.
2001	The Geelong Site's control system upgrade was completed. Cost was -\$Aus 3m.
2002	Completion of Phase 1 of the process to upgrade the Geelong plant technology to enable it to use state of the art catalysts, which enable the process to operate more efficiently, but produce products which expand market place applications. Cost was \$Aus 7m.
2004	Replacement of key Geelong plant equipment & completion of the technology upgrade is planned during the May statutory shutdown. This equipment will form part of the plan to later expand the plant's capacity. This project will have cost -\$Aus 20m over the last 2 years.
2004 to 2006	An expansion of the Geelong capacity is planned (from 70,000 to 125,000 tonnes per annum) at a cost of almost \$Aus 80m. The project has involved extensive consultation with shareholders, local stakeholders as well as the Victorian government. This project will secure long term Polypropylene supply to the Victorian car industry and the state's major plastic film & fibre consumers.
2006 to 2010	Progressive expansion of the Clyde plant is planned up to its current equipment limitation of 200,000 tonnes per annum – subject only to feedstock availability from local refinery / petrochemical operators.
2004 to 2010	Further rationalisation of the local Polypropylene industry is envisaged, as foreshadowed in the joint Australian Government – industry review (Late 1990's).

7. Rate of Exchange, Price Volatility & the 5% Tariff Exchange Rate

It might be argued that the benefits of a 5% tariff are insignificant when compared to movements in the rate of exchange and pricing in commodity markets. This is not the case for Basell Australia and the polypropylene market.

Basell Australia buys 1 tonne of propylene and (for 50% of production) ethylene monomer to make 1 tonne of finished Polypropylene product (PP). Propylene and ethylene prices are US\$ denominated and linked to Asia Pacific monomer prices, which are, in turn, linked to the crude oil price. The price for PP is referenced against the Asia Pacific PP sales price and denominated in \$US. The Asia Pacific PP market is extremely competitive so the PP sales price tracks the propylene monomer market prices. This PP & monomer difference or 'Spread' has remained essentially constant; decreasing only slightly over the years in line with the industry learning curve and as plant scale has increased. The Asian PP price is therefore essentially linked to the \$US denominated crude oil price.

The PP sales price ceiling for Basell Australia is the Asia Pacific price plus the freight costs to import to Australia plus any tariff. Therefore, whilst Basell Australia's spread will be higher than the Asian spread, there is no discernible relationship between the exchange rate and the PP spread. Both monomer feedstock and finished PP product are linked to the crude oil price.

A strict commodity price exchange rate relationship would see unit margin increase with decreasing exchange rate. This is not the case.