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	Senate Select Committee on the FTA between Australia and the USA	Fax:	
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Subject:	Free Trade Agreement between Australia and the United States.		

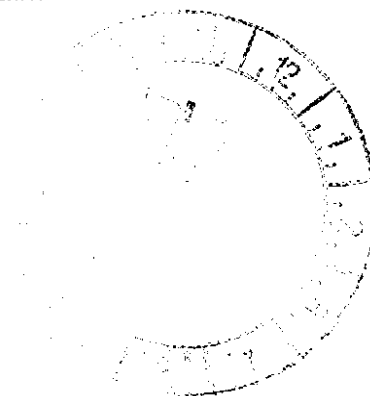
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Mr Holmes

Please find following Australian Vinyls Corporation's submission to the Senate Select Committee on the Free Trade Agreement between Australia and the United States of America.

Regards

M Winstanley
Chief Executive Officer



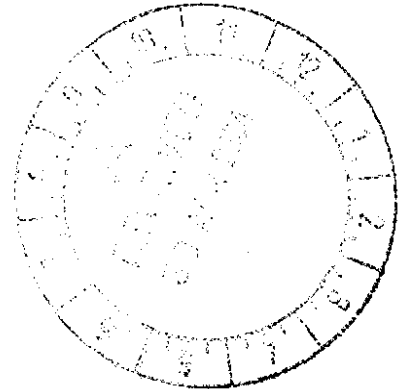
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Via Facsimile : 02 6277 3830

29 April 2004

Secretary
Senate Select Committee on 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 Select Committee on the Free Trade Agreement between Australia and the United States of America**

1. INTRODUCTION

This submission on the Australia-US Free Trade Agreement (FTA) is made by Australian Vinyls Corporation (AVC), an Australian owned Polyvinylchloride resin (PVC) manufacturer.

AVC is the only local manufacturer of PVC resin, supporting an Australian based processing industry with annual sales of \$800m.

AVC has annual revenues exceeding \$200m, operates a modern plant with a replacement value exceeding \$150m and adds significant value through its manufacturing operations.

The shopfloor jobs at AVC are some of the highest paying in the Australian manufacturing sector, for example, senior plant operators earn in excess of \$90,000 pa while Shift Managers earn around \$110,000 pa. These salaries reflect the high level of skills required to operate a major petrochemical plant and the ongoing training in new skills that are included in AVC's processes.

AVC, both directly and via the Plastics and Chemicals Industry Association [PACIA]), has provided submissions to the Federal Government on the Thailand free trade agreement (FTA) and the USA FTA. It has also provided comment on the current discussions with China and has made departmental representations on all these bilateral discussions/agreements.

AVC has been generally supportive of the Federal Government's drive to open markets for Australian exporters and to reduce tariffs for importers. It has, however, consistently requested that appropriate time frames for adjustment be provided – generally up to 5 years.

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2. DETAILED SUBMISSION

2.1 Tariffs

Tariffs on imported petrochemicals are currently 5%, except for Singapore where a FTA is in operation. Previously tariffs had been as high as 30% and the local industry has gone through an expensive and prolonged restructuring to adjust to this reduction in the tariff.

The removal of the 5% tariff poses considerable risk to the ongoing viability of the Australian petrochemical industry, particularly where:

- i. Time is not allowed to complete essential restructuring. This can take many years as shown in the following table for AVC.

Table 1

- 1994 Decision to close Orica's 50 kT Botany PVC plant, introduce new technology and expand its 50 kT Laverton plant to 130 kT. Completed at a total cost of around \$75m in August 1996, 4 years after planning commenced.

Of this expenditure approximately \$50m was for new technology and plant expansion and \$25m for restructuring.
- 1997 AVC joint venture formed between Orica and The Geon Company, a NYSE listed corporation. Two years of negotiations were required to complete this step and to obtain regulatory approval.
- 2002 AVC closed its 80 kT Altona plant at a cost of around \$12m.
- 2003 AVC shareholder agreement to update technology and lift Laverton capacity to 150 kT. This was to occur over the period to 2007 at a total cost of around \$25m. The investment is now being reviewed following the wholly unexpected and last minute decision to eliminate tariffs on most manufactured goods immediately the Australia-USA FTA comes into effect.
- Post 2007 Expansion to 180 kT. A further 3-5 years planning and capital works will be required.

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- ii A consistent approach to tariff phasing is not adopted across the various FTA Australia is contemplating.

Regretably, this factor has not been recognized in the USA FTA where, rather than match the tariff phasing in the Thailand FTA (over the period to 2008), Australia has agreed to immediate and total removal.

It should be recognised that once the tariff on PVC from a major producing country is eliminated then prices for imports from that country will fall in Australia. Exporters from third countries will have little option, but to try and match these prices, as will AVC. Early elimination of the US tariff, therefore, will trigger a reduction in PVC prices in Australia, negating the adjustment period allowed for the Thailand-Australia FTA.

Tariffs are important to Australian petrochemical manufactures, and will remain so, until the necessary investment in scale and technology can be completed. Without tariff phasing this investment is unlikely to occur, plants will close and highly skilled manufacturing personnel will exit the Australian workforce.

2.2 Return on Sales and the Relevance of a 5% tariff to AVC

The 5% tariff is vitally important in maintaining adequate return on sales for AVC and the petrochemical industry in general. AVC is not seeking special protection and can adjust to tariff elimination over time, however, maintenance of a level of tariff protection through the adjustment period is necessary.

EBIT margins in the petrochemical industry in Australia are typically affected by product dumping much of the time and constrained at around 5%. EBITDA margins, perhaps a more useful comparator in a capital intensive industry, are on the same basis typically around 8-10%.

Immediate tariff removal will have a profound and irreversible impact, flowing to the margin earned. This was evidenced with polyethylene in the recently signed Singapore FTA.

Investment in technology, restructuring and productivity is unlikely to proceed if the tariff is eliminated immediately.

2.3 Rules of Origin

AVC supports PACIA's position on rules of origin (ROO) which favours the methodology detailed in the Singapore-US FTA. ROO in this agreement are based on a change in tariff classification with provision for regional content values to be determined on a product by product basis.

AVC does not support ROO based on a percentage of cost at the factory gate. Such rules have numerous definitional problems and can be manipulated in complex integrated manufacturing processes.

Work being done by the WTO and the WCO to harmonise ROO is moving down the path of a change in tariff classification. Australia should align itself with this trend and implement ROO for the Australian-US FTA which mirror the Singapore-US FTA. A similar approach is strongly recommended for the Australia-Thailand FTA with the Singapore and NZ agreements to be aligned at the earliest opportunity.

2.4 Anti-dumping Provisions

The implementation of the FTA with the United States will test the effectiveness of Australia's anti-dumping system and its administration. This system must ensure that where other exporting countries reduce prices to dumped levels to remain competitive on the Australian market, protection is provided for Australian manufacturers.

The Federal Government is requested to ensure the ongoing effectiveness of Australia's anti-dumping system by boosting the resources of this essential trade policy function to ensure it is robust and provides Australian manufacturing with adequate coverage.

In the case of PVC, and imports from the USA, South East Asia and North East Asia there has been a long and consistent history of product dumping.

Table 2 illustrates the ongoing potential for this.

Table 2 : PVC Capacity and Consumption – million tonne p.a. 2001 ^(a)

	CAPACITY	DEMAND
USA	7.8	6.7
Other North America	1.2	
South America	1.4	
Europe	7.7	
N E Asia	9.3	
S E Asia	1.8	
Australia	0.2	0.2
Others	3.0	
TOTAL	32.4	25.8

(a) CMAI World Vinyls Analysis, 2002, Pages 15, 115, 139, 473, 475

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As can be seen from Table 2, global capacity greatly exceeds demand. This relationship between capacity and demand is typical for PVC and petrochemicals in general. Maintenance of a robust and effective anti-dumping system is therefore paramount in an environment characterized by free trade agreements.

Australia's system does not currently make the grade and leaves efficient and committed Australian manufacturers exposed to dumped imports. The government must address this as a matter of priority and urgency.

3. SUMMARY

AVC supports the initiative of a FTA with the USA and recognises that free trade will benefit the Australian economy in the longer term.

However, AVC is strongly of the view and has argued consistently that the petrochemical industry should have been afforded a period of adjustment to complete necessary restructuring and investment to adjust to a zero tariff environment. Alignment of tariff phasing with the Australian-Thailand FTA would have provided for this. This did not happen and no alternative provision to facilitate transition to a zero tariff environment has been offered.

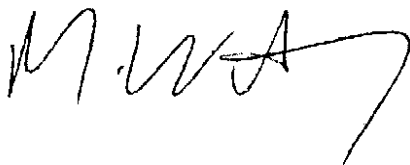
Looking forward AVC requests that the Government:

1. Recognises the need for transition periods to allow the petrochemical industry to adjust to a zero tariff environment as other free trade agreements are negotiated.
2. Improves the effectiveness of Australia's anti-dumping system as a matter of urgency and before further FTA are concluded.

AVC is not afraid to compete in an environment with no tariffs. It has successfully adjusted to a reduction in tariff from 30% to 5%. It is prepared to invest to adjust to elimination of tariffs as the global trading environment continues to be opened. All we ask is the time to make these investments.

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

Yours faithfully



Murray Winstanley
Chief Executive Officer