

# Burrup blues: \$900m project under threat

## Peter Roberts

The fate of a \$900 million ammonium project on Western Australia's Burrup Peninsula is in doubt after one of the founding partners withdrew yesterday.

Plentex's exit adds to concerns about the prospects for major resource developments in the region to utilise its massive gas reserves.

Plentex confirmed that high construction costs, rising gas prices and an inability to secure sufficient gas supplies because of export demand had destroyed the economics of producing ammonia from the project.

While its partner in the venture, Macquarie Bank-owned Dyno Nobel, will continue to study the feasibility of building an

ammonium nitrate plant on the site, the future of the project is in question as rival developments worth nearly \$2 billion on the peninsula also appear unlikely to proceed.

More than \$183 million of state government money has been spent on infrastructure on the peninsula but only one project has been built.

The lack of progress has raised

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questions about the effectiveness of state intervention and a federal government action agenda that has failed to achieve significant results.

The Burrup was considered highly prospective only five years ago, but increasingly looks like yet another example of Australia's failure to attract major downstream minerals processing investments.

"It is a tragedy that there have been a number of opportunities starting us in the face that have now been lost," Plentex chairman Peter Streader said.

"I rather suspect that the window of opportunity has been closed for the foreseeable future."

Australia has struggled to develop a world-scale petrochemical industry since the collapse of the Redcliffs project in South Australia in the 1970s, largely because of a lack of feedstock, which should not have been a problem for the Burrup.

However, soaring demand for liquid natural gas (LNG) in Asia and the US has meant the massive gas reserves in the region have been diverted into LNG exports.

There is speculation that Shell is close to signing a major LNG supply deal with India from the \$11 billion Gorgon development off the Burrup.

"You do need government support to get this industry going," a former head of the Plastics and Chemical Industries Association, Martin Jones, said.

"You are competing with the Middle East with its cheap gas and places like Singapore where they have got strong government support. It can be done, but there has to be a will to do it."

In the past five years much of the long list of projects planned for the Burrup has been delayed indefinitely or scrapped including a 1.3 million tonne methanol plant for Canadian producer Methanex, a \$1 billion dimethylether project for a Japanese venture and a \$770 million methanol plant for GTL Resources.

A \$630 million ammonia plant for Indian-owned Burrup Fertiliser has

gone ahead and is nearing completion.

Yesterday three other projects were listed by the WA government as under consideration including Plentex/Dyno, two \$900 million ammonium-nitrate plants for Indian-based Deepak Fertilisers and Agrium Australia. None of these appears likely to go ahead in the near term.

According to Deepak's chief operating office, T.K. Chatterjee, the company completed its feasibility study in 2004 and concluded "the project cost appeared high".

"We are presently looking at ways and means to bring down the project cost which will be acceptable to our long-term prospective buyers in the Pilbara Region," he said.

Agrium does not have a representative in Australia although its website confirms a feasibility study is under way. The company did not respond to *The Australian Financial Review*.

Ironically, the news from the Burrup comes days after chemicals and explosives group Orica announced a \$110 million expansion of its ammonium-nitrate plant at Yarwun in Queensland. The economics of a brownfields expansion by an incumbent are clearly different from a greenfields investment in a remote location.

It also comes amid warnings from consultants KPMG that China's push into chemicals and plastics, which is attracting investment of more than \$40 billion a year, is a long-term threat to Australia's

downstream processing prospects.

"Chemicals are dominated by global players and if they are looking to set up something, they will be looking more at China than Australia," KPMG's chemicals leader Bernie Szentirmay said. "This is particularly so for cost reasons."

Mr Szentirmay said China was building up massive capacity across the chemicals industry. While this was taken up by domestic demand, the focus would ultimately switch to exports.

"It is staggering what the global players are doing there. Down the track, when Chinese growth drops off, you will have all this output looking for a home. Australia would be an obvious place for it."

The Burrup's high construction costs are common in WA thanks to a massive engineering construction boom. However, a number of local issues such as a lack of infrastructure, native title, land availability and approvals processes have held back development.

"Some of the issues that were there in the early days have now been addressed," the chief executive of the WA Chamber of Minerals and Energy, Tim Shanahan, said.

"Obviously it would have been good to have resolved these earlier. But the major issue has been a change in the world market rather than anything we did or did not do in WA."

The Minister for State Development, Alan Carpenter, could not be contacted for comment.

State issues compounded a raft of issues identified by industry players that took part in a federal government action agenda for the sector, which concluded in 2004.

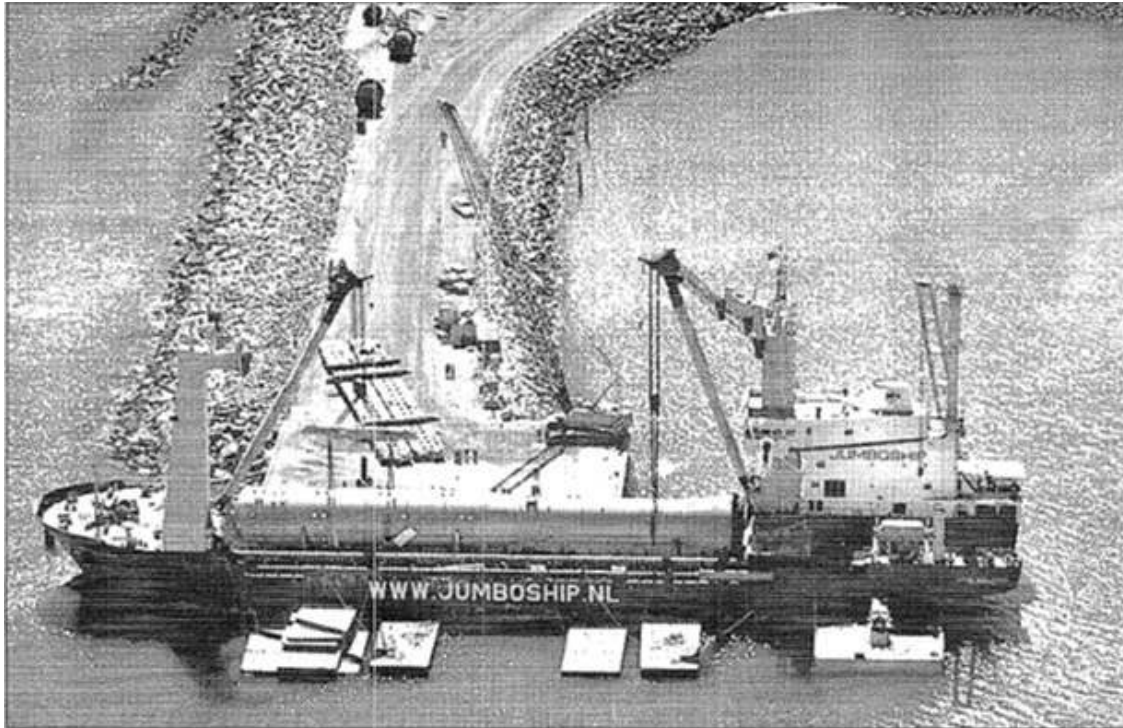
With the action agenda, which has attracted increasing criticism from industry for being well-intentioned but ineffective, there has been reform of government regulations, the establishment of an inquiry into coastal shipping and backing from Invest Australia for some Burrup proposals.

However, there was no action on other issues such as the removal of taxes on petrochemical feedstock and reform of R&D funding programs.

The chairman of the innovation working group of the agenda, APS Plastics founder John Petschel said he spent two years developing recommendations as part of the agenda.

"We are still waiting for a response [from the federal government]," he said.

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