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Jobs at risk as plastics giant Qenos mulls factory closure

Qenos CEO Stephen Bell at their Olefins plant at Altona, has raised concerns about the rising energy costs. Picture: Nicki Connolly

EXCLUSIVE

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The nation's biggest plastics maker Qenos is preparing plans to close its Australian manufacturing plants by the end of the year, sources say, with the potential loss of hundreds of jobs heaping pressure on the Albanese government amid a wave of industry and construction company collapses.

The Australian understands Qenos has not formally told its workforce of any closure planning, and declined to comment on Thursday over its financial position or the direction of any review of its operations.

But sources say a leaked email, recently circulated among some staff, suggested Qenos could close its operations by the end of the year as a result of ongoing losses at the plastics manufacturer.

Qenos runs major plants in Melbourne's Altona and Sydney's Botany Bay. The company's Sydney plant was hit by the near-collapse of its cooling towers in February 2023, with the facilities out of action for much of the year.

Any closure of its plants could have a major knock-on impact to other Australian manufacturers, given the polyethylene produced by the company is used in food packaging and moulded plastic products such as water tanks, wheelie bins and in a range of other industries.

Almost 1650 manufacturing and construction businesses have plunged into insolvency in just six months, with thousands of jobs under threat as companies move offshore and shut operations in response to rising power prices, supply chain pressures, labour shortages and high inflation.

Qenos, owned by China National Chemical, booked a $79.7m loss in 2022, according to the most recent financial statements filed to ASIC by the company, following a massive $320.4m loss the previous year – which came partly as the result of the company's closure of a number of its Victorian manufacturing lines in 2021.

While high energy and gas prices have played a part in Qenos' struggles, the plastic maker's primary problem has been the Exxon's 2021 closure of its Altona refinery, which cut off the supply of LPG to the company's nearby ethylene and polyethylene plants, forcing Qenos to mothball two of its four production lines.

At the time, Qenos said the closure would cut annual production of polyethylene by about 15 per cent, as the company also struggled to find reliable and affordable sources of other key chemical inputs, including ethane.

The closure of Exxon's Altona refinery only affected the company's Victorian plants, in 2022 the company again hit trouble as soaring gas prices – the result of Russia's invasion of Ukraine – coincided with the expiry of gas contracts supplying both its Melbourne plant and its Botany Bay facilities near Sydney.

Woodside eventually cut a deal for the supply of 4.5 petajoules of gas at "competitive rates", enough to supply both plant's needs for 2023. It is not clear whether that contract has been extended, replaced, or whether Qenos has since been buying gas on the spot market to service the needs of its two plants.

Spot gas prices in Victoria have averaged around $11.50 a gigajoule since the beginning of the year. Industry sources say any variation in the gas price would have a severe impact on the company's operations, with a $1/GJ movement across the year equating to about $7m in underlying EBITDA at the company.

Closure of Qenos plants could also trigger clean-up problem at the company's manufacturing facilities, which both have major contamination issues with perfluorinated chemicals (PFAS).

Australian Securities & Investments Commission data reveals a surge in manufacturing and building company insolvencies in the first half of 2023-24, heaping pressure on the Albanese government to increase support for distressed manufacturers and construction firms.

While Qenos biggest issues related to the closure of the Exxon petrochemical refinery, talk of manufacturing closures comes amid a new round of political brawling around energy costs and gas supply in Australia.

Orica boss Sanjeev Gandhi told The Australian last week that the explosive maker's $977m decision to buy into the US chemicals sector, through its acquisition of US cyanide manufacturer Cyanco, reflected the company's view that lower gas prices in the US made it a better bet for the company's future growth.

"It also, unfortunately, tells you that manufacturing in Australia gets more and more challenging with the extremely high natural gas prices. We will look more and more for overseas investments if we don't get our act together in terms of competitive gas pricing in this country," he said.

Opposition energy spokesman Ted O'Brien blamed the Albanese government's "anti-gas" policies amid speculation of the nation's major manufacturers may shut its doors.

Mr O'Brien told The Australian he was concerned over the threatened move.

"My thoughts are with the hundreds of workers who may lose their jobs if this manufacturing giant closes its doors, along with the thousands of other workers across multiple sectors whose jobs may be threatened as supply chains are turned upside down if Qenos exits," Mr O'Brien said.

"This should be a wake-up call for the Albanese Government to start taking energy security seriously as it underpins our nation's sovereign manufacturing capability and the jobs and way of life of hardworking Australians and their families.

“While it’s too early to draw specific conclusions, there’s no doubt that Labor’s anti-gas policy settings and its new carbon taxes are making it even harder for Australian-based operations to turn a profit let alone remain competitive.”

Qenos has for years been a vocal critic of the gas industry and policy settings that failed to provide cheaper sources of energy for major manufacturers.

“It’s not as simple as a future government simply turning the gas back on at a later date, and expect manufacturing to be miraculously on-shored again. Once gone, many of our manufacturing capabilities will be lost forever, leaving Australia poorer, weaker and more dependent on foreign power,” Mr O’Brien said.

Nationals Senator Matt Canavan told The Australian he was “sad to see the unnecessary, slow motion de-industrialisation of Australia”, adding it was a consequence of committing to a “foolish” net zero objective.

“Who would invest in heavy manufacturing here when you know you are on death row? The Labor party also imposed a carbon tax (that is their safeguard mechanism) on Qenos just last year,” Mr Canavan added.

“More taxes are only going to lose more Australian jobs and that will leave other Australian businesses just more dependent on imports.”

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