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HD **BP, Philip Morris Scale Back Australia Operations--Update**

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SYDNEY--Just two months after Toyota Motor Corp.--the last major car maker in Australia--announced plans to pack up, oil giant BP PLC and cigarette-maker Philip Morris International Inc. said they were also scaling back their Australian operations.

For BP this will mean closing one of the firm's two oil refineries in the country. Philip Morris said it planned to shut down its sole Australian factory while keeping some administrative and other office roles in its Melbourne location. A combined 535 job losses are expected from the closures.

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The redundancies add unease to the world's 12th-largest economy, where the cooling of a decadelong mining-investment boom has driven the unemployment rate to a 10-year high of 6%, compared with a peak of 5.9% during the throes of the global financial crisis. Manufacturers' flight from Australia, often for cheaper operations, only exacerbates unemployment woes.

BP's closure of its Australian refinery follows other international energy companies' moves to cut back on their smaller facilities, which have difficulty competing with the cheaper sales and production of bigger operations in places like India and Singapore.

The British company's decision to stop refining at the Bulwer Island facility, in the city of Brisbane, by mid-2015 will cost of as many as 355 jobs. BP said it is considering converting the site into a fuel-import terminal. The refinery currently supplies gasoline to pumps and businesses on Australia's east coast.

The company's best option to meet the former needs of this facility would be to buy from other companies' refineries, said Andy Holmes, BP's Australian head, in a statement Wednesday.

Royal Dutch Shell PLC has also sold and idled refining assets to invest in more lucrative oil-and-gas projects, as growing competition squeezes margins. Both Shell and Caltex Australia Ltd. have sold or closed Australian refineries in recent months.

Philip Morris said it would stop producing cigarettes in Australia by the end of the year, closing the curtain on nearly 60 years of manufacturing in Melbourne. The closure could result in as many as 180 job losses as the company shifts production to South Korea.

The U.S. company blamed tighter regulation of cigarette exports by the Australian government for dwindling shipments and factory production. It said its factory here was "significantly underutilized, operating at less than half of its currently installed capacity." Philip Morris's Australian business was its first outside the U.S.

Australia is in its 23rd year of straight growth but is stuck in a low gear as the mining-investment slowdown weighs on the economy.

As a result, most of the layoffs over the past two years have been in the resources sector, where companies such as BHP Billiton Ltd. have scaled back investment in mine-building and transport infrastructure to focus on selling their newly dug-up commodities to China, Australia's biggest trading partner.

But manufacturing has suffered too--mostly because of a stubbornly high Australian dollar that has made imports cheaper and exports less competitive for several years. Additionally, labor and production costs, which tend to be a lot higher than in developing Asia, where competition is fierce, have stung local manufacturers.

The expansion in developing countries of production capacity for mass-market goods is also putting pressure on Australian manufacturers to make more advanced products that are harder to replicate.

"Manufacturing in Australia is challenged and it'll continue to be the reality," said John Phillimore, executive director of the Perth-based John Curtin Institute for Public Policy, a university research body. "If there is a future for manufacturing in Australia it is probably at the high-end."

Although last year's steep falls in the Aussie dollar helped manufacturers regain some of their earnings momentum, the sector has yet to see anything like the recovery in the housing or retail industries as a result of the nation's record-low interest rates.

The central bank has been trying to revive all three of those sectors to help offset the mining-investment downturn, but manufacturing has been among the slowest to react to its so-called rebalancing efforts--which last year included trying to push down the Australian dollar to give local exporters a boost.

Toyota's decision signaled the death knell of the nation's auto-making industry in February when it said it would close its production facility in Melbourne over the next three years. Ford Motor Co. and General Motors Co. have also announced plans to halt manufacturing in Australia over a similar time frame.

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