5 January 2000

General Tariff Review Enquiry
Productivity Commission
P O Box 80
Belconnen ACT 2616

Dear Sir/Madam,

SUBMISSION – REMOVAL OF TARIFFS ON IMPORTED CATALYSTS

We refer to the Review of Australia's General Tariff Arrangements Issues Paper dated November 1999 which has been issued by the Productivity Commission and invites submissions relating to the review.

Purpose of the submission

The purpose of this submission is to request the removal of tariffs levied on catalysts imported for use in the refining of petroleum products. There is no Australian production of the catalysts in question and there are no substitutes produced in Australia which can be used in their place.

Caltex Australia Limited profile

The Caltex Australia Limited group of companies is a major refiner and marketer of petroleum products in Australia with operations in all states and territories and is also a competitor in the convenience retailing and fast food industries.

The company operates three refineries, one of which is situated at Lytton in Queensland and the other two at Kurnell in NSW.

Caltex Australia Limited is the only petroleum refining and marketing company listed on the Australian Stock Exchange and is a major employer of Australians.

The company uses a number of imported catalysts in the refining process and these catalysts are currently subjected to tariffs at the rate of 3%.

Background to the refining industry in Australia and the main problems being experienced by the industry

The legislative treatment of the petroleum industry over the years has been far from equitable, which has not only constrained profitability to an inadequate and unsustainable level but has also constrained opportunities for growth. The Sites Act has effectively disadvantaged local refineries against low cost imports of fuel from Asian refineries and this could ultimately result in the loss of Australian manufacturing jobs. We understand that the overseas refiners do not pay tariffs on their catalyst purchases.

The expansion of independent import facilities in recent years has greatly increased the contestability of the fuel market at the bulk level and this has resulted in prices for refined products which are close to the import alternative prices. Import competition is now a permanent feature of the Australian market. However, regulation actually protects imports against local manufacturers and discriminates against companies that have invested billions of dollars in Australian manufacturing. In order to withstand import pressure, refiner-marketer companies must defend their market shares and ensure operations are as cost-efficient as possible. Unfortunately, the playing field is tilted against refiner-marketers by special regulations which do not apply to their competitors. Other companies are able to sell fuel unrestricted by price controls, the Sites Act, the Franchise Act and an industry code of conduct. These companies are building market share without the barriers to competition faced by refiner-marketers and some, including powerful new entrants such as Woolworths, are importing a significant proportion of their fuel. It is essential for the Commonwealth Government to create a level playing field.

Furthermore, as a result of the package of environmental measures associated with Government/Australian Democrats agreement on A New Tax System, Caltex Australia faces a very large investment for cleaner fuels if it wishes to continue manufacturing petroleum products in Australia from January 2006 onwards. This investment will only be made if the economics of investment in Australia are superior to importing finished products from Asia. Environmental regulation affecting the oil industry is likely to increase, with adverse effects on local competitiveness. A major issue is the role that changes to fuel specifications can play in maintaining and improving air quality. Reduction of the sulfur content of diesel, together with other changes to diesel and petrol specifications, could raise the costs of Australian refineries by $1 per barrel or more, which would make some Australian refineries even less competitive when compared with new Asian refineries. The reason is that many Asian export refineries can already meet fuel quality specifications which are likely in Australia in the future. The import price therefore is likely to remain the same as Australian specifications are tightened, so that much of the investment by Australian refineries in changing fuel specifications is unlikely to be recoverable in the market place.

The climate for investment in Australia will depend not only on the taxation rules directly related to the cleaner fuels investment but also on the overall perception of Australia as a good place to do business. The Government has stated its commitment to a world competitive taxation regime in Australia but this will not be achieved for the petroleum industry unless policy changes are made. Unfortunately, the industry return on investment is below 5 per cent and this compares with a cost of capital of around 10 per cent which is clearly well below what shareholders require to justify new investment. It is essential to increase the return on existing investment to justify major new investment. It is critical to build investment capacity but currently, the climate for investment in the industry is regarded by refiner-marketers as unattractive. This needs to be changed.

Tariff lines applicable to the catalyst imports

The following tariff lines apply to the imported catalysts and they attract a tariff rate of 3%. It is requested that they be made tariff free.

Export Statistical Item	*Description*
3815.1	- Supported catalysts
3815.11.00	-- With nickel or nickel compounds as the active substance
3815.12.00	-- With precious metal or precious metal compounds as the active substance
3815.19.00	-- Other

Details of the catalysts imported

The catalysts which are imported and subject to the tariffs are as follows:

- Hydrotreater catalyst (Type 1) – Alumina pellets containing cobalt and molybdenum oxides
- Hydrotreater catalyst (Type 2) – Alumina pellets containing nickel and molybdenum oxides
- Reformer catalyst – Alumina pellets containing precious metals platinum/rhenium
- FCCU catalyst – Alumina silica matrix pellets. (This is a mixture of Kaolin (a clay), Zeolite, Silicon dioxide (amorphous) and aluminium oxide).
- Poly catalyst (Polymerisation plant) – Phosphoric acid/diatomaceous earth based pellets

Economic policy objectives

The removal of the tariffs on the catalyst imports would help towards making the refining of petroleum products more competitive with the overseas refineries. This would in turn help towards making the Australian refineries more economically viable and thereby reduce the pressures for the closure of refineries in Australia with the subsequent loss of Australian jobs.

Cost and benefits of tariff reductions

The tariffs paid by the group on the catalysts imported under the abovementioned tariff lines currently amounts to approximately $207,000 per annum.

Magnitude

The overall magnitude of any revenue foregone by the Government as a result of the removal of the tariffs would be very small when compared to total Government revenues but the benefits to the company would be relatively larger. Accordingly, it is recommended that the reductions should be implemented immediately and that a phased implementation is unnecessary.

Introduction of a GST

It is anticipated that the introduction of a GST on 1 July 2000 will not have any implications for the requested tariff reductions.

Effect on industry

The removal of the tariffs on catalyst imports will contribute to making the company's refineries more competitive with the overseas refineries. This will have a positive effect on the viability industry.

Goods produced in Australia which are substitutes for those which could be imported

The catalysts in question are not manufactured in Australia and there are no goods produced in Australia which are substitutes for or complementary to those which could be imported under the tariff lines. Hence, there is no local industry to protect. It appears that the tariff is a remnant of the time when there was a catalyst manufacturing plant in Australia but it was closed down during the 1980's.

When should tariff changes be made, and why

The tariff changes should be made as soon as possible as the petroleum products refining industry is continuing to be disadvantaged when compared to refined products which have been imported. It was hoped that the tariff's would have originally been removed at the time the Government announced the removal of the so-called "nuisance tariffs" during 1999.

Conclusion

As an import-competing manufacturing industry, the future of petroleum products refining is not guaranteed. In part, its future will be determined by international forces however, government policies will also have an important bearing on the ultimate outcome. There is no physical reason why Australia must have a substantial refining industry in Australia. However, without it, the country would lose the value added to local and imported raw materials, security of supply, a market for locally produced crude oil, investment, employment, and technological knowledge and experience in petrochemical processing. Currently, the climate for investment in the industry is regarded by refiner-marketers as being unattractive.

The removal of the tariffs on catalyst imports would, along with other measures, help towards restoring the profitability of the petroleum industry and make local refined products more competitive with imported products. A viable refining industry would save the country valuable foreign exchange and help retain Australian jobs.

If you have any queries or require more information, please contact Gerry Hallock, Tax Adviser – Indirect Taxes, on telephone 02 9250 5955 or email ghallock@caltex.com.au

Yours faithfully,
CALTEX AUSTRALIA LIMITED

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General Manager Finance