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Australian Stainless Steel Development Association
A.C.N. 061 226 051

12 January 2000

Review of Australia's General Tariff Arrangements
Productivity Commission
PO Box 80
BELCONNEN ACT 2616

Dear Sir/Madam

The Australian Stainless Steel Development Association welcomes the opportunity to make submission for consideration in the review of Australia's general tariff arrangements.

The Australian Stainless Steel Development Association (ASSDA) is an Australian public company limited by guarantee and is the peak organisation for the stainless steel industry in Australia. ASSDA's primary goal is to raise the level of consumption of stainless steel in Australia and amongst its other objectives are to represent the industry to government and create a more efficient, competitive Australian stainless steel industry.

ASSDA has approximately 150 member companies representing the great majority of the supply side of the industry and important segments of the fabrication and the consumer side of the industry.

This submission will focus primarily on tariff codes relating to stainless steel flat products for which there is no local manufacture and in most cases, no substitute materials manufactured in Australia, but for which a tariff is imposed and for which a minimum tariff of 3% can be achieved under the imports for business inputs policy of the Government. In all cases the cost of the 3% tariff raised on importation is passed on to the consumer in a multitude of industries important to Australia's future.

ASSDA believes that the removal of the 3% tariff on imports of stainless steel flat products for business inputs will help to meet the government's desire to (a) improve the overall efficiency of the Australian economy; (b) encourage the development of sustainable prosperous and internationally competitive industries in Australia; and (c) promote the provision of high quality, competitively priced goods and services to Australian businesses and consumers.

Yours faithfully

ASSDA

A handwritten signature in black ink, appearing to read "Richard Matheson", is written over the typed name and title.

Richard Matheson
Executive Director
0001.053/6TC

Submission

Review of Australia's Tariff Arrangements July 2000

This submission will deal with stainless steel flat product tariff codes which at the six digit level include 7219.11, 7219.12, 7219.13, 7219.14, 7219.21, 7219.23, 7219.24, 7219.31, 7219.32, 7219.33, 7219.34, 7219.35, 7219.90, 7220.11, 7220.12, 7220.20, and 7220.90.

Stainless steel flat products (generally referred to as sheet, strip, coil and plate) are semi-fabricated or intermediate forms of stainless steel that are purchased and used in the fabrication of finished goods in a variety of industries.

The Stainless Steel Industry

Australia's stainless steel industry currently includes businesses in the importation, stockholding and supply of stainless steel semi-finished goods, the manufacture of some intermediate goods such as tubular products, bar and wire products, castings, forgings, and the production of fittings, and the fabrication of fully finished products into capital and consumer goods for both domestic and export markets.

The Australian Stainless Steel Development Association estimates that the annual value of goods manufactured from stainless steel in Australia is approximately one billion Australian dollars and that the industry employs in the region of 7,000 to 10,000 skilled workers. The industry is a vital supply industry for important Australian industrial and other activities.

Background

In 1987, as a result of reorganisation of BHP's carbon steel facilities at Port Kembla, stainless steel melting ceased in Australia. Stainless steel flat product manufacture was then conducted by BHP Stainless through the importation of hot rolled stainless steel coil which was cold rolled by BHP into finished products for the Australian market. Before 1996 a tariff structure of 5% to protect BHP's position existed and BHP dominated the local flat product market. In 1996 the Australian government imposed a tariff on imports for business inputs - effectively imposing a 3% tax on imports for BHP's feed material and all other stainless steel goods. Shortly following this decision BHP announced it would close its stainless steel plant at Port Kembla effective May 1997. This left Australia without a primary producer of stainless steel flat products but with a tariff structure designed to protect a local producer and an import impost of 3%.

The advantages BHP's facility offered the local stainless steel purchaser included short order lead times, the ability to supply small orders, excellent quality, 'David Jones' style complaints and order cancellation policies, and a technical service. It also provided Australia with a large purchaser of stainless steel products from offshore mills and a substantial stockpile of stainless steel. Both these factors are important in times of global shortages. Since the departure of BHP from the stainless steel market at least some of these advantages have been lost with cost implications for the industry.

It is not now possible to manufacture stainless steel flat products in existing facilities in Australia, specialised technology and economies of scale being required.

Recommendation

All stainless steel flat products are now fully imported from stainless steel producers in Europe, Asia and Africa and, to a limited extent, the United States. Increasingly, stainless steel is a global commodity and regional price

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influences play a small and reducing role in the material's price structure. Australian consumers of stainless steel receive their material at a genuinely world competitive price. Australian prices are based on Hong Kong quoted prices, the market considered the most competitive for stainless steels in the world. The addition of a 3% tariff on these imports is simply passed along the cost chain to the consumer.

Stainless steels compete with many materials. However, stainless steels will often be more expensive, on an initial cost basis, than competing materials in a given application. Stainless steels are chosen for the material's properties, usually longevity (corrosion resistance) or another important attribute (such as hygiene, safety or environmental issues) and for imparting overall a higher level of efficiency of products in which the material is used. In the majority of cases locally manufactured stainless steel products compete only with fully imported stainless steel goods.

Stainless steel flat products represent the majority of Australia's annual consumption of stainless steel - about 80% of total stainless steel consumption in intermediate forms. The market sector is approximately 90,000 tonnes per annum. Countries with highly efficient industrial bases generally have high levels of stainless steel consumption per capita such as Germany (approx. 15kg/head per year), Italy (30kg/head) and Japan (20kg/head per year). Australia is moving towards greater consumption per capita of stainless steel from a low base of about 3kg/head per year early last decade, to in excess of 5kg/head per year currently. The imposition of the 3% tariff on stainless steel makes the material less attractive, costs the industry in the region AUD14 million dollars annually and helps to deny Australian industry the higher efficiencies that the material offers.

ASSDA strongly recommends the removal of the tariffs covering stainless steel flat products on the grounds that this will meet the Government's objectives of:

- (a) Improving the overall efficiency of the Australian economy;
- (b) Encouraging the development of sustainable prosperous and internationally competitive industries in Australia; and
- (c) Promoting the provision of high quality competitively priced goods and services to Australian businesses and consumers.

1. Improve the overall efficiency of the Australian economy

The 3% tariff raised in 1996 by the Federal Government was raised as industry's "share of the pain" to meet the government's treasury objectives of overcoming a budget deficit. It would appear that this situation no longer carries the imperative it did in 1996. Removal of the tariff on imports for business inputs would eliminate a tax on manufacture in Australia and allow Australian industries to compete with imported products on a level playing field.

2. Encourage the development of sustainable, prosperous and internationally competitive industries in Australia

The wine industry is an example of an important, internationally competitive industry being developed in Australia.

The Australian Winemakers Federation has set a target of achieving 6.5% of the world market by 2025. With less than 2% of the world market being retained in 1995 the projection was optimistic but results to date have confirmed the Federation's optimism with current volumes ahead of target and grape plantings underway which will achieve the volume plans for 2025. Similarly, sales growth in the wine industry has been exceptional with total sales in 1995 about 1.3 billion dollars and total sales in 1999 being about 2.4 billion dollars, with approximately 3.5% of the world export volume. This only four years into the twenty year plan. It appears the growth will continue to be export driven against a background of higher than planned domestic volume.

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Stainless steel has played an important role in the development of this industry's objectives particularly in processing plant and storage facilities. Consumption of stainless steel on a yearly basis has increased from about 2,000 tonnes per year in 1992 to almost 10,000 tonnes per year currently with plans for the industry to increase its volumes of consumption over the next few years.

Wine tank and process plant manufacturing facilities are almost all located in regional areas, in places close to the vineyards where many of these organisations have grown to be significant employers in a regional setting. Supporting the stainless steel industry with a reduction of tariffs would have a positive impact on regional development in towns close to, or within wine growing regions.

The elimination of the 3% tariff would also reduce the cost of equipment used for storage and processing of wine in Australia freeing up capital to make these firms either more profitable, employ more people, or invest in further capacity and export opportunities. Because the wine is exported and not the stainless steel infrastructure, there is no facility to avoid the tariff. Process and storage facilities are substantial cost components in wine manufacture. Elimination of the tariff would benefit the export competitiveness of this industry.

3. Promote the provision of high quality, competitively priced goods and services to Australian businesses and consumers

The following table represents the breadth of the industries in which stainless steel is consumed and the proportions of consumption in each segment.

Market Segments	
Architectural / Construction	3.5%
Automotive	8.2%
Food and Beverage Processing	9.4%
Food storage / preparation	11.8%
Industrial	11.8%
Domestic Household Products	9.4%
Marine	2.4%
Resources processing	4.7%
Petrochemical	3.5%
Transport	7.1%
Medical & Hygiene	2.4%
Wine Industry	11.8%
Other	14.0%
Market Size	100.0%

In many of the products ultimately used in these industries made from stainless steel, the stainless steel component represents a high proportion of the value of the product. For instance, it is apparent that the value of the material in a stainless steel brick tie is a high proportion of the cost of the ultimate product because of the nature of the work involved in producing the tie. In the manufacture of stainless steel sinks, stainless steel represents about 60% of the manufacturing cost of the sink. Therefore, the tariff represents relatively a high cost component in the manufacture of these products. Where fabrications are relatively simple such as in tank construction, tubular construction, enclosure construction, the

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influence of the tariff will be relatively high compared to the overall value of the good. This creates a significant competitive disadvantage to industries manufacturing these products.

Removal of the 3% tariff on flat products would reduce the cost associated with stainless steel goods in all segments. Lower costs would immediately materialise in lower cost products wherever stainless goods manufactured in Australia are sold, making them more competitive in domestic markets. The flow-on effects of more cheaply available Australian manufactured goods are apparent with reduced balance of payments problems, increased employment and greater wealth generation available locally.

Comment on the CER

Marginal cost differences are enough to prevent Australian fabrication winning work at home and this can be demonstrated by examining the New Zealand experience in stainless steel fabrication. In New Zealand stainless steel flat products are not dutiable when imported. In relatively simple fabrication such as major tank vessels, New Zealand componentry can effectively compete with Australian manufacture. Under CER arrangements stainless steel fabricated goods can similarly be shipped into Australia duty free. Examples exist in dairy, pharmaceutical and beverage tank industries. Removal of the 3% tariff would empower local industries to compete more effectively with countries introducing their fabricated components into Australia duty free.

Comment on the General Tariff Rate

It is not in the stainless steel industry's interest to see an across the board reduction in the general tariff, which would have substantial implications for local manufacture in our sector. This is particularly so given that local manufacturers must pay a 3% tariff on a substantial cost component in their manufacture, significantly eroding any protection afforded by a 5% tariff barrier.

Conclusion

1. There is no longer a producer of stainless steel flat products in Australia.
2. The 3% tariff impost on stainless steel flat products reduces the competitiveness of Australian manufacturing incorporating these goods, both in the domestic market and in the export market.
3. Removing the tariff will reduce the cost associated with goods and services increasing their competitiveness and improving the Australian economy.
4. Removal of the tariff will achieve the governments policy objectives of improving the overall efficiency of the Australian economy, encouraging the development of sustainable prosperous and internationally competitive industries in Australia, and promoting the provision of high quality competitively priced goods and services to Australian businesses and consumers.