Plastics and Chemicals Industries Association

Submission to Productivity Commission Review of General Tariff Arrangements

1. About PACIA

PACIA is the peak Australian plastics and chemicals industries association. The organisation was formed in 1994 following the amalgamation of the Plastics Industry Association, the Australian Chemical Industry Council and the Chemical Importers and Exporters Council of Australia. PACIA currently represents over 400 members – from large multi-national companies to small privately owned family concerns - and accounts for 85% of the industry's annual $33 billion turnover.

The plastics and chemicals industries, as the second largest manufacturing sector after food and beverages, accounts for 10% of the manufacturing sector and employs over 89,000 people. The industry is important in the regional development of Australia, with many of our members operating in regions such as Geelong, Victoria; Kwinana, Western Australia and Gladstone, Queensland. The operations of these companies help support regional communities, given their substantial investment in plant and infrastructure and provision of significant employment opportunities in such regional communities.

2. The Global Chemicals Industry

Internationally, the chemical industry is one of the world's truly globalised industries. World chemical output currently exceeds $US 1.6 trillion annually with 30% of this production traded internationally. In trade terms, this makes the chemicals industry second only to automobiles in the manufacturing sector and well above computers and related technology products. The global nature of the industry is not only limited to production and trade. In 1998, merger and acquisition activity in the chemical industry was the third highest in the world behind financial institutions and telecommunications. Given this high degree of globalisation, issues relating to trade are particularly important to the industries PACIA represents.

3. History of Tariffs in Australia

As recently as fifteen years ago, Australia's chemical industry operated behind a high tariff schedule. Australia's tariffs were in fact higher than those which generally applied in other developed countries. Tariffs on basic chemical products ranged from zero to 45% while tariffs on other chemical products ranged from zero to 35%. After the 1986 Industries Assistance Commission's Report, the Australian Government made a number of decisions which resulted in chemical tariffs reducing to between zero and 5% by July 1996.

This environment has seen the industry aggressively restructuring, closing inefficient plants, consolidating production and expanding capacity at certain locations to improve scales of production and the financial viability of operations. As a result, investment has been subdued and mainly directed at improving existing plant and equipment such as Orica's $200 million expenditure on the Moomba-Botany Ethane pipeline and upgrade of its Ethylene plant. Results of the 1998 Chemical Industry Performance Survey[1] showed respondants expect to spend over $400 million on such upgrades over 1999 and 2000.

Between 1991 and 1997 import penetration of the Australian chemical industry rose by 20% to 60%. This, coupled with lower tariffs, has caused industry restructuring, reducing the number of local chemical producers and allowing imports to achieve increased market contestability. This has made the Australian chemical industry a price taker in the global market. This means that most cost increases experienced by our members cannot be passed onto consumers and must therefore be absorbed by the company. This leads to higher costs and lower profits.

4. International Developments in Chemical Tariffs

PACIA notes that international tariffs are not directly comparable to Australian tariffs. Australia and New Zealand base their tariffs on Free on Board (FOB) prices, while the rest of the world typically bases them on Cost, Insurance and Freight (CIF) prices. FOB prices are lower than CIF prices. Hence, tariff protection based on FOB prices will be lower than the same percentage based on CIF prices.

The Chemical Tariff Harmonisation Agreement (CTHA) was reached in the 1990's. The Agreement obliges signatory countries to reduce their tariffs on all chemical products included in chapters 28 to 39 of the harmonised tariff schedule to an upper bound of 6.5% (CIF) by 2004. (6.5% CIF equates to approximately 8% in FOB price terms). As at the 1st of January 1999, 19 countries[2] including the United States, European Union, Japan and South Korea had signed the agreement. Australia and New Zealand are *de facto* members of the Agreement since their tariffs are already lower than the 6.5% bound. PACIA and other stakeholders are currently trying to reach a post 2004 Agreement to enable participating countries to reduce their tariffs to zero.

In 1994, APEC member countries[3] agreed that there would be free and open trade and investment in the region between developed country members by 2010 and developing country members by 2020 – the Bogor declaration. Australia is already well on the way to achieving this as are Japan, the United States, Canada and New Zealand. Thailand, Indonesia and Malaysia – as developing country members of APEC - must have their tariffs to zero by 2020.

Table 1 shows chemical tariff rates for China, India, Thailand, Malaysia, Philippines, Indonesia and Australia. European Union tariffs are on average around 9.5% (CIF) while the United States, Canada and Japan have average tariff rates of 9% (CIF). Clearly Australia has lower tariffs for most products than the other eight countries, particularly considering that the Australian tariffs shown are all in FOB terms. The table shows that China, India and Indonesia have quite high tariffs on average. These high tariffs show the

[1] The survey received responses from 32 companies mainly medium to large sized, and thus the figure is not fully indicative of the investment intentions of the industry as a whole.
[2] The following countries were participants in CTHA at January 1999: Australia (de facto); Bulgaria; Canada; Czech Republic; Ecuador; European Union; Hong Kong; Japan; Korea; Mongolia; New Zealand (de facto); Norway; Panama; Qatar; Singapore; Slovakia; Switzerland; United Arab Emirates; and United States. Pending participants included: Armenia; Estonia; Kirgi Republic; Latvia; Lithuania; Oman; and Taiwan
[3] The current APEC membership is Australia; Brunei; Canada; Chile; China; Hong Kong; Indonesia; Japan; South Korea; Malaysia; Mexico; New Zealand; Papua New Guinea; Peru; Phillipines; Russia; Singapore; Taiwan; Thailand; United States; Vietnam.

need for these countries to enter bilateral or multilateral agreements on tariff levels if global trade liberalisation is to be successful. Malaysia, Thailand and the Philippines have a mixture of tariffs ranging from zero to 30% depending on the product.

Table 1: Tariff rates for selected countries and Selected key products

Product	China	India	Thailand	Malaysia	Phillipines	Indonesia	EU^	Japan^	Australia*^
EDC	10%	10%	5%	0%	3%	5%	9%	4%	0%
VCM	10%	10%	5%	0%	0%	10%	9%	4%	0%
n-Butanol	8%	30%	10%	0%	3%	5%	6%	6%	5%
Acetic Acid	9%	25%	5%	0%	3%	10%	12%	2%	5%
Ethyl Acetate	9%	30%	5%	0%	3%	10%	9%	4%	5%
Vinyl Acetate	9%	30%	5%	0%	3%	5%	9%	4%	5%
Phthalic Anydride	12%	30%	10%	0%	5%	15%	10%	3%	5%
LD PE	18%	30%	20%	30%	15%	40%	10%	4%	5%
HD PE	18%	30%	20%	30%	15%	40%	10%	4%	5%
Polypropylene	16%	30%	20%	30%	15%	40%	10%	4%	5%
EPS	16%	30%	20%	0%	10%	30%	10%	4%	5%
ABS	16%	30%	20%	0%	3%	-	10%	3%	5%
PVC	16%	30%	20%	20%	10%	20%	10%	4%	5%

* FOB
^ CTHA
Source: JCIA. JPIA. APEC

In its bid to join the World Trade Organisation (WTO), China offered to reduce its current tariffs on most chemical products to 6.5% (CIF). This commitment by China is seen by PACIA as important to the global chemical market for several reasons. Firstly, it would open up to exporters a large market for their chemical products. Secondly, China's offer weakens the argument put forward by some developing countries that tariffs cannot be lowered as their industries are still developing. Accordingly, China's offer increases the pressure on countries such as India, Malaysia, Thailand and Indonesia to lower tariffs.

PACIA would also like to draw attention to the Australian Tariff Concession Scheme. In 1996, the Government faced the prospect of having to fund a $10 billion 'black hole' in the Commonwealth Budget. One of the hundreds of decisions taken by the Government to attack the deficit was to implement this scheme as a revenue raising mechanism. The 1996 decision was a blow to industry given that the 3% tariffs were only applied to business inputs (both goods and equipment) and not to consumption goods. This resulted in increased costs to producers who used the inputs. As the Australian industry is a 'price taker' in most final chemical and plastic products, companies had to absorb the extra costs that the Tariff Concession Scheme imposed. Despite the budget now being in surplus, companies continue to have to absorb this cost impost.

5. Current Australian and Global Tariffs

PACIA is a member of the International Council of Chemical Associations (ICCA), an organisation of leading trade associations representing almost 80% of chemical manufacturers worldwide. The members[4] of the ICCA include associations representing

[4] Members come from 6 zones. 1) North America – United States, Canada, Mexico; 2) South America – Brazil, Argentina, Uruguay, Chile; 3) Japan; 4) Australasia – Australia, New Zealand; 5) South Africa; and 6)

the European Union, Japan, Canada, United States, New Zealand and Australia. The ICCA is committed to the multilateral liberalisation of trade and investment underpinned by a framework of rules implemented through the WTO.

The ICCA has been looking at the options for further trade liberalisation beyond CTHA, both in terms of reductions post 2004 and in the area of broader membership of the agreement.

At its Geneva meeting in June 1999, the ICCA established five priority topics for the Seattle round of WTO talks, one of which related to market access and chemical tariffs. The ICCA member associations agreed to lobby their respective Governments to adopt the goal of free trade through the removal of all tariffs and identified non-tariff barriers by 2010 - with the condition that all WTO members and all chemicals must be included in WTO negotiations. It was the agreed position that any global elimination of tariffs had to be built into the final WTO package emerging from Seattle. The ICCA was also urging that no further tariff reductions in the chemical sector should be undertaken by the WTO until several of the major chemical producing countries made a commitment to the CTHA or some other type of agreement.

In a similar light to the agreed ICCA position, PACIA argues that Australia's tariffs are currently lower than the rest of the world. Therefore, until the chemical tariffs of other countries are reduced to the levels of Australian tariffs now, PACIA sees no compelling reason to lower our tariffs further.

6. PACIA position

With respect to the Tariff Concession Scheme, PACIA sees no reason for imposing any tariffs on goods for which there is no domestic substitute and thus recommends to the Commission that these tariffs be eliminated immediately. The Scheme imposes extra costs on producers who must increase prices, or if they are a price taker in a particular product, absorb the cost themselves thus lowering profit. Likewise, historical tariffs on products and equipment of 5% where there is now no domestic production should also be reduced to zero. The government has no reason to continue with such tariffs as revenue raisers given the current surplus budget.

For tariffs on those chemical products where there exists either domestic production or substitutable domestic products, PACIA argues that these should be addressed as part of a global goal of eliminating tariffs for chemical products. By 2004, those countries participating in the CTHA will have reduced tariffs to 6.5% (CIF) and progress should have been made to expand the scope of tariff reductions. Australia already has some of the lowest tariffs in the world and thus PACIA sees minimal global pressure to reduce tariffs further within that time frame.

PACIA supports the full removal of all tariffs and non-tariff barriers on chemical products by 2010, with the condition that it is a globally recognised agreement preferably achieved through the WTO. It is PACIA's view that any removal of these tariffs before global trade liberalisation is fully agreed upon will disadvantage the Australian chemical industry. It will

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Europe – Austria, Belguim, Denmark, Finland, France, Germany, Greece, Ireland, Italy, Netherlands, Norway, Portugal, Spain, Sweden, Switzerland, United Kingdom, Czech republic, Hungary; Poland, Slovak Republic, Slovenia and Turkey.

do this by opening the domestic market to further import penetration, whilst denying Australian exporters equal access to foreign markets. The industry is steadily increasing its export importance - since 1990/91 the value of exports has more than doubled – with increased export penetration a strategic goal for the industry. PACIA argues that the remaining tariffs be used in the negotiating process to further improve access to international markets.

The trade deficit in chemicals has worsened over the last decade with imports rising much more steeply than exports; particularly since 1995-96. It is also important to note the significance of the trade deficit in chemicals to Australia's total trade deficit in goods and services. In 1997/98 Australia's trade deficit in goods and services was $A 4,418 million compared to a chemical trade deficit in goods and services of $A 6,288 million. The trade deficit in chemicals makes up a significant part of Australia's balance of payments problems. Further reductions in Australia's chemical tariffs without increased market access for Australian chemical exports will further exacerbate the situation.

PACIA, along with other members of the ICCA, had hoped that a new multilateral round of negotiations would have been launched by the WTO in Seattle. Our aim was that the elimination of all chemical tariffs by 2010 could have been negotiated as part of an agreement within such a round. The collapse of the negotiations in Seattle, and the large part that domestic US politics played in this collapse, suggests that further progress on this front is unlikely until after the US Presidential elections at the end of 2000. Indeed, given the prominence of agricultural matters, a realistic estimate could push this time frame even further out to after the French elections at the end of 2001. In these circumstances, PACIA argues that the Government should begin trade liberalisation negotiations at a regional level.

Such regional trade negotiations could be explored in fora such as APEC or the proposed AFTA-CER linkage to achieve the goal of zero chemical tariffs by 2010 and to ensure that chemical trade liberalisation remains on the international agenda. Of concern to PACIA is that of the 21 APEC member economies, only eight - Australia, Japan, United States, Singapore, Canada, Hong Kong, South Korea and New Zealand - have signed onto the CTHA. Australia needs to convince other APEC member countries, particularly China, Malaysia, Indonesia and Thailand which are competitors to Australia in the region, to adopt the CTHA agreement or some other similar arrangement. The proposed AFTA-CER linkage and our involvement in APEC gives us scope to negotiate for tariff elimination. PACIA would, in fact, recommend that Australian tariffs only be lowered once all other APEC members have so agreed.

China's willingness to reduce its tariffs to 6.5% (CIF) on many of its products is a positive sign for international negotiations, weakening arguments that other countries have put froward for not lowering tariffs.

7. Non-Tariff Barriers to Trade and Other Issues

Tariffs are only one mechanism available to countries to restrict trade. The other side of the equation is non-tariff trade barriers. These include bans on certain products or extremely complex and lengthy licensing applications with lack of transparency. While PACIA acknowledges that some of these barriers may be necessary for environmental or health reasons, several countries use them to restrict trade. For instance, while China has a low tariff of 5% on Urea, the product cannot be imported into China.

With reduced tariff levels, the incidence of dumping has increased, as has its adverse impact on the financial viability of the Australian chemical manufacturing industry. With the engagement of economies in transition in international trade, an effective anti-dumping system becomes increasingly important. PACIA hopes that recent amendments by Customs towards the handling of actions associated with such cases will prove effective.

8. Conclusion

PACIA's position regarding trade liberalisation is as follows:

- The 3% Tariff Concession Scheme should be removed immediately
- Historical tariffs on products or equipment which are not now manufactured in Australia should be eliminated
- In respect of other chemical tariffs, PACIA notes that Australian tariffs are now below those of other developed and developing countries. Accordingly, PACIA does not support further unilateral reduction of Australia's tariffs
- PACIA, and other chemical associations in the ICCA, support the elimination of all chemical tariffs within a negotiated trade agreement. The ideal forum for such negotiations would have been the WTO. With the failure of the Seattle Ministerial round, PACIA believes that no progress on this front is likely for at least one, and possibly two year(s). Accordingly, PACIA urges the Commission to recommend to the Australian Government to pursue further trade negotiations in other fora to keep up the momentum of trade liberalisation