PRODUCTIVITY COMMISSION

REVIEW OF AUSTRALIA'S GENERAL TARIFF ARRANGEMENTS

SUBMISSION BY THE PULP & PAPER MANUFACTURERS FEDERATION OF AUSTRALIA

The Pulp & Paper Manufacturers Federation of Australia (PPMFA) appreciates the opportunity to provide a submission to this Review.

The PPMFA was established in 1981 and represents the interests of the five major companies which collectively produce 97% of the paper and paper products manufactured in Australia.

Its member companies are Amcor, Carter Holt Harvey Tissue Australia, Kimberly-Clark Australia, Fletcher Challenge Paper Australia, and Visy Industries.

Key Industry Features

The pulp and paper industry has fixed capital investments of $3.9 billion; annual sales of $3.1 billion; directly employs approximately 8,000 people, and has a further impact on the employment of an additional 100,000 people. It is a significant employer in regional Australia.

The pulp and paper industry is the most capital intensive manufacturing industry in Australia. It is an integral part of a highly competitive, globalised industry.

The pulp and paper industry is committed to investing in high value-adding activities, and the industry adds substantial value to Australia's raw materials. A tonne of eucalyptus wood chips that is exported earns $80. If that same tonne of wood chips remains in Australia, it could be converted into high quality office paper worth $500 – more than six times the export value.

The pulp and paper industry is a major import replacement industry. The trade deficit in pulp and paper is currently $1,861 million. However, if there was no industry in Australia, the trade deficit would be nearly three times larger, at $5,054 million.

The pulp and paper industry has delivered a very high level of environmental performance, with major reductions in key emissions over the last decade. The majority of the industry's fibre is sourced from recycled paper, and the Australia industry has one of the best recycling records in the world.

Policy issues of prime concern to the pulp and paper industry centre on two areas:

1. Maintaining its competitive position as a major import replacement industry by achieving the lowest possible cost structure.

2. Improving the attractiveness of Australia as a destination for investments in the industry.

General Tariffs

Since 1985, the Australian pulp and paper industry's tariff protection has been substantially reduced to levels well below that of major competitors. The average tariff rates for pulp and paper products in the Asia-Pacific region are more than double Australia's level of 5%, and in the case of some Asian competitors, are as high as 35%.

In addition, and in stark contrast to most major competitors, the Australian pulp and paper market is one of the most open in the world, and is virtually devoid of non-tariff barriers.

The Government has already unilaterally reduced the pulp and paper industry's tariff protection to levels well below Australia's GATT bindings. Most of the industry's Chapter 48 GATT bindings allow a 12% tariff, compared with the maximum tariff actually applied of 5%.

However, entire segments of the market, such as newsprint and pulp, have no tariff protection whatsoever. Developing country and other concessions also apply to many tariff items. Consequently, the effective applied tariff rate across the board is in the order of 3%.

The industry has managed to absorb the impact of the removal of most of its tariff protection by responded with a wide range of measures to improve its efficiency and lower its cost structure.

This has been accomplished without any industry-specific support from the Government, and in the face of intense import competition. It has not been an easy process, either for the industry or the wider community, with a 40% reduction in industry employment since 1985.

The recent Asian crisis has had a major impact on the dynamics of the market, and has resulted in regional competitors aggressively entering the Australian paper market in many product areas where they were previously uncompetitive.

Many of the pulp and paper industry's competitors, such as Indonesia, Korea, Brazil, Thailand, Chile, China and South Africa, are classified as developing countries. Yet all of these competitors have made major commitments to the expansion of their pulp and paper industries, and as a result have export sectors equipped with state of the art plant and equipment. In terms of the pulp and paper industry, these are not "developing" countries at all.

In addition, the industry in countries such as Indonesia benefits from a range of government subsidies and support which are conspicuously absent in Australia.

By contrast, there are many features of the Australian economy, and of Australian society, which serve to put the Australian pulp and paper industry at a considerable cost disadvantage to its primary regional competitors. These features include:

- Tariffs on materials essential for the industry's production processes (3% duty on business inputs under the Tariff Concession System).

- Tariffs which indirectly increase the industry's costs (passenger motor vehicles, and textiles, clothing and footwear).

- An egalitarian society which redistributes income through taxation and social programs, sets minimum wages and conditions such as compulsory superannuation.

- High environmental standards and regulations, the cost of which is borne by industry, not government.

- The lack of direct and indirect support by government (in comparison to competitors) in areas such as wood costs, and infrastructure.

Under these conditions, the Australian pulp and paper industry attaches a high value to the current maximum applied tariff of 5%. It provides the Australian industry with a minimal level of protection, and acts as a buffer against exchange rate fluctuations.

As the most capital intensive manufacturing industry in Australia, pulp and paper requires a high level of policy and regulatory certainty if it is to attract new investment and expand. Potential changes to the current tariff regime serve to decrease the industry's level of certainty.

Tariff Concession System

The PPMFA remains strongly opposed to the decision taken in 1996 to apply a 3% duty on business inputs under the Tariff Concession System.

The policy of taxing business inputs in this manner remains fundamentally flawed, and should be reversed as a matter of urgency. The decision was justified at the time as being necessary to redress the budget deficit. That rationale has long since disappeared, but the tax remains in place.

Project By-Law Arrangements

The pulp and paper industry experiences major difficulties with the operation of the Project By-Law arrangements.

Despite the clear intention of Government policy that pulp and paper making machinery should enter Australia duty free, the way this policy is interpreted and implemented under these arrangements makes this impossible to achieve in practice.

As a result, the current system impedes rather than supports investment in Australia, and burdens companies with completely unnecessary costs.

The Project By-Law arrangements need to be reformed in order to facilitate the importation of highly specialised pulp and paper making machinery that will add value to Australia's resources, and reduce Australia's current account deficit.

PPMFA's Position

The PPMFA's position on the issues under consideration is as follows:

1. Australia's competitors should match the openness of the Australian pulp and paper market, both in terms of tariff levels and non-tariff measures, before any further consideration is given to reducing or removing the industry's remaining tariff protection.

2. To this end, the Productivity Commission, or some other relevant Government agency, should undertake a comprehensive and comparative assessment of the levels of direct and indirect protection applied by Australia's major trading partners, and the trends in these levels.

3. Until such an assessment is made, it is impossible to make an objective judgement concerning the levels of protection that should apply in Australia.

4. As a matter of principle, whatever levels of tariff protection are applied across sectors in Australia should be applied equally. For example, it is inequitable that some sectors of manufacturing industry (passenger motor vehicles, and textiles, clothing and footwear) receive substantially higher levels of protection, and indeed, are not even subject to this review.

5. There is absolutely no benefit to be gained by Australia considering or making any unilateral tariff reductions in advance of the conclusion of the next round of multilateral trade negotiations. To do so would be naïve in the extreme.

6. Any reduction in, or removal of, the pulp and paper industry's residual tariff protection, in the absence of compensatory action to reduce its input costs, would result in the industry suffering from negative assistance.

7. This would compromise the future of a major value-adding import replacement industry, which is environmentally responsible, and which makes a substantial economic and social contribution, particularly in regional areas.

8. The most important immediate action that should be taken to reduce business input costs is the removal of the 3% duty on business inputs under the Tariff Concession System.

9. Now that fiscal consolidation has been achieved, the reason for the introduction of this tax no longer exists. In addition, the removal of the 3% duty is something that would benefit industry across the board, rather than just some selected sectors.

10. The Project By-Law arrangements need to be reformed in order to ensure that the policy intention that imports of pulp and paper making machinery should enter Australia duty-free, is actually realised in practice.

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