

The Broken Hill Proprietary Company Limited

Submission to the Productivity Commission's Review of General Tariff Arrangements

Overview

BHP considers its steel business to be competitive in the current Australian environment and has investment and workforce development programs in place to ensure that this position will improve. BHP is a significant supplier of steel products to the domestic market and a major exporter of steel to a variety of overseas markets generating substantial export income.

BHP's submission to this review is that general tariffs should reduce in line with agreed timetables and should not be reduced unilaterally without an offsetting trade benefit.

On the question of the Tariff Concession Scheme, BHP submits that, the three percent tariff on many business inputs as a means to raise revenue should be reversed.

On the question of manufacturing in bond arrangements, while the tariff system continues, there is a justifiable advantage which should continue to be available to manufacturers who want to participate.

The Australian Steel Industry

Australia's consumption of steel amounts to about 6 million tonnes a year of which BHP supplies about 4 million tonnes, other Australian steel producers supply about 0.8 million tonnes and the balance of 1.2 million tonnes is imported. In addition to this production, the industry includes the distributors of steel products and the manufacturers of fabricated items such as steel pipe and tube, rolled formed shapes and fabricated steel for construction.

The industry accounts for 5.1% of manufacturing GDP and total employment is of the order of 29000, the majority of whom work in regional locations. Steel in one form or another is a very important input to the Australian construction, automotive, whitegoods, packaging, engineering and general manufacturing sectors.

BHP's Steel Businesses in Australia

BHP is the largest manufacturer, distributor and fabricator of steel products in Australia. It currently produces around 6.3 million tonnes a year of which 2.2 million tonnes (36%) is exported at a value of \$1 billion making BHP Steel a significant export earner.

It employs just over 17000 people, largely in regional centres (Figure 1).

Regional Employment - BHP Steel - Figure 1

Illawarra	7745
Hunter	2157
Whyalla	1646
Mornington Peninsula	1436
Geelong	128
Other Regional areas	700
Western Sydney*	205
Capital cities	<u>3120</u>
Total	<u>17137</u>
* Sydney mini mill	

It is a major employer in Whyalla, the Mornington Peninsula and the Illawarra region. Our experience indicates that there is something like a 2.5 multiplier effect on employment in the regional communities.

Over the last 10 years the steel business of BHP has undergone radical change to become competitive in an environment of increasing globalisation of supply to customers, major upheaval of world steel trading patterns, the most recent due to the Asian crisis, and significant reductions in tariff protection through the period.

Among BHP's responses have been an investment program to keep BHP facilities and plant on a high and improving standard of efficiency, and an involvement with its workforce which has seen achievements such as being amongst the three lowest cost hot rolled strip producers in the world and improving safety performance from 40 LTIFR to just under 3.

More recently, BHP announced on 6th October 1999 that its steel portfolio is being restructured into a flat and coated products business centred in Australia and covering the Australia, New Zealand and Asian region. This is in line with BHP's strategy of being a major minerals company with a steel business aligned to its ferrous minerals activities. BHP Steel's aim is to be able to exploit its scale of operation in hot rolled steel strip manufacture, and its technical and market leadership in metal coating, painting and roll forming of sheet steel products, most of which are covered by tariffs subject to this review, to become a successful niche player in the Asian region.

BHP Steel businesses which do not fit this portfolio will be divested and in Australia they consist of the Long Products businesses comprising Whyalla and Sydney Steel mill steelmaking operations, rolling and wire drawing in Newcastle and Geelong, rolling in Brisbane, reinforcing product manufacture and distribution throughout Australia, and the Tubemakers merchandising and pipe manufacturing businesses.

BHP has made it clear that this change is about restructuring its Steel portfolio and is not about closure of any of its businesses. The businesses being divested are good businesses with strong market positions and they

have themselves been restructured to put them into a more competitive position. The great majority of their products are also subject to the tariffs being reviewed.

The World Steel Industry

The world steel industry produces some 700Mt per annum which means that Australia produces 1% of world output.

The world industry is highly fragmented, with most countries having a steel industry and all steel producing countries operating with tariffs. Table 1 in the appendix shows the extent and range of this.

It should be noted that tariff rates in Australia's near neighbouring Asian countries are all well above Australia's current rates and in addition are based on CIF, compared with FOB in Australia, which makes them effectively higher still.

In addition, Australia does not impose non-tariff barriers. In the world steel industry, there is an array of measures used - import permits and licences, counter trade arrangements used to facilitate purchases by State Enterprises, Voluntary Restraint Agreements and subsidies.

In terms of a global approach to steel tariffs, steel was a special case under the Uruguay Round and an attempt was made to establish a Multilateral Steel Agreement as a separate arrangement. Issues to do with subsidies and other non trade barriers prevented the MSA from being achieved, but the concept is still extant and is being pursued under the offices of the OECD Steel Committee.

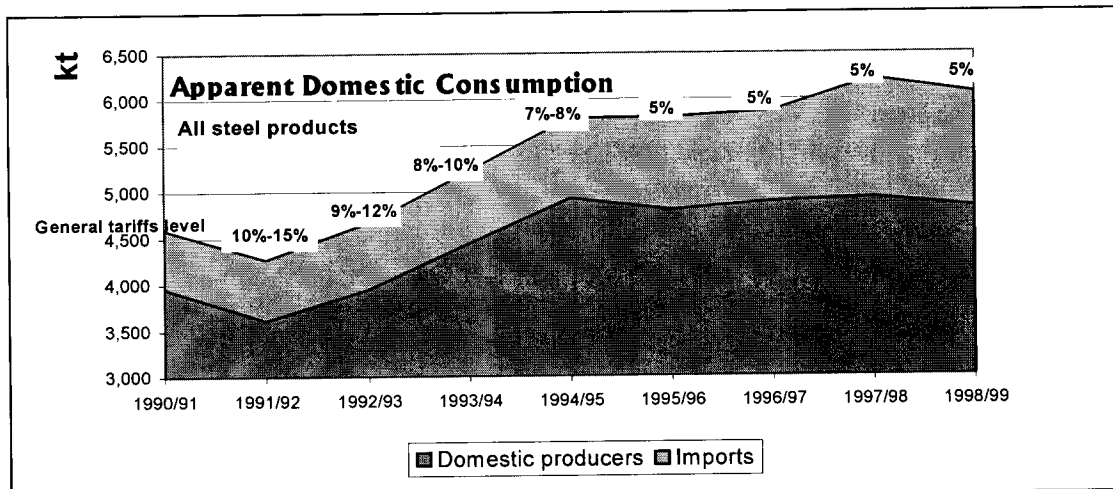
Increasing Australian Steel Imports

Steel imports into Australia have increased their market share over recent years and captured much of the growth element.

Australian steel products imports have doubled (from 600,000 tonnes in 1991-92 to 1.2Mt in 1998-99), with import penetration increasing from 16% in 1990-91 to 26% in 1998-99.

Figure 2 below shows the build up in steel imports and the program of phased tariff cuts which began in 1988 and which continued to phase down to a general tariff rate of 5% by July 1996.

Australian Apparent Domestic Consumption - Figure 2



Source: ABS

Between 1990 and 1999 steel product imports have been growing at 7% pa in value terms and 8% pa in tonnage terms. During the same period, Australian apparent steel consumption was growing at less than 1% in tonnage terms.

It is important to note that approximately 40% of total imports (by value) and close to 50% by tonnage into Australia come from developing countries with a zero tariff¹. Also, over the past 10 years, the main source of import competition was Japan, Europe, Korea and the US but we are now seeing the rise of countries such as China and Malaysia (Developing Country Preference Countries) which do not pay the tariff. Over the period 1990 to 1999, on an average annual growth basis, China increased its exports to Australia by 36% pa, Malaysia 29% pa, Taiwan 15% pa, and Korea by 8% pa.

The Government's reference also includes steel contained in manufactured imported goods such as machinery, fabricated steel structures and domestic appliances. Over the last 7 years there has been a widening balance of trade deficit in indirect steel trade. Whilst indirect steel imports grew by 0.5Mt from 1.7Mt to 2.2Mt between 1995 and 1999, indirect steel exports remained unchanged at 0.6Mt - ie indirect steel imports have been growing at 10% pa during the last 5 years while indirect steel exports grew at 2% pa.

The Australian Government should therefore be looking for a proportionate response from other countries to match tariff reductions in Australia, and should not be moving unilaterally in advance of other steel producing countries.

¹ Includes imports from New Zealand

Outcomes for Consumers of Industry Reforms and Changes over Past Decade

As a result of restructuring over the past decade, outcomes for Australian consumers of steel have been positive as exemplified by real price outcomes and alternative sources of supply.

The value of steel in virtually all of its applications is relatively low, (Figure 3). Reducing tariffs would not have a significant impact on the final cost to consumers. Accordingly, with the average duty paid for all steel products at 3.1% in 1999, the increased benefit for consumers would be marginal; but there would be pressure on margins for the Australian steel industry, particularly when major restructuring and refocussing initiatives are in train.

Steel Content Value - Figure 3

<u>Item</u>	<u>Sales value</u>	<u>Steel value</u>	<u>Steel %</u>
Motor vehicle (6 cylinder)	\$32,000	\$600-\$800	2%
Residential Dwelling	\$150,000	\$2700	2%
Washing Machine	\$1000	\$40	4%
All Bridges	\$250M	\$25M	10%

The ACCC, in its comprehensive inquiry into the Steel Mill Products Declaration concluded that "domestic steel prices have increased at a much lower annual increase than prices of other materials used in the building industry and the prices of articles produced by the manufacturing industry in general. BHP Steel prices have fallen in real terms over the period of the declaration"². Prices for steel products have accordingly delivered positive outcomes for Australian consumers of steel.

It should also be noted that Australian steel prices have been relatively stable compared with the more volatile international spot prices. When international prices rose sharply in 1994-95, Australian steel prices did not.

Further pressure on the domestic steel industry via reductions in the general tariff and increased imports could be expected to leave customers more exposed to the vagaries of import supply price volatility as we have recently seen in stainless steel where there is now no local manufacture.

CONCLUSION

- Australia is a major exporter of steel products and should not move to further reduce steel industry tariffs, without some offsetting gain.

² Report by the Australian Competition and Consumer Commission, Executive Summary, P XVIII, 1995.

- Any move to lower tariffs below existing levels should be predicated on a commensurate achieved rate of reductions in tariffs in the economies of Australia's major trading partners, particularly those within the Asia Pacific region.
- Further reductions in tariff levels beyond our current APEC commitments (i.e. an extension of the program of phased reductions which commenced on 1st July 1992) will impose added pressure on the Australian steel industry with little commensurate benefit to consumers.
- The Australian steel industry is in the midst of large changes to meet an intensely competitive environment. Global restructuring in itself is bringing about significant change to the iron and steel industry. Further tariff reductions would add to the difficulties of this restructure.
- The Australian Steel industry is a major employer, particularly in regional Australia. There could be employment effects associated with a reduction in the general tariff rate.

Appendix Table 1

IMPORTED STEEL PRODUCTS

BHP range

Import Tariff rate

<i>Product</i>	<i>6 digit harmonised code</i>	<i>Australia's effective '99</i>	<i>Australia's general</i>	<i>Malaysia</i>	<i>R. of Korea</i>	<i>Taiwan</i>	<i>Indonesia</i>	<i>Japan</i>	<i>Thailand</i>	<i>China</i>	<i>South Africa</i>	<i>USA</i>	<i>Brazil</i>	<i>New Zealand</i>	<i>European Union</i>
		Duty on FOB	Duty on FOB	Duty on CIF	Duty on CIF	Duty on CIF	Duty on CIF	Duty on CIF	Duty on CIF	Duty on CIF	Duty on FOB	Duty on FOB	Duty on CIF		Duty on CIF
1 Slabs	720712	0%	5%	Free	3%	Free	5%	Free	5%	3%	Free	2.1%	11%	Free from Australia	1.6%
2 Other semi-finished	720711	1%	5%	Free	3%	Free	Free	Free	5%	3%	5%	2.1%	11%	Free from Australia	1.6%
3 Hot rolled <3mm	720827	2%	5%	25%	5%	7%	5%	2%	10%	6%	5%	2.6%	13%	Free from Australia	2.2%
4 Hot rolled >=3mm	720826	2%	5%	25%	5%	7%	5%	2%	10%	6%	5%	2.6%	15%	Free from Australia	2.2%
5 Plate	720851	2%	5%	25%	8%	7%	5%	2.3%	10%	6%	5%	3%	13%	Free from Australia	2.5%
6 Cold rolled	720917	2%	5%	Free	8%	7%	10%	2%	12%	8%	5%	2.1%	15%	Free from Australia	2.5%
7 Metallic coated - flat	721049	2%	5%	25%	8%	10%	15%	2%	15%	10%	5%	3.2%	15%	Free from Australia	2.5%
8 Organic coated-flat	721070	3%	5%	25%	8%	10%	15%	2%	15%	10%	5%	3.2%	15%	Free from Australia	2.5%
9 Tinsplate, chromium plate	721012	3%	5%	25%	8%	10%	15%	2%	15%	10%	5%	1.8%	15%	Free from Australia	2.5%
10 Wire rods - C<0.6%	721391	3%	5%	180 MYR/tonne	8%	9.5%	15%	2%	10%	12%	5%	1.2%	15%	Free from Australia	2.5%
11 Bars - C<0.6%	721491	3%	5%	180 MYR/tonne	8%	9.5%	15%	2%	10%	10%	5%	2.4%	15%	Free from Australia	2.5%

Product	6 digit harmonised code	Australia's effective '99	Australia's general I	Malaysia	R. of Korea	Taiwan	Indonesia	Japan	Thailand	China	South Africa	USA	Brazil	New Zealand	European Union
12 Rebars	721420	Duty on FOB 3%	Duty on FOB 5%	Duty on CIF 180 MYR/tonne	Duty on CIF 8%	Duty on CIF 9.5%	Duty on CIF 20%	Duty on CIF 2%	Duty on CIF 10%	Duty on CIF 10%	Duty on FOB 5%	Duty on FOB 2.4%	Duty on CIF 15%	Free from Australia	Duty on CIF 2.5%
13 Cold drawn bars	721590	3%	5%	180 MYR/tonne	8%	9.5%	5%	2%	12%	11%	5%	3.8%	15%	Free from Australia	2.5%
14 Heavy sections	721633	3%	5%	20% + 5% sales tax	8%	9.5%	30%	2%	10%	9%	5%	0.4%	15%	Free from Australia	2.2%
15 Light sections	721690	4%	5%	20%	8%	9.5%	25%	2%	12%	10%	5%	2.2%	1%	Free from Australia	2.5%
16 Carbon wire - C<0.6%	721710	4%	5%	30%	8%	9.5%	5% -15%	2%	20%	15%	5%	0.8% to 2.8%	15%	Free from Australia	2.7%
17 Rails	730210	4%	5%	5%	8%	7%	Free	2%	20%	9%	5%	3%	5% - 15%	Free from Australia	2.2%
18 Other track accessories	730290	4%	5%	Free	8%	7%	5%	2%	20%	9%	5%	2.8%	15%	Free from Australia	2.5%
19 Welded tubes D>=406mm	730531	4%	5%	30%	8%	10.5%	25%	2%	15%	10%	10%	1% to 2.4%	17%	Free from Australia	5.0%
20 Welded tubes D<406mm	730620	5%	5%	30%	8%	10.5%	25%	2%	15%	10%	10%	0.2% to 3.1%	17%	Free from Australia	5.0%
					VAT - 10% on CIF+Duty applies to all products	VAT - 5% on CIF+Duty & other taxes apply to all products	VAT - 10% on CIF+Duty applies to all products	VAT - 5% on CIF+Duty applies to all products	VAT - 7% on CIF+Duty applies to all products	VAT - 17% on CIF+Duty applies to all products	VAT - 14% on 1.1*FOB & Port fee - 1.78% On FOB applies to all products	Merch. Processing fee - .21% On FOB & Harbour fee - 1.25% on FOB	Port & Customs fee 7% on CIF - IPT up to 8% on CIF+Duty - MCT 18% on CIF+Duty+ IPT	GST - 12.5% on CIF	VAT on CIF+Duty - From 15%(Luxembourg) to 25% (Sweden)