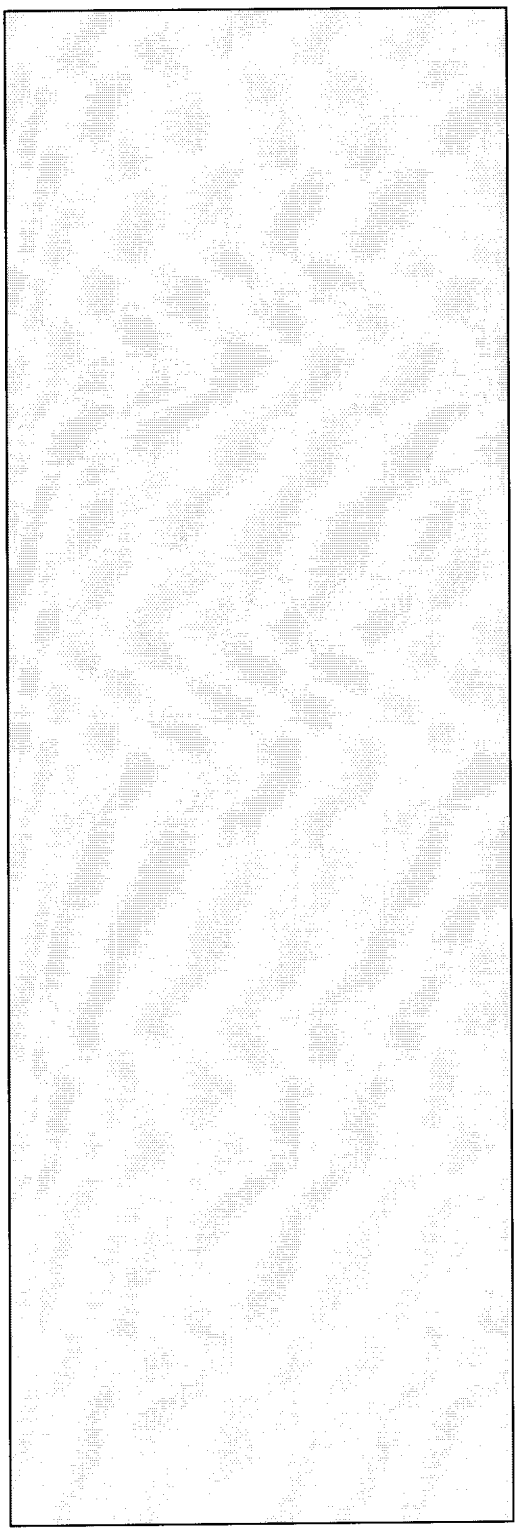
AUSTRALIAN ALUMINIUM COUNCIL



REVIEW OF AUSTRALIA'S GENERAL TARIFF ARRANGEMENTS

Submission to the Productivity Commission inquiry

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COUNCIL

21 January 2000

SUBMISSION BY THE AUSTRALIAN ALUMINIUM COUNCIL

REVIEW OF AUSTRALIA'S GENERAL TARIFF ARRANGEMENTS BY THE PRODUCTIVITY COMMISSION

Introduction

The Productivity Commission has called for submissions to the above Review, which will address the scope for a post 2000 reduction in the general tariff, covering only rates of 5% or less, and excluding the PMV and TCF sectors.

The Aluminium Industry

The Australian aluminium industry involves production of bauxite (the raw material). alumina (an intermediate product, most of which goes to produce metal), aluminium metal, semifabricated products and fabricated products.

Australia is a major player in the upstream sectors of bauxite, alumina and aluminium and a significant producer of semifabricated and fabricated products. Some key statistics for the industry are shown in Figures 1 and 2 at the end of this submission.

Some simple facts will illustrate Australia's place in the global structure of these industries:

- Australia is
  - The largest producer and second largest exporter of bauxite
  - The largest producer and exporter of alumina
    - Around 30% of the world's alumina comes from Australia
  - The fifth largest producer of aluminium
    - After USA, Russia, Canada, and China
  - The third largest exporter of aluminium
    - After Russia and Canada
  - A major exporter of aluminium can sheet
  - Alumina exports go to North America and Europe but also to South Africa, the middle east, Russia and China
    - In some cases forming Australia's largest export to these countries
  - Aluminium exports go mainly to Asia, especially Japan and Korea
  - Cansheet exports go to a number of countries in Asia and again form one of Australia's most valuable exports to these countries
  - A significant producer of extrusions, foil and other rolled products and cast products, but considerable competition comes from imports, especially from Asia.

- Some key facts and figures for the industry in 1998/99 are :
  - Employs over 17500 people directly
    - And over 40000 people when indirect jobs are considered
  - Makes up one of the most important industries outside the capital cities, including
    - Hunter Valley
    - Geelong

- Western Victoria
- Gladstone
- South west WA
- Northern Tasmania
- NT
- Cape York

➢ Gross value of production of almost $9 billion in 1998/99
➢ Total exports of $6.2 billion in 1998/99
  - Making the aluminium as a whole Australia's second largest export industry
➢ The semi fabrication sector is high value adding with very significant local and export components
  - And is exposed to strong import competition

❖ The industry has invested over $5 billion in the 1990s
  ➢ And has the potential to invest well over $5 billion over the next decade
    - Provided the investment climate is internationally competitive

❖ The aluminium industry is a technological leader in Australia
  ➢ Given Australia's leading position as a global producer there has been significant investment in the latest technology to stay at that leading edge
  ➢ Australia is the world's most efficient region when it comes to the amount of energy used per tonne of alumina and aluminium produced.

The role of trade for the industry

In the upstream sectors, Australia is one of the world's foremost exporters. That means that there are virtually no imports of bauxite, alumina and aluminium into Australia The only exception is a very small amount of high purity and specialised alloys.

In these sectors about 13% of bauxite, 78% of alumina and 75% of aluminium is exported. There are no tariffs on these products into Australia. There are tariffs remaining in some overseas countries, notably a tariff of 6% on aluminium imports into the EU.

In the semifabrication sector there is a 5% tariff on most aluminium semis. An exception is aluminium canstock, where the 5% tariff was removed unilaterally by Australia in November 1999 in spite of the strongest objections from the industry.

Australia produced 99850 tonnes of extrusions in 1998, of which 5436 tonnes was exported. Imports of extrusions in 1998 amounted to 29539 tonnes. A significant quantity of these extrusions was from New Zealand, for whom Australia is the main export market. There were also significant and growing imports from Asia, where the producers are protected by tariff and non tariff barriers that are much higher than in Australia.

Australia produced 193981 tonnes of rolled products (including cansheet, foil, sheet and plate) in 1998, of which 107252 tonnes was exported. These exports were largely cansheet to Asia, but there was significant export of sheet and plate as well.

Imports of rolled products amounted to 31823 tonnes in 1998. These imports came from a variety of sources, including the Middle East, South Africa, Europe, Asia and USA. In most if not all cases there are tariffs on these rolling mills that are higher than those remaining in Australia and expansions for export are taking place behind this protection (eg in South Africa and Bahrain).

The position of the aluminium industry on tariff reductions

As a general principle, the Australian aluminium industry believes in eliminating trade protective measures. This has been a long standing industry position on the basis that it is important for Australian industry to be internationally competitive and for global and national resources to be used as efficiently as possible. The Australian aluminium industry has developed in an internationally competitive environment and sees strong prospects for continued growth on that basis, especially in the upstream sectors but also in key areas of strength in the semifabrication sector. Such areas of strength would include cansheet, some other rolled products, certain high value added extrusions where significant production can be achieved and cast products, especially for automotive components.

In relation to the current Review, there are some specific points to be made in this context:

- While zero protection should be the long term goal, this should not be pursued unilaterally
- Further tariff reductions from the current very low level of 5% should take place in harmony with tariff reductions in other countries, especially those with which Australia will be competing for domestic and export markets in aluminium semis.
- This could be pursued in the context of APEC and ASEAN intitiatives and the next WTO processes
- It should involve competing countries reducing their tariffs and other protection to levels close to those in Australia before the remaining Australian tariffs are removed.
- The tariff level of 5% that remains in Australia on most aluminium semis may not seem very significant at first glance but in fact it can be vital to give confidence for the major investments necessary to remain competitive and up to date with product development and meet the requirements of Australian society.
- Australian industry invests significant resources in Research and Development designed to meet the requirements of the Australian market
    - Some of these requirements are in response to Australian environmental and social standards expected by the government and the community
    - Such developments include energy efficient windows extrusions and high quality sheet and plate for marine applications
    - The remaining low level of tariffs provides some incentive for this R & D but it would be harder to maintain the commitment if the remaining tariffs were eliminated unilaterally
- Development of automotive die cast engine components is taking place to meet the demand for lightweighting of motor vehicles and other transport components

- As an essentially unprotected export industry the aluminium industry carries some of the burden of Australia's heavily protected sectors (PMV and TCF)
- Costs of environmental compliance and occupational health and safety at the highest standards are important in Australia and fully supported by the industry
  - But these costs are much lower in many countries competing with Australian semis as the regulatory mechanisms either don't exist or are not effectively implemented
- There may be some small short term gains to users of aluminium semis in Australia from removal of these tariffs. However the benefits will flow mainly to the protected producers in other countries, who are unlikely to be efficient in the long term if they remain heavily protected in their domestic markets while at the same time facing very low entry barriers in other markets.
  - These producers may not be viable in the longer term and if an efficient Australian industry does not survive then this element of future competition will be removed.

In summary, the aluminium industry supports moving to lower levels of protection for all sectors in all countries, but this must occur in a measured and harmonised trade negotiation framework, probably through WTO and APEC. Unilateral removal of the remaining 5% tariff in Australia on aluminium semis would expose the industry to further imports from countries where the producers are much more heavily protected than in Australia. This would certainly make further major investment very difficult in Australia and possibly put at risk some existing production capacity, especially in commodity extrusion (lower value high volume products) and generic products.

The Australian Government needs to take a clear policy stand on this matter as soon as possible, to the effect that there will be no further reduction of the remaining substantive 5% tariffs other than in the context of a global or broad regional framework.

Some further comments on specific points in the issues paper

Policy objectives

The overall efficiency of the Australian economy will not be helped by putting the Australian aluminium semis industry at a further disadvantage to protected competitors in other markets. The best results will be achieved by ensuring that all competitors move as soon as possible to uniform and low levels of protection.

The further development of the aluminium semis industry in Australia on an environmentally sustainable basis will be of major benefit to Australia in the longer term. Australia is a leading player in sustainable development of such industries and diminishing its competitiveness will do nothing to increase such disciplines on competitors.

The industry is taking a leading role in developing and supplying the goods that Australian businesses need. With the ever growing emphasis on environmental impacts of materials and energy efficiency, it will be important to have a responsive

and competitive Australian materials supply sector that can respond to these needs directly and by putting competitive pressure on overseas competitors.

Effects

The aluminium industry is a major employer in Australia, especially in regional areas. Tariff reductions on semis would adversely impact on investment and future and current employment, if those reductions are out of line with competitors overseas. Any Australian Government that has high priorities for regional prosperity needs to take into account the future development of the aluminium industry.

Any short term benefits to buyers of semis are likely to be quickly eroded by the stronger market position of importers and the shrinking volume of semis that can be competitively supplied from Australia.

Trade aspects

It is underlined that further tariff reductions in Australia, except possibly for TCF and PMV, should only take place in the context of global or broad regional negotiations that lead quickly to relatively uniform tariffs amongst competitors.

Concession arrangements

The aluminium industry is a major importer of very specialised and expensive capital equipment and some particular imports such as pitch, petroleum coke, aluminium fluoride and caustic soda that are not available in Australia. Tariffs remain on many of these inputs and this can add costs to the industry in Australia.

The aluminium industry was most disappointed at the outcome of the review of the tariff concession scheme. The result means that some key inputs attract a tariff of 3%, assuming that a tariff concession is granted, because they are not considered as consumer goods. The aluminium industry considers that these arrangements merely impose a further export tax on the aluminium industry for no benefit whatsoever other than the raising of some general revenue. Administrative and compliance costs are an added and pointless burden on industry and Government. In cases where tariffs still exist on imports and there are no substitute goods produced in Australia, the tariff should be reduced to zero as soon as possible.

In the case of Project By Law arrangements, these are very important to allow import of major capital equipment, often worth many millions of dollars. While the PBL option is important it imposes administrative and compliance costs and there are uncertainties about whether duty free entry will be granted that can add to the costs of very large projects. Where possible it would be preferable for tariffs to be reduced to zero on capital goods which are not available in Australia.

Conclusion

The Australian aluminium industry supports moving to the lowest level of protection possible in all industries. It is important for major Australian industries to be internationally competitive and the aluminium industry is at the leading edge in this regard.

However, the further reductions in general tariffs to levels below 5%, at least for industries that are competing with imports from countries with equivalent or higher levels of tariffs, should occur only in the context of a structured framework under the WTO process or a broad regional process such as APEC, and only on the basis that all competing parties move quickly towards lower tariffs of roughly equivalent magnitude.

Imports of capital goods and inputs, for which there are no equivalents available in Australia, should move to zero tariffs as soon as possible.

The Australian Aluminium Council would be happy to elaborate on these views if required.

For further information contact David Coutts (see contact details on cover)

Australian Aluminium Council
21 January 2000

FIGURE 1

Australian Aluminium Statistical Summary

STATISTICS (Tonnes)	1993	1994	1995	1996	1997	1998
Production						
Bauxite	41,320,000	42,159,000	42,655,000	43,063,000	44,465,000	44,553,000
Alumina	12,598,000	12,819,000	13,161,000	13,348,000	13,384,000	13,537,000
A. Aluminium (Hot Metal)	1376000	1311000	1292600	1370250	1490098	1626156
B. Imports - Primary metal			4,900	11,500	4,158	6,732
C. Exports - Primary metal	1,026,000	974,000	927,000	1,066,168	1,107,725	1,282,175
D. Inventory Change - Smelters			-18,642	8,824	-24,479	17,963
E. Alloy additions / Melt Losses			-8,733	-2,566	-10,076	-1,598
F. Primary Metal Consumption (A+B-C+D+E)			343,125	321,840	351,976	367,078
Imports - Extrusions				21,462	27,754	29,539
Imports - Rolled Products				23,287	33,540	31,823
Imports - Powder & Paste				132	119	219
G. Imports - Total Semi Fab.			40,100	44,881	61,413	61,581
Exports - Extrusions				5,424	5,241	5,436
Exports - Rolled Products				71,232	87,921	107,252
Exports - Powder & Paste				3,138	5,532	4,630
H. Exports - Total Semi Fab.	82,000	94,000	109,000	79,794	98,694	117,318
Scrap Recovery - Smelters & Semi Fab.			2,665	17,133	8,802	25,581
Secondary Production			85,260	95,496	101,128	104,043
Exports - Scrap & Secondary Ingot			50,260	55,496	56,128	66,543
I. Total Secondary Consumption			37,665	57,133	53,802	63,081
J. Inventory Change - Semi Fabricators			64	-3768	-2261	2433
TOTAL AUSTRALIAN CONSUMPTION (F + G - H + I + J)	306,900	350,000	311,954	340,292	366,236	376,855
PER CAPITA CONSUMPTION in Kg	17.4	19.6	17.3	18.6	19.8	20.1
Export Earnings ($ Millions) (not including finished products)	$4,400	$4,500	$5,500	$5,200	$5,756	$6,531
DOMESTIC SHIPMENT SUMMARY						
Ingot	72,300	76,700	76,400	73,077	76,143	77,969
Rolled Products (Sheet, Plate, Foil)	95,800	98,500	93,400	84,697	83,757	86,729
Extrusions	92,600	96,400	89,200	86,299	87,856	94,414

FIGURE 2

The Australian aluminium industry 1998