Qenos

Submission to Productivity Commission Review of General Tariff Arrangements

Qenos comments on the draft report – June 2000

Our previous submission

In our submission to the commission in January we made the following key points:

- Qenos believes there should be no early move to lower the current tariff rates for chemical products in Australia.
- We believe current rates should remain in place until lower tariffs are implemented by other countries; as per CTHA, APEC and other agreements.
- In the push to remain competitive, and viable, our business has seen rapid and relentless change in recent years. Despite these major improvements in competitiveness, imports have continued to increase steadily in our markets.
- We are supportive of moves to discontinue the tariff concession scheme, 3% impost on goods with no significant Australian production. We feel this is an important and sensible step forward in trade arrangements that would be beneficial to both Australian business and to trade relations.

We are disappointed that the Productivity Commission draft report labels submissions made by industry, especially trade competing industry such as ourselves, as "self-interest" and seems to have dismissed them on that basis.

We would hope industry input is seen in a positive light as a useful and necessary complement to the indicative economic modeling used to assess the costs and benefits of a broad and significant change to tariff arrangements. This does not seem to be the case.

The draft report

The draft report assesses there to be a small net benefit to the total Australian community, which is partly offset by minor adjustment effects. It then recommends that given this minor benefit the general tariff should be reduced to zero as soon as possible. We feel the adjustment effects have been underestimated and, accordingly, the balance of cost/benefit and the recommended timing are incorrect.

Disappointingly the draft report recommendations are based on the premise that the general tariff arrangements – 5% for locally manufactured goods and 3% for goods with no local manufacture (via the TCS scheme) cannot be separately challenged. There is a limited analysis of the benefits of removing the 3% impost on TCS items whilst retaining 5% tariff on goods with local manufacture in the report but this was not reflected as an available option in the recommendations. The draft report finds "The Commission's analysis suggests that, overall, if general tariffs were to remain at 5 per cent there would be an improvement in efficiency from a reduction in the concessional rate to Free". (p115)

Given the high level of support for removal of the 3% impost on TCS items from almost all submissions, we would hope the commission could put this forward as a genuine option, both with, and without change to the 5% general tariff.

International trade

We are disappointed in the "purist" free trade stance taken by the Productivity Commission in the draft report with little or no regard to manufacturing industry concerns. As submitted previously, we find our business faced with substantial competition from imports already, whilst most of our competitors are protected in their domestic markets by much higher tariff and in some cases non-tariff barriers. We understand the objective of delivering the best result for the Australian economy but struggle with the considerations that this can be delivered by seeing industries such as ours, which add value to Australia's raw materials, ceasing to exist here in Australia.

Our trading partners, especially in Asia, appear to place value on having industry in their countries, as evidenced by the tariff barriers they maintain and their reluctance to remove them unilaterally. The push, in this draft report, to remove the small remaining general tariff in Australia, in a particularly rapid manner, does not show a similar importance being placed on the existence of industry here. We have consistently supported the timing for tariff removal being set with a considerably longer horizon, say 2010, so that existing industry can take steps to manage the adjustment.

We disagree with the comments in the draft report regarding this timing option "The Commission has considered the case for maintaining the status quo – that is, making no unilateral tariff changes in the decade to 2010. However it considers that this would unduly delay overall community benefits, small though they are likely to be, while providing no worthwhile advantages in terms of adjustment." (p111)

Timing

The recommendations offer options for changes from 2001 to 2005. It would appear that little consideration has been given to the Government's stated APEC commitment, which is to free and open trade by 2010. An option for tariff reductions in 2010 rather than 2005 should have been included in the recommendations, particularly given the highlighted minimal benefits available to the community from further reductions.

For our business specifically, the recommended timing in the draft report of adjustment in 2001 is likely to be very harmful. The recent merger which formed our company was the final step in the major restructuring of our industry. Our industry, which is vital in supplying core commodities for modern technology and manufacturing, is now fully rationalised. As highlighted in our previous submission, we are the sole Australian manufacturer of polyethylene and synthetic rubber. We employ 1200 people directly and thousands more derive their income from our business operations here.

As a company we are only just emerging from formation and starting to realise and plan for the improvements in competitiveness which drove the merger. We are competitive with our imported competition, but need to work very hard to remain so. Imports already have around 35% of the Australian market in polyethylene. We are smaller than world scale. To remain competitive we need to grow. To grow in our capital intensive industry we need to invest. Investment in our business will only be made if we deliver returns. A change to the general tariff arrangements in the short term is a serious threat to that investment for growth, as margins in this industry are already very tight.

Withdrawing the support of tariffs in the short term would actually threaten the viability of our business. Our business needs further time to implement the steps to improved competitiveness that we already have in place. As noted previously a longer time frame such as 2010 would better allow time for us to adjust.

Our position

Removal of 3% impost on TCS items, separate to changes to the 5% general tariff should be evaluated as a high priority. The absence of this option in the report's recommendations is disappointing and potentially misleading, as the Commission appeared to find, as we would assume, this would capture benefits of "input cost" reduction throughout the economy, without the disadvantages of "adjustment effects" through Australian manufacturing industry.

To summarise, Qenos' position is as follows:

- We believe that the 3% impost on TCS items should be removed separately to changes to the 5% general tariff and that the 3% impost should be removed as soon as possible.

- We believe removal of the general tariff, currently 5%, should be given a longer horizon to allow for Australian industry to improve its competitive position. We suggest that 2010, as is recognised in the report as the "status quo" is a more suitable horizon for removal of the 5% general tariff.