The Broken Hill Proprietary Company Ltd

Submission to the Productivity Commission's Review of General Tariff Arrangements (draft report)

Overview

BHP supports trade and tariff reform and the economic benefits flowing from reducing trade barriers.

BHP reiterates that general tariffs under this reference should reduce in line with agreed timetables and should not be reduced unilaterally without an offsetting trade benefit. Further reductions in Australian tariff should be contingent upon reciprocal and proportional reductions by our trading partners.

Our view is that there is no real case for an immediate reduction in the general tariff from 5 per cent to zero.

We support the Productivity Commission's recognition that the 3 per cent duty applying to business inputs under the Tariff Concession Scheme should be reduced to Free.

We support the Commission's view that the establishment of M.B should not be used as a method of reducing assistance made available to Australian manufacturers through the tariff, and that its prime purpose is to assist Australian manufacturers to increase their export competitiveness.

Reciprocal and proportionate tariff reductions

In our submission to the Productivity Commission, we commented that the world steel industry is highly fragmented, with all steel producing countries operating with tariffs. We noted that tariff rates in competing Asian countries are well above Australia's current rates, (appendix table 1 of our submission), are based on CIF compared with FOB in Australia, and in many cases impose non-tariff barriers which is not the case in Australia. In short, Australia is out of synchronisation with our major trading countries, particularly in Asia.

The Productivity Commission in its draft report, whilst not disagreeing with the concept of reciprocal and proportionate actions by our trading partners, did not give this argument support adding that ... "universal tariff removal would not reduce Australia's negotiating strength..., the Department of Foreign Affairs and Trade suggests that it might even increase it".

In relative terms, Australia already has a low level tariff regime. The Minister for Trade, Mark Vaile has also confirmed that having a 5 per cent tariff going into a negotiating round gives negotiating leverage ... "it's a card you can play". He continued by saying that "Australia has led the way in terms of opening up our market and economy"[1]

Given the above, we think the Productivity Commission's final report should re-examine the whole question of negotiating leverage in international trade negotiations, particularly in the light of the Minister's view. Tariff reductions should be made on a reciprocal and proportioned basis with other countries. We see little progress being made in opening up major Australian steel export markets, through tariff reductions.

Benefits and costs of tariff reductions

The Productivity Commission acknowledges that the overall gains (net benefits) from further reductions in the general tariffs are likely to be small. It goes on to say that the costs (adjustment consequences) of removing the tariff are also likely to be small.

Our submission detailed that whilst the benefits for consumers would be marginal, (the value of steel in most applications is relatively low), accelerating the tariff reduction program would impose added pressures on the Australian steel industry, ie the benefits do not outweigh the costs in terms of economic activity and possible regional employment effects.

Whilst it is difficult to attribute all of these impacts to singular causes, premature reduction of the tariff to zero would contribute to added pressures in the following areas:

(1) The draft report does not take into account the build up of imports on many Australian industries and the impact this has on them.

Australian imports of steel have increase rapidly from 600,000 tonnes in 1991-92 to 1.4 million tonnes in 1999-2000, with import penetration increasing from 16% of the Australian steel market in 1990 – 91 to 23% in 1999-2000. Tariff reductions could be expected to increase imports further, notwithstanding the lower Australian dollar which has not deterred imports in an environment of surplus steelmaking capacity worldwide.

Imports from Asia have increased by about 20% in the year ended May 2000, and as already mentioned, Asian countries generally have high tariff protection.

(2) The preferred option recommended by the Productivity Commission of 1st July 2001 coincides with an expected downturn in construction activity in Australia. The Federal Government, in its budget papers, forecasts a significant reduction in private investment in 'other building and structures,' and dwellings in 2000 – 2001. Along with Engineering Construction, which is already 25% down from its peak in 1998-99, the

[1] Press Conference – Minister for Trade Mark Vaile, 31 May 2000, P4.

downturn in construction is expected to impact on the economic outlook and business returns.

(3) The manufacturing sector, already facing significant share loss to imports, will be further impacted.

The draft report refers to the sectoral share of manufacturing as a proportion of GDP falling from 22% in 1974-75 to 15% in 1998-99. Notwithstanding the qualification that these figures 'need to be interpreted with care'[2], it is the pace and extent of the decline in manufacturing in Australia which has exceeded the trend in other OECD countries. This downsizing needs to be addressed not by accelerating tariff reductions but by a comprehensive and well thought out industry policy framework.

In the Australian steel industry, whilst imports have been increasing by 7% pa in value terms and 8%pa in tonnage terms over the last 9 years, Australian apparent steel consumption has been growing at around 1%-2%pa in tonnage terms on a trend basis.

Whilst the draft report refers to the success of elaborately transformed manufactured exports, no mention is made of the build up in manufactured imports and the adverse impact on the balance of payments.

Manufactured imports, which represent 86% of total Australian merchandise imports, have been growing at a faster pace than manufactured exports. Whilst manufactured exports have a trend growth of 6.6% pa, between 1994 to 1999, imports of manufactures have been growing at 7.8% pa over the same period, which has contributed to the widening deficit on Australia's merchandise trade.[3]

(4) The draft report does not examine the impact of the recommendation on industry margins and profitability. Our experience with the elimination of the 5% tariff on tinplate on 1st October 1999 was that imports increased, with the tariff reduction being one contributory factor. This reduced market share and squeezed margins and returns.

The Australian steel industry has been characterised by low profitability and high capital intensity which is currently being addressed by restructuring and refocussing. Further immediate erosion of markets and margins could impact on returns and add to the difficulties of the restructure. This process is well under way but immediate reduction of tariffs could create an unnecessary harsher climate for the early years of this transition.

(5) There has been a significant built up of imported fabricated steel products over the last five years into major projects and developments.

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[2] Productivity Commission, draft report P51

[3] Composite of Trade Australian, 1999 Dept of Foreign Affairs and Trade p20 and 21.

The steel industry is threatened by global sourcing of fabricated steel projects.

The pace of imports is increasing. In the 6 years to 1998, the percentage of fabricated structural steel imported increased from 2 per cent to 12 per cent. Currently more than 25 per cent of the market is at risk on projects identified as planning to use imported fabricated steelworks. The direct effect on the industry is job losses and fabrication shop closures.

Australia's largest seven structural fabrication workshops have reduced their workforce by 77% over the last 12 months and 81% over the last 2 years.

The industry is taking steps to redress this situation but premature tariff reductions will make this task more difficult without any substantial community gain being given.

Conclusion

The Productivity Commission acknowledged the small and marginal benefits of a move to immediately reduce the general tariff from 5 per cent to zero. For the Australian steel industry, any benefits do not outweigh the significant costs in terms of further build up in imports, additional downsizing of the manufacturing sector and regional employment implications as detailed above and in our original submission.

The Australian steel industry, which represents approximately 13% of this reference (via the Iron and Steel chapters of 72, 73 and 74) is in the midst of large changes to meet an intensely competitive environment. Global restructuring in itself is bringing about significant change. Accelerating the rate of tariff reductions would add to the difficulties of this restructure.