Submission by the Plastics and Chemicals Industries Association (PACIA) to the Productivity Commission's Review of Australia's General Tariff Arrangements, Draft Report

23 June 2000

Executive Summary

PACIA is the peak body for Australia's plastics and chemicals industries, representing over 400 members who account for 70% of the industries annual $33 billion turnover. PACIA provided a written submission to this inquiry in January and appeared at the Melbourne public hearing held on Wednesday 19 January 2000. This submission provides supplementary information in response to the draft report.

Our position remains the same as in the earlier submission and we repeat it below.

- The 3% Tariff Concession Scheme cost impost should be removed immediately
- Historical tariffs on products or equipment for which there is no locally produced substitute should be eliminated immediately
- In respect of other chemical tariffs, PACIA notes that Australian tariffs are now below those of other developed and developing countries. Accordingly, **PACIA does not support further unilateral reduction of Australia's tariffs** due to its potential negative impact on domestic production and investment decisions
- PACIA, and other chemical and plastic associations in the ICCA, support the elimination of all chemical tariffs within a negotiated trade agreement, through the WTO for instance, and remain committed to do this by 2010. Given that Australia's APEC obligations are still nine and a half years away PACIA does not support the elimination of tariffs before 2005. Any early unilateral action as proposed by the Commission presents a risk for a very small benefit ($3 to $15 per person per year).[1]

Tariff Concession Scheme

As we argued in our original submission, PACIA views the 3% cost impost on the Tariff Concession Scheme (TCS) as unnecessarily raising business input costs. While the Commission noted that under its preferred option of reducing tariffs on 1 July 2001 concession arrangements should also be removed it did not state that the cost impost be removed individually regardless of the move in general tariff rates. This is despite almost universal calls from stakeholders to remove the 3% cost impost immediately and retaining the TCS at a zero rate of duty.

It is PACIA's view that the Government could remove the TCS cost impost ahead of any reductions in the general tariff level. This would provide a benefit to the Australian economy by lowering input costs and easing the burden on Australian business. The Commission's own modelling work shows that such an action would increase GDP and household consumption slightly. However in contrast to the modelling results, feedback from PACIA members would suggest that for the plastic and chemical sectors the removal of the TCS cost impost would provide a positive benefit for the industry.

The scheme in its current form largely resulted from a 1996 decision by the Government to make business pay for the budget deficit. The budget is now in a

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[1] $3 figure is from AIG work while $12 figure is calculated using the Commission estimate of the total gain in the first full year and population figures.

surplus and the draft report states that the revenue from the TCS measure makes up only a small part of the Government's total revenue. PACIA supports the retention of the TCS to enable a zero rate of duty to be imposed on input imports for where no substitutable equivalent production occurs in Australia. This would therefore place business inputs on an equal footing with consumption goods.

As such PACIA proposes that the Commission change their Draft Recommendation 2 to recommend the immediate removal of the Tariff Concession Scheme 3% cost impost, by July 2001 regardless of the decision on the general tariff level.

In respect to tariff lines for which there is no significant Australian production PACIA seeks that the Commission ensures this term is clearly defined. We would argue that it be interpreted as imports for which **"no locally produced substitute"** good is available. The 'no significant' production definition may severely impact many of our smaller processors who produce many different items at low output levels. Using the revised definition PACIA argues that all tariffs on imports where there is no local substitute good produced be removed immediately. PACIA would expect such action coupled with the removal of the TCS cost impost to provide a positive net benefit to the Australian economy.

In respect to the Commission's proposed options PACIA notes that the Commission did not fully consider a 2010 deadline in its report. This is despite numerous submissions proposing that tariffs be dropped after 2005 and despite Australia's 2010 deadline for the Bogor Declaration. The Commission should consider the potential dual benefit to Australia of a post 2005 tariff reduction coupled with reciprocal tariff reductions from our trading partners. This would produce a larger benefit to Australia from both the removal of tariffs on imported goods and the benefits that flow from an improved and competitive export sector.

International Trade

Any discussion of tariffs implicitly carries with it a discussion of international trade. Much of the discussion around this review has centred on the negotiating position of Australia relative to the rest of the world and in particular to our regional trading partners and competitors. PACIA would like to restate its position that any unilateral reduction in the general tariff schedule would in our view remove a valuable bargaining chip for future trade negotiations and place future production and investment decisions under risk. At the very least with WTO talks looking set to begin in late 2001[2] PACIA believes the Commission should recommend the Government wait at least until the progress and relative success of these negotiations can be assessed.

With the WTO set to meet again in late 2001 and both the United States and European Union close to agreement on many issues there is every reason to expect the next round of multilateral WTO talks will be successful. We do not believe the Government should remove tariffs as per the Commissions recommendation less than six months before such critical international trade negotiations. To do so is to take a large gamble that the modelling performed for the Commission is correct and that the net benefit of reduced tariffs more than outweighs adjustment costs.

[2] Press statement from Mike Moore dated 8 May 2000. Member countries have agreed to work through the issues of implementation of the multilateral trading system in particular addressing the needs of developing countries before the Fourth Ministerial Conference by the end 2001.

The Commission made much of comments from the Department of Foreign Affairs and Trade that indicated that Australia would gain a stronger position in international trade negotiations by undertaking unilateral action on tariffs. Such a position of 'Autonomous Liberalisation' is in PACIA's mind a strange statement to make. As a participant in international negotiations PACIA finds no merit in this type of statement. PACIA asks that the Commission request DFAT to show evidence that Australia's early unilateral actions were applauded by our trading partners. PACIA notes that the Federal Trade Minister Mark Vaile disagrees with this view. At a recent trade briefing in Canberra the Minister made the observation

> "I am quickly learning that in international trade negotiations it is better to have more cards to play than less". [3]

Moreover, the Commission and DFAT should note that according to Government sources while the question of Autonomous Liberalisation was raised by countries at the Uruguay Round and pursued prior to the Seattle round of negotiations no agreement was reached. There is also no provision in the WTO for the establishment of measures to recognise autonomous liberalisation in respect to tariffs on goods. Provision does however, exist in the General Agreement on Trade in Services (GATS) for autonomous decisions taken in the services sector and this may be what DFAT is referring to.

The chemical industry is an extremely global industry. PACIA and by association its members are parties to numerous agreements internationally. The two most important agreements being the Chemical Tariff Harmonisation Agreement (CTHA)[4] which requires signatories to have an upper binding tariffs of 6.5% by 2004 and the broader agreement through the ICCA to have free trade and investment in chemicals by 2010. These agreements were reached in a forum where all participants had something to offer in the bargaining process. The Commission should note that this is regardless of the actions of Australia and is distinct from the APEC Bogor Declaration. However, PACIA believes any reduction should only be through a globally recognised agreement preferably achieved through the WTO negotiation process due to begin in 2001/02.

The chemical industry has successfully negotiated agreements on agricultural chemicals and pharmaceutical goods on a bilateral level. While the industry calls for and supports the global reform of tariffs it will and has successfully taken gains where the opportunity presents itself. On this basis PACIA rejects statements quoted by the Commission from the Australian APEC Study Centre that

> "Australia.....has little bilateral political leverage and efforts at bilateral leverage rarely result in significant reductions of trade barriers." (p 75)

In previous trade negotiations Australia has been able to take on the role of an honest broker between many developing countries and the larger economies of the US and EU. Through this role we have credibility and respect in trade negotiations from these countries and reject the assertion that Australia has an ineffectual bargaining position in international trade negotiations. As an example of the usefulness of bilateral and multilateral negotiations the Commission should consider the offers on tariffs and other trade barriers China has made in its bid to join the World Trade Organisation

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[3] Inside Canberra, Vol. 53 No. 211, 9 June 2000, pg. 1

[4] This was explained in detail in our earlier submission.

Australia is currently bound by the Bogor Declaration, which requires all developed country members to achieve 'free and open trade and investment' no later than 2010. PACIA understands and accepts that the Australian Government must eventually lower tariffs to achieve this agreement. PACIA reminds the Commission that Australia through its earlier actions on tariffs is now one of the most open economies in the developed world and is therefore well on the way to achieving this aim. Table 1 which is repeated from our January Submission clearly illustrates the extent to which Australia's economy is open, particularly when the Australian rates are in fob terms compared to cif terms for the other countries.

Table 1 : Tariff rates for Selected Countries and Selected Key Products

Product	China	India	Thailand	Malaysia	Phillipines	Indonesia	EU^	Japan^	Australia*^
EDC	10%	10%	5%	0%	3%	5%	9%	4%	0%
VCM	10%	10%	5%	0%	0%	10%	9%	4%	0%
n-Butanol	8%	30%	10%	0%	3%	5%	6%	6%	3%
Acetic Acid	9%	25%	5%	0%	3%	10%	12%	2%	3%
Ethyl Acetate	9%	30%	5%	0%	3%	10%	9%	4%	3%
Vinyl Acetate	9%	30%	5%	0%	3%	5%	9%	4%	3%
Phthalic Anydride	12%	30%	10%	0%	5%	15%	10%	3%	3%
LD PE	18%	30%	20%	30%	15%	40%	10%	4%	5%
HD PE	18%	30%	20%	30%	15%	40%	10%	4%	5%
Polypropylene	16%	30%	20%	30%	15%	40%	10%	4%	5%
EPS	16%	30%	20%	0%	10%	30%	10%	4%	5%
ABS	16%	30%	20%	0%	3%	-	10%	3%	5%
PVC	16%	30%	20%	20%	10%	20%	10%	4%	5%
Soda Ash	12%	30%	1%	0%	3%	5%	5.5%	4%	2.5%-5%
Sodium Bicarbonate	12%	30%	1%	0%	3%	0%	5.5%	4%	0%

As the table shows for those selected products tariff rates can vary from zero up to 40%. If harmonisation is to occur many of these countries must begin to lower their tariffs. With China willing to undertake action to lower tariffs and remove non-tariff barriers more pressure can be placed upon other Asian countries currently resisting such a move such as India, Malaysia, Thailand and Indonesia. This gives Australia bargaining strength in international negotiations.

PACIA believes that international credibility could be gained through the Government taking action to define 'free and open' to mean a tariff rate of Free or zero. As the report states 'free and open' is still undefined in the declaration (p 68). The Government could also couple the definition with a clear declaration that at some point between 2005 and 2010 all tariffs including those in the automobile and textile and clothing sectors will be removed generally in line with a negotiated multilateral agreement.

Adjustment Costs / Modelling Issues

PACIA does not wish to engage in a detailed discussion with the Commission on the modelling work performed, suffice to say that we acknowledge the Commission's acceptance that such work is indicative only. As evidence of the possible errors that may occur PACIA notes the potential for labour adjustment effects to vary depending on the assumptions made.

The Commission arrives at an employment adjustment cost figure of $91 million in the first full year following the removal of tariffs. This figure is arrived at using an average weekly earnings figure of $29,000 from ABS statistics. Surveys performed by PACIA over the last three years suggest that average salaries in the plastics and chemicals industry are closer to $60,000 per annum[5]. Likewise, ABS figures suggest

[5] PACIA / KPMG Chemical Industry Performance Survey, 1996, 1997 and 1998

an annual salary in the manufacturing sector of around $38,000 per annum[6]. Clearly, applying these figures produces significantly larger adjustment costs than the $91 million quoted in the report and illustrate that the impact on different industry sectors may vary widely following the removal of tariffs.

While the modelling work showed a minimal regional impact, it is PACIA's view that the impact will be felt much harder in many regions. The model assumes that a job in the chemical or plastic industry (eg. manufacturing) is equivalent to another elsewhere in the economy (eg. services). This is perhaps an unrealistic assumption. Many of our members have operations based in regional locations that have considerably higher unemployment levels than the national average and often a lack of other employing industries. For instance the South West Metropolitan region of Western Australia has a current unemployment rate of 7.3%, 0.5% higher than the national average, while South Australia, which has only a small manufacturing base, has an unemployment rate of 8.2%, 1.4% above the national average. The Commission needs to note that while the changes modelled may be small relative to recent historical changes they will still place people out of work. While a unilateral decision to lower tariffs may be voluntary on Australia's behalf it's impact will force companies to reduce employment levels adding unnecessarily to existing employment pressures in many regions.

Conclusion

PACIA, while being committed to zero tariffs and the removal of all non-tariff barriers to trade does not believe the benefit is so great as to negate the risks associated with unilateral action on Australian tariff levels. PACIA believes that other options do exist such as the one below:

The Commission should recommend the immediate removal of the TCS cost impost and those tariffs for which there is "no substitutable Australian production:". Further, the Government should make a declaration that Australia will between 2005 and 2010 lower all its tariffs in line with a multilateral agreement and that the Australian Government acts first to define 'Free and Open' in the Bogor Declaration to mean zero tariffs and complete removal of all non-tariff barriers.

Such action would allow retention of the existing 5% tariff rates allowing both industry and government to plan for lost revenue and structural change. The removal of the TCS cost impost and tariffs on products with no substitutable Australian production would produce a gain (although marginal) to Australia's GDP and reduce the costs of inputs – particularly critical for plastics production. Australia would retain a valuable bargaining chip, while also gaining or at the very least maintaining its international credibility in its commitment to global trade liberalisation. The evidence presented by the Commission does not in PACIA's mind provide a compelling argument for the immediate removal of tariffs but suggests that a longer term strategy would be best to prepare industry, the public and the Government for 'free and open' international trade.

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[6] Depending on the measure used PACIA calculations of ABS data indicated that annually AWE could vary between $36,000 to $41,000.