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The Australian Gas Light Company
Formed in New South Wales in 1837, with limited liability
ARBN 052 167 405

June 29, 2000

Presiding Commissioner
Review of General Tariff Arrangements
Productivity Commission
PO Box 80
BELCONNEN ACT 2616
Via E-mail: gtr@pc.gov.au

Dear Sir,

Review of Australia's General Tariff Arrangements
Submission on Productivity Commission May 2000 Draft Report

Background

This submission is made by The Australian Gas Light Company and its subsidiaries (AGL).

The company is the major Australian constructor and operator of gas pipelines. Since 1996 AGL has been a key party in the construction, ownership and operation of over 3,200 km of high pressure pipeline projects. In addition to these completed projects AGL, with its' partner Petronas Australia, will be the developer of the 2,700 km PNG to Brisbane pipeline project.

A recent experience with the application of the General Tariff Arrangements to pipeline projects is the construction of the 840 km natural gas pipeline from south west Queensland to the Carpentaria/Mount Isa Minerals province centred on Mount Isa. This project was completed in the later half of 1998 at an approximate capital cost of $180 million.

Through the sole Australian manufacturer of pipe used in these pipeline projects, the necessary 40,000 tonnes of 324 mm diameter pipeline tubing was sourced equally from this Australian and overseas suppliers. Duty concessions for the imported pipeline tubing were sought under both the Tariff Concession and the Project By-Law provisions, with a 3% Concession being achieved and a duty-free project by-law being refused.

This submission is therefore solely concerned with the Tariff Concession and the Project By-Law provisions and their impact on major Australian projects.

As the Commission has noted, almost all of the 2000 tariff subheadings under reference have general duty rates of 5 % but the effect of that rate of duty is reduced by the level of concessional imports.

The two major duty concession provisions are the Tariff Concession System (TCS), which since 1996 has granted a 3 % duty rate to business inputs where there is no Australian production of substitutable goods (and a Free rate to consumer goods) and the Mining Project By-Law provisions which achieve duty-free entry on the same criteria for capital goods for major mining and resource projects in particular.

Tariff Concessions

In our view the 3 % concessional duty rate on business inputs under the TCS is indefensible and should be reduced to Free as soon as possible.

Firstly, it provides no industry protection function at all (as a Concession is not granted where there is local production) and is solely a tax on inputs of the kind that the July 1 GST and related tax changes are intended to remove.

The 3% duty rate on goods not made in Australia only adds to business costs – it reduces the competitiveness of Australian manufacturers in both domestic and overseas markets (as Australian manufacturers incur the 3% rate on necessary imported capital equipment) and can often result in a local manufacturer paying 3 per cent duty on components whilst the competing complete imported consumer goods may enter duty free.

Secondly, the rationale put forward in 1996 for imposing the 3% duty rate on goods not made in Australia (that is, making business share in the burden of the deficit reduction process) no longer exists as the Federal Budget is now in surplus.

AGL therefore asks that the 3% duty rate on business inputs subject to a Tariff Concession be removed as soon as possible.

Mining Project By-Laws

Our project by-law experience has principally been with the Item 45 mining project provisions that afford duty-free entry for "capital equipment for use in the mining and resource processing industries" and particularly the south-west Queensland to Mount Isa gas pipeline project as outlined above.

The set of criteria that has developed over time to interpret this phrase, has, however only succeeded in achieving a more narrow and more restrictive interpretation and has in large part completely negated the original intent of the Item 45 provisions.

As a consequence, a substantial number of resource-related projects and involving very substantial capital expenditure have been unable to make use of the Item 45 provisions and their project costs have increased markedly as a result.

Not because of any local manufacture of the imported goods, but solely because the interpretation of the Item 45 provisions by the administering bureaucracy had become so narrow as to exclude many projects.

The original intent of the Item 45 provisions was to assist mining (which includes oil and gas) and mineral processing ***and related*** projects, yet the current interpretation seems to exclude any project not physically sited on a mining lease or on an oil and gas production lease.

In brief the original intent and cost-reducing benefit of the Item 45 provisions has disappeared, and significant new projects and site expansions are incurring higher capital costs through being excluded.

The Commission itself notes in the Draft Report that some participants consider that the criteria for the Item 45 and other by-laws have been tightened and have been interpreted too narrowly in recent years.

That is certainly our experience.

In regard to the south-west Queensland to Mount Isa gas pipeline project there was no additional work for Australian industry. The sole Australian tubing manufacturer was supplying its maximum possible quantity and the only result from exclusion from the Item 45 provisions was an increase in project costs which is passed on to gas users in the price that they pay. This reduces their ability to be internationally cost competitive.

This is also true for the proposed PNG to Brisbane pipeline project as there is no Australian manufacturer with the capability to manufacture the size and type of pipe that will make up the major part of this project.

In our view the Item 45 project by-law provisions are very capable of providing substantial cost reductions for a project and encouraging new projects, and should be retained and expanded should the general 5% tariff level be maintained.

They should also be returned to their original intent by being applied to any mining or mineral processing or oil and gas project that produces or processes such goods or transports them by conveyor or pipeline.

In Summary

The Commission's Draft Report contains two draft recommendations :

> DRAFT RECOMMENDATION 1
> ***General tariff rates on goods under reference be reduced to Free sooner rather than later, preferably on 1 July 2001.***
>
> DRAFT RECOMMENDATION 2
> ***Consistent with draft recommendation 1, concessional arrangements related to the goods under reference be abolished on 1 July 2001.***

and we support both recommendations.

Should a reduction in the 5% general tariff rate not be feasible, we ask that the Commission recommend the early introduction of a Free rate of duty for goods covered by a Tariff Concession and an early expansion of the scope of the Item 45 mining project by-law provisions to clearly include hydrocarbon pipeline projects.

Yours sincerely

Stephen Ohl
Manager Technical PNG Gas