

**REVIEW OF  
AUSTRALIA'S  
GENERAL TARIFF  
ARRANGEMENTS**

**ORICA SUBMISSION**

**To**

**THE PRODUCTIVITY COMMISSION**

**January 2000**

## **Background**

Orica is an Australian company with operations around the globe. Orica manufactures and supplies commercial explosives and mining chemicals; agricultural chemicals and fertilizers; industrial, specialty chemicals and products for water care; paints and paint preparation products. In 1999, the company employed approximately 10,000 people and had a turnover of almost \$4 billion.

Orica's core businesses are spread across four growth platforms. These are: mining services, agricultural chemicals, consumer products, and chemicals. In mining services, Orica is the world's leading supplier of commercial explosives, initiating systems and sophisticated, fully integrated blasting technology services to the mining, quarrying and construction industries.

In agricultural chemicals the company's interests include Incitec (76 per cent majority ownership) and Crop Care, a joint venture between Orica and Incitec. Incitec is one of Australia's largest manufacturers of fertilizers, whilst Crop Care is the largest manufacturer and distributor of crop protection products throughout Australia, New Zealand, Papua New Guinea and the Pacific Islands.

Orica's consumer products division is the leading manufacturer and supplier of architectural and decorative surface coatings in Australia, New Zealand and the South West Pacific. There are three primary businesses in this division – Decorative Coatings, Selleys and Woodcare products – marketing products under the premium brand names such as Dulux, Berger and Cabot's. There is also a Powder Coatings business which supplies decorative and functional coatings for industrial use.

In chemicals, Orica is a leading supplier of industrial and specialty chemicals in Australia and New Zealand. Key products include chlorine and sodium hypochlorite for water treatment, and adhesives and resins for wood panel boards. Orica's trading and distribution business covers Australia, New Zealand, Fiji and Papua New Guinea, providing a broad range of chemicals for use in all industries.

Orica also has interests in its non-core plastics businesses. The plastics industry in Australia has undergone significant rationalisation and restructuring throughout the 1990's, with Orica's plastics interests at the forefront through joint ventures such as Australian Vinyls Corporation (AVC) and Qenos, which was recently formed with Kemcor (an Exxon/Mobil joint venture). The plastics businesses manufactures two main types of plastic resin – polyethylene (Qenos joint venture) and polyvinyl chloride (AVC joint venture). These raw material plastics are used in a very wide range of industries and everyday items, including household goods, packaging, motor vehicles and telecommunications.

In 1999, Orica imported goods with a Customs Value of approximately \$200 million, and paid duty in excess of \$1 million. Orica therefore, is a company significantly impacted by Australia's policies as they apply to tariffs and the respective concessional arrangements in place. As such, Orica considers it is well positioned to provide input to the current review on Australia's General Tariff Arrangements.

## **Introduction**

On 30 October 1986 the then Minister for Industry, Technology and Commerce, Senator John Button announced a phasing tariff regime for the chemicals and plastics industry. At that time, tariffs in the sector were as high as 45 per cent and had contributed to "structural inefficiencies" resulting in high input costs for a number of downstream industries. The initial phasing period for the sector commenced on 1 February 1987 when all tariffs above 25 per cent were reduced to the 25 per cent level. Certain basic chemical tariffs were reduced to the 20 per cent level also at this time.

Over the period to 1 January 1992, tariffs were phased to 10 and 15 per cent from the levels of 20 and 25 per cent respectively. Minimum tariff rates were phased to zero or 2 per cent by 1 January 1992.

A second phase of tariff reductions followed, resulting in a maximum tariff for the Chemicals and Plastics industry of 5 per cent from 1 July 1996.

As part of its APEC commitment, the Federal Government announced it would review its general tariffs (those at a general rate of 5 per cent) in 2000 or earlier. This current tariff review forms part of that commitment, as well as addressing the other tariff-related issues of nuisance tariffs, and the so-called assistance arrangements contained in the Manufacture-in-Bond and TRADEX Schemes, the Tariff Concessions System and the Project By-law arrangements.

## **Tariffs**

Whilst it may be argued that Australia's general rate of tariffs is not as significant an issue as it has been in the past, the importance of the remaining tariffs in the context of international trade negotiations cannot be underestimated. Negotiations at the multi-lateral and bilateral levels are all about give and take, and access to other markets may only be granted on the basis of trading what remains of Australia's general tariff regime.

The Productivity Commission has indicated in its *Issues Paper* that its approach to this inquiry involves consideration of trade negotiation strategies, and that it considers economy-wide benefits are likely to be maximised if a uniform structure of tariff rates is maintained. This indicates a preference for not pursuing sectoral initiatives when examining overall economic welfare to the community.

However, as part of the Uruguay Round Trade Negotiations, a sectoral initiative for the chemical industry was developed, representing a significant leap forward in tariff liberalisation for the sector. The Chemical Tariff Harmonisation Agreement (CTHA) proposing a maximum tariff of 6.5 per cent by 2004 was an initiative developed by the industry for all the then GATT members. Unfortunately, only a limited number of members signed onto the CTHA including Canada, Japan, South Korea, Singapore, the USA, and the EU. Australia did not sign the Agreement, although it and New Zealand are considered de-facto signatories as their respective tariffs in the chemical industry are below the planned 6.5 per cent maximum proposed under CTHA.

As at 1999, only 19 WTO members has signed the CTHA Agreement.

The International Council of Chemical Associations (ICCA) represents trade associations of almost eighty per cent of chemical manufacturers worldwide. The ICCA is committed to the further liberalisation of tariff and non-tariff barriers, and has been considering options beyond the CTHA 2004 target (including proposals to secure a broader signatory base to the CTHA Agreement). The Plastics and Chemicals Industries Association (PACIA) has made a separate submission to this inquiry and details all the specifics about CTHA membership, as well as identifying strategies to extend beyond the CTHA 2004 target.

Exporters to Australia encounter very little or no barriers to trade. Major competition to Australia's chemical industry now originates from producers in countries such as Indonesia, Malaysia and Thailand where tariffs for certain chemicals (in particular, petrochemicals) are as high as 30 per cent (refer PACIA submission). Production facilities in these countries have been constructed at world scale levels and are significantly larger (and newer) than competing producers in Australia. Producers in these Asian countries benefit from unimpeded access to the Australian market, whereas Australian exporters encounter tariffs of up to 30 per cent on exports into Asian markets.

The ICCA is working with trade associations in the identified countries to secure greater participation in the CTHA Agreement to harmonise chemical tariffs worldwide. Australia's reductions in tariffs since 1986 is testament to the benefits liberalisation can deliver (restructuring and rationalisation) however, it would be inappropriate to recommend further reductions until there was firm commitment from all CTHA non-signatories to bind their tariffs to a phasing programme as soon as possible.

Although it may be the desire of the Commission to address further tariff reductions of Australia's general tariff on a uniform basis, it may be appropriate to adopt separate and distinct industry strategies for those sectors which are actively pursuing tariff liberalisation on a voluntary basis (for example, the chemical industry through the ICCA initiatives).

## **Tariff Concession System**

In July 1996 the Federal Government announced it would impose a 3 per cent tax on goods entered concessionally under the Tariff Concession System (TCS). Prior to this time, goods entered under the TCS were imported free of duty. The rationale for imposing the tax was justified (at the time) as business contributing to a sharing of the burden of the deficit reduction process. Now that the budget is in surplus it seems incongruous to continue to penalise Australian industry with higher business input costs than is absolutely necessary.

The TCS was originally introduced to enable imported goods to be entered duty free on the basis no suitably equivalent goods were available from local manufacture. Legislative criteria based on the principle of cross-elasticity of demand were employed to determine whether imported goods were "suitably equivalent" to Australian produced goods. The difficulty associated with defining "cross elasticity of demand" resulted in a subsequent change of the eligibility criteria to rules based on "substitutability". Goods which are entered under the TCS are deemed not to be produced in Australia. A 3 per cent tax on the TCS therefore, is purely a revenue raising mechanism.

The removal of the 3 per cent tax would seem a higher priority in terms of reducing the hidden costs of doing business than any proposal to further reduce Australia's general tariff rate. In addressing the issue of "nuisance tariffs" the then Minister for Industry, Science and Tourism raised the notion of "negative assistance" to industry. The 3 per cent tax is the clearest example of "negative assistance" linked to the tariff discussion and its removal is long overdue.

## **Nuisance Tariffs**

In July 1998, the Federal Government announced it intended to remove tariffs on business inputs which "raise very little revenue and which offer little or no protective benefit to Australian industry". A list of approximately 2000 tariff lines was circulated to all industry associations seeking comments as to which items tariffs could be removed (as they were not providing any protective benefit to local production).

In essence the objective of this request was to identify those industries in which Australian manufacture had ceased since the last Industries Assistance Commission inquiry into tariffs.

In September 1998 Orica provided details to DIST of approximately 20 items which were included on the list for which local manufacture (or a locally produced substitute) exists. A copy of this letter and its Attachment are enclosed.

Orica considers that while it is appropriate to remove tariffs on goods for which there is no locally available substitute, this can be equally achieved by removing the 3 per cent tax on the TCS. This would seem a far more simplistic approach than having to weigh through hundreds of individual tariff lines questioning and researching whether local manufacture exists. This approach also ensures that maximum leverage can be gained from international negotiations involving market access to high tariff markets, without the removal of the so-called "nuisance tariff".

## **Concessional Arrangements**

As tariff rates in Australia have reduced over the last two decades the need for mechanisms which allow for the refund of Customs duty on imported raw materials/components which form part of finished goods that are subsequently exported, has diminished over time. These mechanisms, such as the Manufacturing in Bond and TRADEX/TEXCO systems, remain vital instruments in ensuring the international competitiveness of Australian exporters.

The removal of these schemes prior to the final step in the tariff reduction process would seem premature and would significantly impact the input-cost structure of exporters. Also, whilst the 3 per cent tax remains on the TCS, it is imperative that the TRADEX/TEXCO systems remain operative to enable duty drawback of the 3 per cent tax included in exported goods.

The benefits that flow to importers of raw materials under the TCS similarly apply to importers utilising the By-law System. Whether this is for raw material inputs in the chemicals industry which possess a demonstrable performance advantage over locally produced substitutes, or for imported capital equipment which forms part of a major industrial project, the need for concessional entry for the imported goods remains. The removal of the By-law System would significantly disadvantage new investment in Australian industry, as well as impacting the competitiveness of Australian exports.

## **Conclusion**

The immediate priority in terms of this current review of tariffs is the removal of the 3 per cent tax on the TCS. Following abolition of the tax on the TCS, the Federal Government is then faced with the issue of how to achieve the APEC free trade target of 2010.

Australia is well ahead of its trading partners in respect of bound tariff rates for local industry (excluding motor vehicles; and textiles, clothing and footwear). It is recommended that in respect of the chemicals and plastics industry, tariffs remain at the general rate of 5 per cent to allow sufficient leverage to be used to encourage CTHA non-signatories to bind tariffs in accordance with the CTHA (and its subsequent proposals for post 2004). Remaining tariffs on chemicals and plastics products in Australia should not be further reduced until all WTO members have agreed to bind tariffs under the CTHA. Only then should Australia agree to further tariff reductions for chemicals and plastics. This will ensure that Australian producers are not further disadvantaged by having to compete with lower import costs than do their overseas competitors.

In respect of the concessional arrangements in place such as the Manufacturing in Bond, TRADEX/TEXCO, and By-law schemes, it is suggested that these mechanisms remain in place at least until the general tariff has been phased to zero.



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30 September 1998

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Mr John Griffiths  
General Manager  
Industry Policy Branch  
Department of Industry, Science  
and Tourism  
20 Allara Street  
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Dear Mr Griffiths

## **REVIEW OF TARIFFS ON BUSINESS INPUTS**

I refer to the media release of 24 July 1998 by the Hon. John Moore, Minister for Industry, Science and Tourism, announcing the proposal to remove tariffs on business inputs which "raise very little revenue and which offer little or no protective benefit to Australian industry".

While it is clear it is not the Minister's intention to remove tariffs on products where Australian manufacture exists, there is a danger that some products may be overlooked in the review (as some manufacturers will not understand the implications of the review nor will they examine items from a "substitutable" perspective). A similar result could have been achieved by removing the 3 per cent tax levied on the Tariff Concession System.

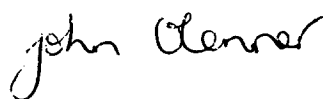
Orica is Australia's largest chemical manufacturer. A number of tariff items identified in the review are manufactured by Orica and therefore warrant ongoing tariff coverage. These products are separately identified in Attachment 1.

As part of the review process it is envisaged that a final listing of products where it is proposed to remove the tariff, will be distributed to industry. This will ensure minimal disruption at implementation time.

I have copied this letter to the ACCI, the Plastics and Chemicals Industry Association, the Australian Industry Group and the Resources Processing Branch in DIST, for incorporation into industry-wide responses.

If you have any questions concerning this letter, please do not hesitate to contact me on (03) 9665 7067.

Yours sincerely



JOHN O'CONNOR  
Government Relations Manager

cc	Karen Curtis	ACCI
	Ian Swann	PACIA
	Vivienne Filling	Australian Industry Group
	Phil Lansdown	Resources Processing Branch-DIST

**ATTACHMENT 1**

**PRODUCTS MANUFACTURED BY ORICA**

<u>Tariff Item</u>	<u>Description</u>	<u>Comment(s)</u>
2909.41.00	2,2'-Oxydiethanol (diethylene glycol, digol)	Orica manufactures diethylene glycol
2909.42.00	Monomethyl ethers of ethylene glycol or of diethylene glycol	Orica manufactures monomethyl ether of diethylene glycol
2909.44.00	Monobutyl ethers of ethylene glycol or of diethylene glycol	Orica manufactures both categories
2922.13.00	Triethanolamine	Manufactured by Orica
3208.10.00	Paints and varnishes (incl enamels and lacquers) based on polyesters, dispersed or dissolved in a non-aqueous medium	Manufactured by Dulux
3602.00.00	Prepared explosives (excl. propellant powders)	Manufactured by Orica
3904.21.00	Non-plasticised polyvinyl chloride, mixed with other substances, in primary forms	Australian Vinyls (Orica Joint Venture) manufactures compounded PVC
3904.90.00	Polymers of vinyl chloride or of other halogenated olefines, in primary forms (excl. polyvinyl chloride, vinyl chloride polymers, vinylidene chloride polymers and fluoro-polymers)	Substitutable goods manufactured by Australian Vinyls
3907.50.00	Alkyd resins in primary forms	Manufactured by Orica
3909.10.00	Urea resins and thiourea resins in primary form	Manufactured by Orica
3909.30.00	Amino resins (excl. urea, thiourea and melamine), in primary forms	Manufactured by Orica



3915.10.00	Low density polyethylene (incl. linear low density polyethylene) waste, parings and scrap	Orica manufactures LDPE and LLDPE (in all grades and quality)
3915.30.00	Polymers of vinyl chloride waste, parings and scrap	Australian Vinyls manufactures PVC (in all grades and quality)
3915.90.10	Waste, parings and scrap of propylene polymers, vinyl polymers and vinylidene polymers	On basis of substitutability
3915.90.90	Waste, parings and scrap of plastics (excl. polymers of ethylene, styrene, vinyl chloride, propylene, vinyl and vinylidene)	On basis of substitutability
3920.30.00	Plates, sheets, film, foil and strip of polymers of styrene, non-cellular (excl. self-adhesive)	Substitutable for polypropylene film products manufactured by Orica
3920.59.00	Plates, sheets, film, foil and strip of acrylic polymers, non-cellular (excl. polymethyl methacrylate and self-adhesive)	On basis of substitutability
3920.63.00	Plates, sheets, film, foil and strip of unsaturated polyesters, non-cellular (excl. self-adhesive)	On basis of substitutability