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Productivity Commission
General Tariff Review Inquiry
PO Box 80
Belconnen ACT 2616

Re: Review of Australia's General Tariff Arrangements

Australian Paper appreciates the opportunity to provide a submission to this review, as we have a crucial concern in Australia's general tariff arrangements and wish to take this opportunity to register our views and interests.

Australian Paper's interests in this review are:

1. The maintenance of a competitive market position
2. The promotion of fairness and commercial equity

Australian Paper's Position

As a strong proponent of tariff reform, Australia has led the way in rationalising its tariff regime. However, in order to achieve a fair and commercially equitable outcome it also remains necessary to address non-tariff issues within and outside of Australia.

Australian Paper is seeking a fair outcome that will promote commercial equity and require the Australian Government to resist voluntary early tariff liberalisation for this industry without first securing firm preconditions from, particularly, the Asian markets.

1. Australian Paper believes that, before any consideration can be given to a reduction or removal of the pulp and paper industry's current minimal tariff protection, Australia's competitors should match the openness of the Australian market both in tariff levels and non-tariff measures through:
 - A harmonisation of investment rules:
 - No tax holidays
 - No unrelated depreciation
 - No extraordinary investment incentives

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- The harmonisation of customs procedures
 - The elimination of non-tariff barriers. To this end Australian Paper supports the PPMFA proposal that either the Productivity Commission, or some other relevant government body, undertake a comprehensive appraisal of the levels of direct and indirect protection provided by Australia's major trading partners – as well as looking at the trends in these levels. Without such a study it is impossible to make an objective judgment with regards the level of protection that should be applied in Australia.
2. Australian Paper maintains that, as a matter of principle, tariff protection levels should be applied equally across sectors of the manufacturing industry.
 3. Australian Paper is seeking an Australian regulatory environment that facilitates Australian competitiveness.
 - The reduction or removal of the remaining tariff protection in the pulp and paper industry, without compensatory action to ease input costs, constitutes negative government assistance.
 - We support the PPMFA view that the most immediate input cost reduction action to be taken would be to remove the 3% duty on business inputs under the Tariff Concession System. We agree that, with the achievement of fiscal consolidation, this tax is no longer required and that its removal would benefit industry as a whole.
 4. Australian Paper supports the PPMFA view that any negative assistance would threaten the future of a major value-adding import replacement industry.
 5. Australian Paper also supports the PPMFA assertion that there is no benefit to be gained from the consideration or institution of unilateral tariff reductions before the next round of multilateral trade negotiations.
 6. The government has worked with the manufacturing industry to address the inadequacies in Australia's anti-dumping legislation. Accordingly, it would be a total loss of consistency if the Government were to take action in the name of trade liberalisation and lead our trade partners to eliminate tariffs on paper and paper products, thus providing positive incentives to imports and negative incentives to the domestic paper industry.

The Australian Industry

The Australian pulp and paper industry provides significant economic benefit to Australia. It manufactures necessary products for Australians, provides significant employment and is a force in self-sustaining decentralisation. Moreover, it has the potential to add further benefits in all these areas without jeopardising ecological sustainability.

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Indeed, the Australian pulp and paper industry has responded to environmental concerns by producing major reductions in key emissions over the last ten years, sources the majority of its fibre from recycled paper and has established one of the best recycling records in the world.

As a whole, the pulp and paper industry maintains capital investments of \$3.9 billion and annual sales of \$3.1 billion. The industry directly employs approximately 8,000 people and impacts upon the further employment of 100,000 people. The industry is part of a highly competitive global market and represents one of the most capital-intensive manufacturing sectors in Australia.

Importantly, pulp and paper represent a major import replacement industry in Australia, with a trade deficit for pulp and paper of \$1,861 million. Without the Australian industry, the trade deficit would be \$5,054 million.

The Australian manufacturing industry for printing and writing papers, Kraft liner board, and bag and sack papers is essentially represented by Australian Paper. Australian Paper is a member of the Amcor Printing Papers Group and is fully owned by Amcor Limited.

In addition to the cost of \$400 million to achieve industry rationalisation, Amcor has made significant investments in upgrading its mills. New plant machinery has been installed, and major environmental works have been undertaken, including the construction of a new \$330 million fine papers machine at Maryvale in Victoria which commenced operation in mid-1998.

In 1998/9, Australian Paper produced 755,000 tonnes of paper for the above segments, representing in excess of \$1 billion of revenue. Of that output, some 114,000 tonnes (15.1% of local production) was exported.

Concurrently, imports of paper products for this segment accounted for 706,000 tonnes, adding close to \$1 billion to our trade deficit.

The Australian market demand for printing and writing papers is continuing to grow at more than 4% per annum, with imports making up about 60% of the present Australian market.

Current Situation and Issues

Since 1985 the Australian pulp and paper industry has seen its tariff protection substantially reduced to levels well below that of its competitors. Additionally, the Australian market is one of the most open in the world and, in contrast to most of its major competitors, is virtually free of non-tariff barriers.

Whilst, in the pulp and paper industry the Australian market is one of the most open in the world, the domestic manufacturers compete against exporters from countries (particularly within South East Asia) where the non-tariff barriers are considerably more restrictive to trade than even the tariff levels imposed.

The recent Asian crisis has had a considerable effect upon the dynamics of the domestic industry, with previously uncompetitive Asian competitors aggressively entering the market.

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While many of the pulp and paper industry's competitors (notably Indonesia, Korea, Brazil, Thailand, Chile, China and South Africa) are all classified as developing countries, all of these competitors have made considerable commitments to expanding their industries, with export sectors that boast state of the art plants and equipment. Furthermore, competitor countries such as Indonesia reap the benefits of a range of government subsidies and support not seen in the Australian pulp and paper industry.

While Australia's GATT commitments only require a 12% tariff in the pulp and paper industry, the government has already lowered the maximum tariff to 5%. The effective tariff rate is lowered further to 3% when developing country and other concessions are also taken into consideration.

Of further consideration are a number of Australian societal and economic elements that impact upon the domestic pulp and paper industry.

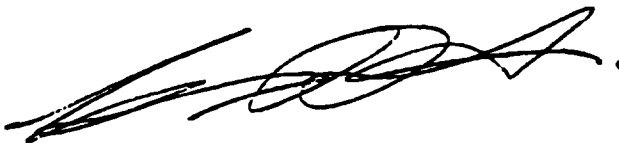
Notably, tariffs are imposed on the materials required for the industry's production processes (3% duty on business inputs on the Tariffs Concession System), whilst other tariffs exist that indirectly increase the industry's costs (those on passenger motor vehicles and on textiles, clothing and footwear).

Australia is also an egalitarian society that redistributes income through taxation and social programs, the setting of minimum wages and conditions such as compulsory superannuation.

Furthermore there is a distinct lack of direct or indirect assistance provided by government, with regards wood costs and infrastructure, in comparison to that provided to the industry's competitors.

Such tariff and non-tariff imposts upon the domestic industry should be taken into account by government policy setting. The current 5% tariff regime allows a level of protection against these imposts and provides the domestic industry with a degree of security against fluctuating exchange rates.

Yours sincerely



Greg Court
Group General Manager
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