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30 June 2000

General Tariff Review Inquiry
Productivity Commission
P.O. Box 80
BELCONNEN ACT 2616

Dear Sir/Madam

Re: Comments in response to Draft Report on General Tariffs

Please find attached Orica Australia Pty Ltd's comments on the Productivity Commission's draft report into its review on Australia's general tariff arrangements.

If you have any questions concerning this response, please do not hesitate to contact me on (07) 3867 9752.

Yours sincerely

A handwritten signature in cursive script, appearing to read 'John O'Connor'.

John O'Connor
Government Relations Manager

PRODUCTIVITY COMMISSION
REVIEW OF GENERAL TARIFF ARRANGEMENTS
SUBMISSION ON DRAFT REPORT – JUNE 2000

Orica's January 2000 Submission

Orica's earlier submission identified the following as key aspects of the Productivity Commission's review:

- removal of the 3 per cent tax on the Tariff Concession System (TCS);
- retention of the 5 per cent general tariff for the chemicals and plastics industry
 - to encourage participation by other economies in the region in the Chemical Tariff Harmonisation Agreement (CTHA);
 - only when all WTO members have agreed to bind tariffs in accordance with CTHA, consideration be afforded to reducing Australia's tariffs for chemicals and plastics to zero.
- retention of the Policy By-Law and TCS systems whilst the 5 per cent general tariff remains in force.

The Productivity Commission Draft Report

The Commission has proposed two main recommendations. Firstly, the position of the five per cent general tariff was examined. It is the Commission's preferred view that the remaining tariff be abolished from 1 July 2000, to allow the allegedly small economic benefits from such a reduction, to flow through to the broader community as soon as possible. Whilst this was the Commission's preferred option, it was one of four options which covered proposals including the total removal of the general tariff by 1 January 2005.

The second recommendation involved the abolition of the concessional instruments (including the TCS) by 1 July 2001.

Orica's Response

Recommendation One

The Commission has adopted a "whole-of-economy" approach to the reference on the general tariff and has not addressed proposals which differentiate between sectors to which the general tariff presently applies.

Orica, as a member of the Australian chemical industry, supports the position of the Plastics and Chemicals Industries Association (PACIA) which proposes the retention of the five per cent tariff until Australia's trading partners commit to the Chemical

Tariff Harmonisation Agreement (CTHA). As at the end of 1999, only 19 countries had committed to CTHA, well short of the 132-member WTO grouping.

Orica does not agree with the Commission's viewpoint that the remaining five per cent tariff provides Australia with little or no additional bargaining position in multi-lateral trade negotiations. The Trade Minister Mark Vaile, also has difficulty in going to the negotiating table with little or no negotiating power.

It is considered there exists ample opportunity to address a phasing program for tariffs post 2005, to enable Australia to deliver on its Bogor commitments. To remove the remaining general tariff before this time would enhance the disparity already confronting Australian exporters who face high tariffs in external markets. It would be premature to abolish the remaining tariff when the Commission itself has identified the benefits obtained are likely to only be small.

Orica therefore considers the appropriate timeframe for the phasing of the remaining five per cent tariff is post 2005.

Recommendation Two

The Commission has called for the abolition of all concessional arrangements on 1 July 2001. This has been linked to the Commission's preferred option of abolition of the general tariff also on 1 July 2001.

The Commission failed to distinguish between the "tax" presently levied on the TCS and the original benefit the TCS played. It did not canvas a position whereby the 3 per cent tax was immediately removed (particularly, in light of the revenues to be generated by the GST) and the zero rate of duty be reinstated to deliver the intended benefits of the TCS.

It is Orica's view that the concessional arrangements should be retained whilst the general tariff remains at five per cent (until at least 2005) and that the 3 per cent tax be removed from the TCS immediately. This latter proposal would deliver to industry the original intended benefit of not taxing business "inputs".