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Official Committee Hansard

**HOUSE OF
REPRESENTATIVES**

STANDING COMMITTEE ON INDUSTRY, SCIENCE AND
RESOURCES

Reference: Increasing value-adding to Australian raw materials

THURSDAY, 8 MARCH 2001

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HOUSE OF REPRESENTATIVES
STANDING COMMITTEE ON INDUSTRY, SCIENCE AND RESOURCES
Thursday, 8 March 2001

Members: Mr Prosser (*Chair*), Mr Hatton, Mr Lloyd, Mr Ian Macfarlane, Mr Morris, Mr Nairn, Ms Roxon, Mr Cameron Thompson, Dr Washer and Mr Zahra

Members in attendance: Mr Lloyd, Mr Morris, Mr Nairn, Mr Prosser, Mr Cameron Thompson, Dr Washer and Mr Zahra

Terms of reference for the inquiry:

To inquire into and report on the prospects of increasing value-adding to Australian raw materials. The Committee will start with an evaluation of the current state of value adding in Australia, and how that compares internationally. This will provide a base from which to evaluate the following topics:

- incentives and impediments to investment;
- intellectual property rights;
- national/international marketing factors which may encourage or hinder Australian value-adding;
- government intervention, both nationally and internationally;
- the location of value-adding industries and projects in regional Australia;
- resource licensing/permit arrangements;
- the impact of vertical integration within particular industries; and
- the Australian skills base and any associated impediments.

WITNESSES

BELLCHAMBERS, Mr Paul Anthony, Manager, Industry Outlook Section, Department of Industry, Science and Resources 321

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JONES, Mr Barry Philip, Acting Executive General Manager, Invest Australia, Department of Industry, Science and Resources 321

McDONALD, Ms Therese Colette (Tess), Acting General Manager, Minerals Development Branch, Coal and Minerals Division, Department of Industry, Science and Resources..... 321

Committee met at 11.32 a.m.

BELLCHAMBERS, Mr Paul Anthony, Manager, Industry Outlook Section, Department of Industry, Science and Resources

FERBER, Dr Peter Howard, Assistant Manager, Mineral Industries Section, Coal and Mineral Industries Division, Department of Industry, Science and Resources

JONES, Mr Barry Philip, Acting Executive General Manager, Invest Australia, Department of Industry, Science and Resources

McDONALD, Ms Therese Colette (Tess), Acting General Manager, Minerals Development Branch, Coal and Minerals Division, Department of Industry, Science and Resources

CHAIR—I declare open this public hearing of the inquiry into increasing the value added to Australian raw materials. I thank officials from the Department of Industry, Science and Resources for their attendance. Before I ask witnesses to make an opening address I remind them that today's proceedings, which are legal proceedings of the parliament, warrant the same respect as proceedings in the House. The deliberate misleading of the committee may be regarded as a contempt of parliament. The committee would prefer all evidence to be given in public. But if witnesses wish to give evidence in private at any stage, they should make such a request and the committee will consider that request. I now invite witnesses to make a short opening statement.

Mr Jones—By way of an opening statement I thought I would ask Ms McDonald to outline for you the current state of play in relation to the action agenda of the light metals industry, which was announced late last year. That is probably the most significant recent development in the industries that are relevant to our portfolio.

Ms McDonald—I understand that you are aware of the media release issued by Senator Minchin on 20 October last year which announced this initiative. A decision was taken to implement an action agenda for the light metals industry. The aluminium industry, in particular, approached the government about seeking a partnership. A strategic leaders group was then created, comprising members of industry. That group then looked at developing a vision for industry for aluminium, magnesium and titanium metal, bearing in mind that they are all at different levels of maturity in the economy. That vision, which will be in force until 2010, will create dynamic internationally competitive light metals industries until 2010 and beyond—industries which reflect world's best practice and sustainable development.

Major issues for the action agenda were identified when the strategic leaders group undertook a strategic competitive analysis of individual sectors. Issues identified were: energy, market access, product development and investment downstream. We are hoping that some sort of conclusion might be reached by June or the middle of the year. After that there will be an implementation phase.

So the issues will be addressed through a number of mechanisms, including stakeholder consultations and workshops. We also have a web site. I have copies of a background paper,

which was put up on the web site. That background paper deals with the state of these industry sectors and their potential for development.

The first step in this issue is an energy workshop on Tuesday, 20 March at Parliament House. Issues which have been identified by industry include: the consumption of energy, the cost of energy, greenhouse issues, fuel sources and access, energy efficiency and other environmental issues.

Mr ZAHRA—On what date is that workshop to be held?

Ms McDonald—It is to be held on 20 March. On 22 March the strategic leaders group will meet again. I have a paper on that as well which lists strategic leaders. All this information is also on the web site. An energies issues paper is also on the web site. Four issues will be dealt with at that workshop—issues which industry brought forward as issues of concern for them. I have available for the committee an agenda for that proposed workshop.

Of course, other areas of the department are involved and interested in downstream issues. Today a consultant is coming to the department to talk to us about the types of issues facing the industry. He will not talk about final end products, such as automotive, windows or shipbuilding; he will talk about the components element—what are the drivers, what is the state of industry and what are the impediments.

CHAIR—Do you mean die casting and that type of thing?

Ms McDonald—Yes, that is right. So we have commissioned that consultancy and we are asking for a turnaround of about 20 days. We have quite a tight time frame if we are to try to keep in within the existing action agenda and achieve some sort of outcome by June. That is about where we are up to in the process at the moment.

Mr Jones—I think that action agenda is a significant initiative. It is a process of government and industry working cooperatively to identify impediments to industry's development and to try to take action to overcome them. I would welcome any questions on that or on any other aspect.

The other publication I would like to hand over to committee members for their information is a recent departmental publication, which outlines recent structural changes in Australian industry. This document, which is background information, gives some indication of the broad changes in the Australian economy over the last 20 years or so. I am happy to take questions, Chairman. We can provide additional copies of any of these publications if that is required.

CHAIR—I invite questions from my colleagues.

Dr WASHER—You state in your submission that the Queensland government was instrumental in establishing a cooperative research centre for alloy solidification technology. That is terrific. I want from you a general overview of CRCs. As you know, this government has now put in place a new policy relating to the funding of science engineering technology and it has also put a lot of money into CRCs. I have been getting some negative feedback about CRCs. I am not talking specifically about this CRC; I am referring in general to CRCs.

Big companies have come to me and said, 'Instead of working with private enterprise in the area of research and development, we will work through the CRC. A lot of the money that is pumped by the government into these CRCs can be used to assist us to retain our intellectual property.' In other words, in the view of these companies, they will screw the government, which is funding these CRCs, and they will bypass private enterprise. I have heard comments to that effect on a couple of occasions. Can you comment on that? Is that factual?

Mr Jones—I have not heard that comment, but there is not a lot of expertise on CRCs on this side of the table. Obviously, it would be of concern if that were the case. I might have to take that question on notice.

Dr WASHER—This issue is of major concern to the committee, mainly because the government has put a lot of money into CRCs. Representatives from three different types of industry have said that they have bypassed investment by private companies and that they have looked instead to government investment because they can see the holy buck, which helps them retain their intellectual property. That causes me some anxiety because the policy or the philosophy of this government is not to compete with private industry.

Mr Jones—We will see what we can find out about that.

CHAIR—I noticed in your submission an ABARE chart which refers to Australian alumina and aluminium exports by value. Exports are negotiated in US dollars. The chart forecasts a substantial downturn for combined alumina and aluminium exports from 2002 through to 2005. What is the reason for that?

Dr Ferber—We do not do the forecasting ourselves; the forecasts are done by ABARE.

CHAIR—I am aware of that.

Dr Ferber—I believe that, at that time, ABARE forecasted that the Australian dollar would rise quite significantly. That is probably a significant factor.

CHAIR—Contracts are negotiated in Australian dollars, but whose dollars are reflected on that chart?

Dr Ferber—The chart is in Australian dollars.

Mr Jones—As Dr Ferber indicated, the decrease reflects the built-in assumption about the exchange rate. Since this submission was presented, and in the context of last week's Outlook conference, ABARE would have released updated forecasts. So it is possible that some of those charts would have been superseded by more recent material from ABARE.

CHAIR—I was trying to ascertain whether ABARE had predicted that there would be a fall-off in the use of those metals, whether there would be a decline in world markets, or whether other metals were moving in to take the place of these metals. Is the downturn attributable purely to the exchange rate?

Dr Ferber—It is not attributable purely to the exchange rate. I think ABARE also forecasts changes to commodity prices in the future. I do not have the papers with me, but a few weeks ago, at the Outlook conference, ABARE would have released those sorts of details reflecting a combination of exchange rate changes and changes to commodity prices.

Mr ZAHRA—In section 4 of the *Light metals industries action agenda*, under the heading ‘Some key issues facing the industries,’ is the following dot point:

factors affecting investment decisions including investor confidence, energy policy/greenhouse awareness and understanding of opportunities.

My question relates to greenhouse awareness and to energy policy. Essentially, we are dealing with energy-intensive industries. In Australia at present we are still fairly uncertain about what our greenhouse approach will be. From the viewpoint of Invest Australia, how significant is it? To a large degree you are dealing with multinational companies who base their investments anywhere in the world. Is that uncertainty an impediment to getting some of that investment and value adding in Australia?

Mr Jones—First, I have been with Invest Australia for a day and a half now, so I do not pretend to be an expert on Invest Australia issues by any means.

Ms McDonald—With regard to processing and smelting at the refinery, we are often advised by industry that they consider this uncertainty as a major impediment to investment-making decisions.

Mr ZAHRA—So that is the biggest single impediment to getting smelting, die casting and other work done in Australia?

Ms McDonald—The most vociferous sector is the sector up to smelting. That is the statement that we are hearing from them. Further downstream, they have not identified energy as their highest issue. They are more concerned with market access, product development, investment attraction concerns and reaching critical mass.

Mr ZAHRA—To the best of your knowledge, and on the basis of our approach to greenhouse issues, could any of the investments that have gone overseas have come to Australia?

Ms McDonald—No, we have had no real advice on that. It is being flagged as a concern. The statement that is continually being made is, ‘We are global industries. We can make these decisions to go anywhere.’

Mr ZAHRA—You are exactly right.

Ms McDonald—So far as I know there are no identified examples.

Mr ZAHRA—No particular examples?

Ms McDonald—No.

Mr ZAHRA—I will continue for a moment with this line of questioning. As mentioned earlier, Australia is a significant user of energy. Five or six weeks ago I was at the Laverton steel mill. They use the same amount of power as the City of Ballarat. The pulp and paper plant in my electorate in Maryvale uses the same amount of power as the City of Geelong. So we are talking about massive users of electricity. Let us take into account for a moment our national electricity market and the capacity of that market. If someone said, 'I want to build this type of operation,' how much capacity do we have to meet that need? You identified earlier that low-cost and reliable electricity is a big determinant. How much capacity do we have to meet that need?

Ms McDonald—That is one of the questions that will be addressed at the energy workshop. I am sure that members of our energy division might have some answer to that. However, at this workshop we will be talking to state governments, producers, suppliers and users about that issue. If, for example, the vision for the aluminium industry is to increase by 30 per cent in the next 10 years—which they claim is achievable in Australia—one of the issues will be whether we can achieve that capacity. Other issues involve looking at the mix of fuel sources and at gas pipelines. I do not believe that we have an answer to that question. We might not have to address that issue, but it is an issue that has to be worked on.

Mr ZAHRA—Can the department forecast what the country's energy requirements will be? We have heard—and we accept without too much questioning—a forecasted growth in demand each year of 1, 1½, 2½ or sometimes 3½ per cent. That is a lot if we cobble together five or six years and no new generators are built. All of a sudden we might find ourselves 15 or 20 per cent behind when trying to meet domestic demand, and that would not include those massive energy users—companies that you identified as setting up and doing value adding in Australia. If you cannot answer that question now I ask you to take it on notice.

Mr Jones—The answer is that the department does not do that kind of forecasting. However, we work very closely with ABARE, which produces those forecasts and which builds into those forecasts assumptions about which projects will come on stream in future years. The department has a close relationship with ABARE. In fact, we contract ABARE to do a lot of that work for us.

Mr ZAHRA—I refer in particular to the impediments to value adding. In addition to the greenhouse risk, which you mentioned earlier, surely one of the impediments would be the structure of the national electricity market?

You have identified energy policy and being able to access low-priced or good-value energy. The department might like to consider that issue a little more closely. The feedback that I have had from power generators in my electoral district is that a massive amount of risk is wrapped up in investing in the energy sector right now. That is borne out by the fact that there have been appalling returns and massive losses because of the way in which the market is structured. Would you give that issue a bit of thought because it seems to me an obvious impediment to getting the types of industries that we want.

Ms McDonald—The strategic leaders group, the industry representatives and consumers of energy that we have seen, have not said that that is a major issue for them. They see that as a supplier issue. However, that issue will be considered at the workshop.

Mr ZAHRA—You cannot have one without the other, can you?

Ms McDonald—That is right. That issue will be looked at by the workshop.

Mr ZAHRA—On page 20 of your submission you state that a magnesium project will be based in Hazelwood, which is in my electoral district. Obviously you are not in a position to talk too much about that now, but I ask you to take my question on notice and to provide me with some information about it. I have spoken to Hazelwood about that investment, but I would be interested to know what the issues are from a public policy point of view and I wondered whether we could try to facilitate that development. Peter, are you in a position to talk about that at all?

Dr Ferber—I do not really have any details about that project. I am aware that it exists. Information is available on the public record about it, but it is limited information. I do not know whether I can add much more. I know that that project and a number of other magnesium projects are being considered..

Mr ZAHRA—Does that involve obtaining magnesium from ash?

Dr Ferber—That is correct. They propose to use fly ash to get magnesium.

Mr NAIRN—You have provided quite interesting information in your submission. Australia does not produce any magnesium metal in commercial quantities, but clearly there is an increasing worldwide demand for it. Looking at the break-up of magnesium production, China obviously stands out, in as much as it has 200 plants but it produces only 120,000 tonnes, whereas the US has three plants and it produces 117,000 tonnes. Clearly, China's plants are extremely inefficient.

Are industries saying that, worldwide, there must be some rationalisation? If we ignore the greenhouse aspect, is this paper very different? I am trying to get a feel for the optimism for this industry. Clearly, the action agenda is part of all of that, but can you give me some views about where you think this industry could go, considering that no commercial quantities are produced now? The magnesium industry and two other metal industries are a part of this action agenda. Clearly, somebody must think that there are some real opportunities here.

Dr Ferber—Certainly a large number of projects are under consideration. The AMC project is the most advanced project. An announcement has still not been made as to whether that project will definitely go ahead. Clearly, the ability of China to produce large amounts of magnesium and sell it to world markets at a low cost is a major concern to anybody considering a magnesium project.

Mr NAIRN— Where are all of Australia's resources going now?

Dr Ferber—Magnesium resources are not in short supply. So all these magnesium resources are not exploited at the moment, apart from the Kunwarara deposit in Queensland, some of which is used for producing a refractory magnesia, which is used in lining steel-making furnaces.

Mr NAIRN—Is the bulk of that magnesium used in Australia, or is most of it exported?

Dr Ferber—Most of it is exported.

Mr NAIRN—So it is an industry in which raw resources are essentially sent out of Australia?

Ms McDonald—When metal is produced at more commercial rates—for example, the AMC has off-take contracts with Ford and other downstream users—we consider metal to be value added.

Dr Ferber—Magnesia, a value-added product, is produced in furnaces at Rockhampton which are owned by the AMC. I cannot remember exactly, but I think that a couple of hundred people are employed there. It is a value-adding activity. I cannot remember the exact selling price of magnesia, but it would be considerably higher than the sale price of raw magnesite, which sells very cheaply.

Mr Jones—Most of Australia's resources are not exported at all at the moment. The only deposit which is having anything done with it is the Kunwarara deposit. Other deposits are just sitting there.

Mr ALLAN MORRIS—On page 24 of your submission you refer to the Hazelwood project and you state that it will cost \$270 million to produce 34,000 tonnes of magnesium. That appears to be the sole output of that project. The value of the magnesium to be produced appears to be between \$99 million and \$100 million. There appears to be something wrong with those figures. I cannot imagine that they will be able to produce 34,000 tonnes a year from fly ash. I am a little troubled about those figures. They will either produce 34,000 tonnes a year or 34,000 tonnes from existing ash dumps. I would be surprised if they produced 34,000 tonnes a year from fly ash. You might like to think about that issue.

Mr Jones, I want to cover two issues, the first of which relates to this policy problem. Earlier you referred to the fact that the government had in place a policy for light metals, but that there was no money. You also referred to the fact that the government allocated \$100 million for an aluminium smelter. What was the policy framework that led to that \$100 million going to an aluminium smelter in Queensland? What policy framework actually generated that \$100 million? If people knew that they were getting money they might be able to better plan what they are doing. For example, if the AMC knew that it was getting that \$100 million it might have been easier for it to raise the other \$1.03 billion that it needed to raise.

Mr Jones—The policy framework that led to that decision was the investment incentive process coming through the Prime Minister's strategic investment coordinator. That process is open to any major project that satisfies the criteria outlined in the *Investing for growth* statement. That is not related to considerations of specific metals or industries.

Mr ALLAN MORRIS—Yes, it is.

Mr Jones—It is a general investment coordination process, which has its own criteria.

Mr ALLAN MORRIS—If a company meets those criteria does it know that it will get the same amount of money, or are those criteria opaque?

Mr Jones—The criteria, which are quite clear, were laid out in the *Investing for growth* statement in December 1997. No specific monetary amount is attached to that. Companies have to demonstrate that, for example, unless an incentive was provided, the project would not come to Australia. The project has to have net economic benefits; it has to have employment benefits; and it has to satisfy a number of other criteria. The amount of any incentive that might be provided is always project specific. It depends on individual circumstances and it depends on what project is being provided.

Mr ALLAN MORRIS—But you can see the problem I have. We were talking with AMC, trying to find out what government policies are that might help generate that investment, and they are totally confused by it or totally uncertain about it. But they are talking to bankers and to investors and so on who are asking them whether the government is going to be involved, and they do not know either. So giving \$100 million to one project one day really damages every other project: if it was any good, the government would be in there with it. It becomes a judgmental thing: because the government is not giving the money, then others say, ‘Well, if you were any good, the government would be in there with you,’ and the fact that it is not becomes a big negative.

Mr Jones—The strategic investment coordination process is not there to subsidise any project that comes along. It is there to provide specific incentives, as I said, to projects that otherwise would not come to Australia and that have to meet a number of other hurdles. The vast bulk of projects do not require government assistance, and it is not appropriate to provide government assistance to them. As I say, the criteria have been clearly laid out in the *Investing for Growth* statement.

Mr ALLAN MORRIS—So was it a subsidy to the aluminium smelter?

Mr Jones—It is not a subsidy to the aluminium smelter as such. It is a specific incentive provided to attract a project that otherwise would not have come to Australia.

Mr ALLAN MORRIS—All right. We should then withdraw your earlier statement about it is not being there to subsidise companies, because in that statement you actually implied—because I am talking about AMC—that they needed subsidising, which is really not a very nice thing to be saying.

Mr Jones—No. I said the SRC process is not there to subsidise any project that comes along.

Mr ALLAN MORRIS—No. I have not been talking about subsidising at all. I have been talking about attracting investment and about the parameters of investment, and I am trying to clarify this—because it is very difficult for organisations to get a clear fix on what is worth investing in. While the government says the aluminium projects are worth investing in, and we would invest \$100 million, in the national interest, if you like—to pull all that other stuff together into a single statement—the magnesium project does not attract the same investment, and therefore it must not be in the national interest. That is the kind of judgment that tends to occur with that kind of ad hoc process. I would really appreciate some informed comment on it,

because that is what is coming back to me fairly constantly, and it was certainly raised with us with our inspection of AMC.

Mr Jones—I think that is looking at it in entirely the wrong way, with respect. There is a range of government support available to major projects in this country, and the strategic investment coordination process is just one of those mechanisms.

Mr ALLAN MORRIS—But what is available for magnesium smelting? It says in here nothing.

Mr Jones—No. I am not sure it says that nothing is available. There is a range of assistance available. Ms McDonald might be able to outline the specific mechanisms.

Ms McDonald—No; I have not got the announcement here.

Mr Jones—But there is a major projects facilitation process. There are policy by-laws available to bring in capital equipment, under certain circumstances. There is a range of other kinds of help that the government provides to major projects on a routine basis.

CHAIR—There is a policy by-law on that particular thing—if I can come in there: it really is only a waiver of the tariff that would have ordinarily been paid.

Ms McDonald—On capital equipment.

Mr Jones—Yes. But it is still a mechanism which exists to assist major projects.

CHAIR—I do not think that is where my colleague was coming from, though.

Mr ALLAN MORRIS—What it says in your paper is that there are no specific funds available to the light metals agenda, and it simply accesses other existing programs. So the aluminium one has access to the program, but what you are saying is that the outcome is totally uncertain. It is not as though, if you meet these criteria, you will get so much money and so you therefore can plan about it. You cannot do that with the \$100 million, which is the figure. You see one party getting \$100 million up the road for aluminium, and for magnesium it is said, 'You have to go through all these hurdles, and only after you are up and going.' If the project was for a major international company, a company like AMC is not one; so it needs to get a government judgment. The government is virtually judging, by what you are saying, that this is not of the same magnitude or same importance; but I would have thought the magnesium project was much more important than the aluminium one.

Ms McDonald—A statement was made by Senator Minchin recently. There was a press release concerning \$50 million that was to benefit the Stanwell area and AMC, and it was in some cooperation with CSIRO: we can get some information back to you about that. We have not got that press release on us at the moment, but Invest Australia was certainly involved in that.

Mr ALLAN MORRIS—When we were up there at the time, we were asking them what programs they can access, what they can do, and what is available and so on; and the answer from the ones who were there was that there was virtually very little.

Ms McDonald—This announcement was made towards the end of last year or the beginning of this year.

Mr ALLAN MORRIS—It might be handy for us to start there. The committee hopes to talk to Treasury or the tax office at some stage in the future, but it is to do with how the R&D concessions are applied to projects like AMC or HBI or other kind of projects because the uncertainty and the argument with the tax office and Treasury are fairly exhausting. The policy creates a lot of uncertainty for a very long time and its opacity makes it quite difficult. Take AMC as an example, which obviously you do know a fair bit about. What is being said is that, because they had a pilot plant and they are now going to a full-scale plant, there is no R&D because the technology now works. The same was said to BHP about the HBI plant except that, clearly, it did not work. The funding and investment in the project is quite different depending on whether it is a proven technology or unproven. How does the system evaluate this because it is really a serious problem?

Mr Jones—I am aware that that kind of problem is a longstanding one of where to draw the line on R&D and how to apply the particular definitions. In the context of the government's major innovation statement that was made in January, the government has announced that it will make some changes to the R&D tax concession. But I believe that it has reaffirmed that R&D plant deductions will not be available for expenditures associated with normal production activity. As I understand it, it is a fairly longstanding principle that, at some stage, the research and development phase ends. When you are into production and normal activities, it ceases being R&D. You have to draw the line somewhere to avoid enormous expenditure.

Mr ALLAN MORRIS—The government says that and the finance industry says that, because it is a new project and it is untried technology; therefore you have got to produce half a billion dollars extra money in case there is a problem. Their finance requirements are actually half a billion dollars more than what they notionally need because it is an untried technology. The government says you cannot get the concession because you are a tried technology. The bankers say, 'Sorry, fellows, no, because you are an untried technology.' This problem has been around for yonks and I do not see any mention of it in here. This is really one of the major impediments to attracting investment in value adding. Value adding on old technologies is one thing, but our big chances are the new technologies which have not yet been taken over by the world. That is, the areas where there are still openings for a new player, because there are no big players. Magnesium is obviously a big one because the field is so small.

Ms McDonald—Are you referring to the action agenda and the issues that are identified?

Mr ALLAN MORRIS—No, I am referring to what companies are telling us about attracting investment in things like AMC.

Ms McDonald—I thought you were referring to the action agenda process because it is driven by industry and what they have identified as their major concerns. We cannot deal with every issue that is a concern.

Mr ALLAN MORRIS—But Mr Jones said it has been around for years. The government has done revision and it is still there. You have given us two submissions on value adding. It does not mention the concession anywhere, yet it has been one of the major issues for a very long time. I am surprised that the department has not identified that as a major source of concern and a major cause of conflict, potentially, between the department and the tax office or Treasury. I think a lot of your officers, Mr Jones, agree with what I am saying and find it very difficult that the Treasury makes a judgment which affects the companies that you are trying to encourage. That lack of reconciliation is still being ignored by the government. I think this inquiry certainly has to dig into it. We expect to talk to Treasury. I hope, before we do, we may get some comments back from you to help us understand better how the department approaches it and if there is a difference of view between you and Treasury. What is a proven technology? BHP are being told that the HBI plant was a proven technology, therefore a concession is not available. Clearly, it was not a proven technology. A pilot plant does not prove technology; there is still a substantial capital risk involved. The bankers say that and will have difficulty financing at the right level because of that risk. Tax says the opposite and makes the financing even more difficult. I think that is what we need to really get to because that is one of the key issues involved in this whole exercise. We will talk to Treasury as we have agreed to, but we need to be better informed.

CHAIR—Mr Jones, do you want to come back and make a comment on that at a later date?

Mr Jones—We will certainly try to get you some more details. We are not the right people to get into the details of all of that. As I said, I am aware that the issue has been around for yonks, but it is other people in the department who probably have the details on that.

Mr ALLAN MORRIS—We would like clarification of the debate within the department and between the department and Treasury so we can actually pin it down. Members of the government will be agreeing with me: they want to see these things happen. They are as frustrated as you are, or as many of your officers have been over the years, with both governments, incidentally—so it is not simply political.

Mr CAMERON THOMPSON—I was just looking at the list of proposed alumina and aluminium projects for Australia. Recently a new alumina refinery was announced for Gladstone, and I had not even heard of it before then. We had been sweating on the Comalco alumina refinery at Gladstone and then this other one came out of the blue. I just want to know what it is. What are the prospects for it and will it interfere with the Comalco refinery?

Ms McDonald—Are you referring to Aldoga?

Mr CAMERON THOMPSON—Yes.

Ms McDonald—I think that is a smelter, which is the next step in the process. A refinery does bauxite to alumina and a smelter does alumina to aluminium.

Mr ALLAN MORRIS—And Queensland stole it from New South Wales: it was going to Lithgow. Their submission mentions Lithgow.

Ms McDonald—Because the press and public documents at the time were saying that they were interested in siting themselves in Lithgow. The latest press we have seen says the Gladstone area.

Mr CAMERON THOMPSON—Do you have anything more on that? Is there confirmation that it will be Gladstone?

Ms McDonald—No, we have no more than that.

Mr CAMERON THOMPSON—I was also looking at the reference to the expansion of smelter capacity in South Africa, Mozambique, China and the Middle East benefiting from government support to the detriment of potential investments in Australia. Specifically, what in Australia has suffered? Has anything on this list suffered because of these activities of these foreign governments? I want to try to quantify that. Where have we missed out?

Dr Ferber—I do not think you can point to a deliberate cause and effect. The investments that are occurring offshore have an effect on the total world market, which affects prices, so an Australian investment project is fitting in with that global investment scene and with the market. So a new investment in, say, South Africa is going to impact generally on when an Australian project could come on stream because it is going to affect prices and the amount of alumina or aluminium that is in the global market.

Mr CAMERON THOMPSON—So there has not been anything as direct as the dispute about whether the Comalco project would go in Queensland or in Malaysia?

Dr Ferber—No.

Mr CAMERON THOMPSON—Are any of those on our list affected specifically by the ones listed in places such as South Africa and Mozambique? Are they coming back and impacting specifically on any of these or on all of them?

Dr Ferber—Any new project impacts on the global price and the global market, and any Australian producer would be impacted by those factors.

Ms McDonald—For example, another factor we have seen recently is that, with closure in volume of aluminium produced by smelters in the US at the moment because of energy issues and so on, there is a bit of oversupply in alumina. That might affect people's views on whether or not they go ahead with greenfields refineries or even brownfield expansions. So that is another element coming in that affects it.

Mr CAMERON THOMPSON—The reason I am saying that is that often there is one particular place in the market that our producers are aiming to supply, and then someone somewhere else comes in and gets that ahead of us, with—as indicated here—government support. Is there anything like that that you have specifics on?

Ms McDonald—No.

Mr LLOYD—I refer to the production of magnesium metal and to the tariff barriers. I notice that the US has eight per cent on magnesium and 6.5 per cent on magnesium alloy. Two countries—Canada and Israel—have preferential access to the US market. Is anything being done within Australia to develop some sort of preferential arrangement, or are the tariffs causing a problem in the development of that industry?

Dr Ferber—I will take that question on notice so that I can obtain the latest information.

Dr WASHER—My question, which relates to exactly the same issues, is: why did we allow these tariffs to remain? It is pretty annoying when Canada and Israel, for some perverse reasons, achieve favoured status over us. So my question is similar.

Mr Jones—I note, however, that Australia does not produce magnesium at the moment. I do not think it is an issue over which we can take action. Australia is not a producer, so we are not directly affected at the moment. This affects our potential to produce.

Dr WASHER—Yes. My question related more to our potential to produce.

Mr ALLAN MORRIS—It affects investment. Are tariffs being phased down? Are we required by the WTO to phase down our tariffs?

Mr NAIRN—Presumably any trade agreements between Australia and the US—and we are trying to talk to them about trade agreements in a number of areas—would include those sorts of things.

Ms McDonald—Yes.

Mr LLOYD—The Bush administration flagged the media today that it is interested in discussions on free trade agreements. It is a fairly topical issue. It would be interesting to establish whether things like that were being looked at.

Mr ALLAN MORRIS—While we are looking at that issue we might also try to determine whether Ford signed a contract to produce 45,000 tonnes a year—obviously for the American and not the Australian market. With those tariffs in place that might be an insight into how Ford sees things going in the future. Ford would not have signed up for that if they thought it was going to be non-competitive in the long term.

CHAIR—I refer to the \$120 million of marine grade aluminium that we import. Obviously that is going to the light ship building industry in Western Australia, Tasmania and other places and a bit will go to Queensland. Why is Australia not producing marine grade aluminium for domestic consumption and export?

Ms McDonald—The company that we have spoken to about it is not tooled up to be able to produce marine grade sheet aluminium.

CHAIR—Are we prepared to sit around and accept that?

Ms McDonald—No. They approached the department previously to express their concerns, to determine whether there were programs that they could access to make use of R&D funds, and to determine whether they could import that sort of technology to produce the tooling required to lead to that quality of sheet aluminium. They have not pursued that avenue.

CHAIR—Will they not do anything about it unless we lead them by the nose?

Ms McDonald—I do not think so.

CHAIR—I am just concerned as we no longer produce stainless steel in Australia. If governments do not put enough pressure on companies to do this it appears as though it will not happen. Why are aggressive Australian companies, with the comparative advantage that we appear to have in Australia, squandering the opportunities to value-add, particularly in products like that? As I mentioned earlier, we do not even produce stainless steel in Australia any more. It seems to me that, unless governments are prepared to do something about it, companies do nothing. Can you comment on that?

Ms McDonald—The general policy answer is that, in the end, they are commercial decisions. It all boils down to whether you have investors; whether you have those types of entrepreneurs who are prepared to pursue the issue; whether there is a market; and whether the market is big enough to maintain that business.

Mr ALLAN MORRIS—Or whether stuff is being imported from the parent companies of Australian aluminium manufacturers. Do they actually restrict technology access to Australia because they are already selling to us and they do not want to damage their own marketing?

Ms McDonald—That could well be true.

CHAIR—Mr Morris's comments are more to the point. I am trying to work out what we have done to identify it and what we are doing to correct it.

Mr ALLAN MORRIS—It would be of some help to us to establish who is employed and who owns the technology. You would be aware that that was the approach in relation to magnesium. They would not allow technology to be used in Australia. For 20 years or more we went through an exercise to try to develop technology. They wanted us to export ore rather than metal. Those same considerations might well apply now.

Ms McDonald—It is an issue with which we have been grappling forever.

Mr ALLAN MORRIS—We would also appreciate an opportunity to grapple with these issues.

Mr NAIRN—What is the action agenda timetable?

Ms McDonald—Normally action agendas run for 12 months. Usually they are approved during the budgetary process. So they would run from June to June. This workshop was approved in October, but we are still aiming for June. We are dealing with a more organised

sector in relation to this action agenda as opposed to some of our other action agendas. We are also receiving cooperation from industry. We are still aiming for the middle of the year. Recommendations are already in place. After that, an implementation process will have to be followed. So it depends upon what the government has agreed to look at and what industry has agreed to do.

Mr ALLAN MORRIS—Mr Jones, I refer to the revision to the R&D tax write-off, with which I confess I am not fully conversant. However, there now appear to be some new hurdles. If you can meet certain hurdles you will actually get a better go. Is IT one of those hurdles? Is it possible, within that general context, to earmark certain areas as areas that would qualify, for example, new value adding technology, or new value adding capacity—accepting the division between production and technology?

Ms McDonald—Are we talking about the minerals area or the resource area?

Mr ALLAN MORRIS—Essentially, we are talking about magnesium. If we decided the magnesium issue now, would R&D, in a new conversion like magnesium, be able to be fitted into the higher R&D tax write-off brackets?

Mr Jones—No. My understanding of the new scheme is that it will not make provision for that kind of separate identification of industries. In the context of what has already been announced, there is no provision for the kind of thing that you are talking about.

Mr ALLAN MORRIS—But you have made provision for those areas that actually get a higher rate? I accept that they are not listed now. However, I am saying that, if you had made provision for certain areas to get a higher rate, obviously there is potential to make provision for particular value adding technologies. Once you start making judgments about certain kinds of R&D—as you are now—it is possible to put other things into that judgment.

Ms McDonald—Are you talking about the 175 per cent as opposed to the 125 per cent?

Mr ALLAN MORRIS—Yes.

Ms McDonald—A lot of consultation is going on between the department, other departments, industry and other sectors to bed down the detail of that sort of thing.

Mr ALLAN MORRIS—We need to recommend to the parliament that some of these value adding issues are critical, for example, to a new metal like magnesium. Perhaps titanium is one that we should be talking about more. People investing in R&D to produce titanium should be grouped into that 175 per cent.

Ms McDonald—We could get back to you about that process.

Mr ALLAN MORRIS—Could you let me know what has to be done? It seems to me that the government is accepting that some things are better than others.

Mr Jones—I did not think that was true for the 125 per cent. I thought that was going to be generally available for the labour-related component of additional R&D across industries. The government also announced a range of other mechanisms—programs for specific areas, which include IT&T, but not within the expanded R&D concession. That came into the bundle of other things that the government announced.

Some of those will specifically help the minerals industry. For example, the additional three minerals-related CRCs will be specifically directed at the minerals industry. Other incentives and programs that the government announced as part of that innovation package may well help the minerals industry as well. I do not think that that 175 per cent will be restricted to particular industries.

Mr ALLAN MORRIS—Take titanium as an example and equate it back to the old aluminium and the more modern magnesium. First, are people who are doing titanium R&D able to access anything in that new innovation statement? Second, if not, which ones most approximate that? Which ones are closer to that? I have not yet absorbed the whole statement. I went overseas earlier this year and I have not yet caught up with a lot of stuff. However, I would appreciate informed comment on that issue. I agree with your comments on IT and various other things, I am not disagreeing with your statements; I am just wondering how we shift that focus across to these areas, which some of us believe are as important, if not more so.

Mr Jones—We can certainly get back to you with an example of how titanium, for example, would benefit from the range of measures that was announced.

CHAIR—There being no further questions, I thank all witnesses for attending and for their time today. I look forward to receiving any additional information that you are committed to sending us.

Resolved (on motion by **Mr Morris**):

That this committee authorises publication, including publication on the parliamentary database, of the proof transcript of the evidence given before it at public hearing this day.