



**FOREIGN
AFFAIRS AND
TRADE**

Submission to the House of Representatives Standing
Committee on Industry, Science and Resources

*Inquiry into increasing value-adding to
Australia's raw materials*

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Key Points

- Australia's export growth has been considerably stronger than economic growth over the past 15 years, with exports of goods and services rising from 14 per cent of GDP in 1983 to 20 per cent in 1998.
- The degree of processing which Australian exports undergo has been steadily increasing (unprocessed foods, fuels, minerals and other primary products declined from 48 per cent to 39 per cent of merchandise exports between 1987-88 and 1998-99).
- Exports of processed raw materials have grown at widely varying rates
 - but a feature of recent trade performance has been steady growth in exports of processed raw materials with a high level of value adding
 - for example, between 1987-88 to 1998-99 exports of copper bars and rods grew by an average annual rate of 24 per cent, steel blooms and billets by 18.3 per cent and worked aluminium alloys by 9.4 per cent.
 - elaborately transformed manufactures (including items such as processed aluminum, copper and steel) have trebled over the same period.
- The expertise Australia has developed in exploiting its raw materials has become a valuable export in its own right
 - Australia supplies 60-70 per cent of mining software worldwide and high value added services related to mining exceeded \$1 billion in 1997-98.
- Domestic reform, including trade liberalisation, has improved the outlook for value adding activities.
- The Uruguay Round delivered some important market access gains for Australian processed raw material exports. The Round delivered tariff reductions of 32 per cent for aluminium, 43 per cent for copper and 70 per cent for zinc (on a trade weighted basis).
- However, tariff escalation (where tariffs are set in such a way that they rise with increased processing of the raw material) remains an impediment to increasing exports of processed materials in a number of overseas markets.
- It will be important to safeguard Australia's trade and economic interests in the international climate change negotiations to implement the Kyoto Protocol.
- Regional approaches (through APEC) and targeted bilateral strategies are also being used to advance Australia's interest in further processing.

Introduction

The purpose of this submission is to provide the Inquiry with an evaluation of the state of value-adding for Australia's raw material exports, an international comparison of Australia's performance in value-added exports and address some of the policy issues raised in the terms of reference of the Inquiry (including the extent to which they act as incentives or impediments to further processing).

For the purposes of this submission, raw materials have been taken to include a wide range of minerals, as well as agricultural raw materials such as wool and other fibres. Value can be added to these materials at a variety of stages in the production process. However, reliable data is not available for recent years on value added at different stages. The focus of discussion in the submission relates to the degree of processing materials undergo, on which export data are available (see Attachment A).

1. Australia's Trade Profile

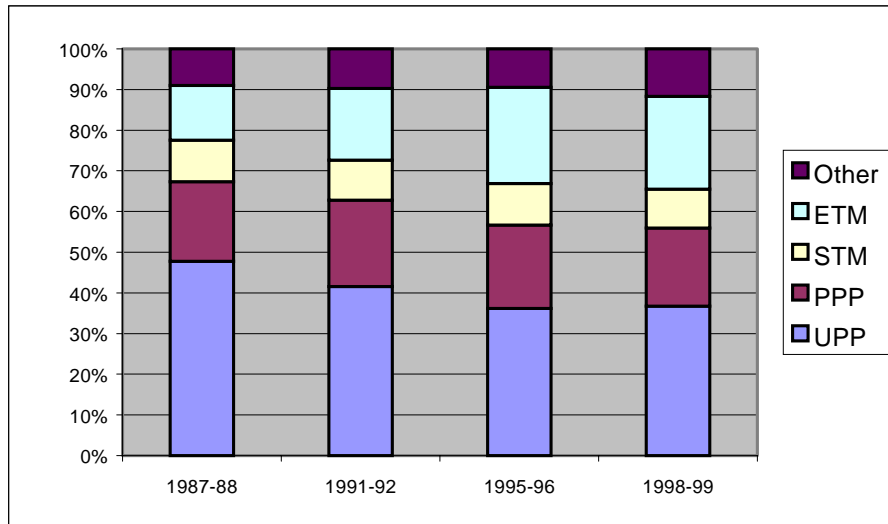
Over the past 15 years, Australia's export growth has been considerably stronger than economic growth. Exports of goods and services accounted for 14 per cent of GDP in 1983, but represented about 20 percent of GDP in 1998 (in current price terms). One of the most notable features of Australia's trade profile is its specialisation in resource-based goods, which account for the bulk of Australia's export items. Another notable feature is the strong trading links with developing countries, particularly those in the Asia-Pacific region. Australia's fast growing export sector reflects in part Australia's proximity to expanding markets in the Asia-Pacific region and the relationship between the resource-intensive nature of Australia's exports and the Asia-Pacific region's imports.

In line with the recent economic downturn across East Asia, a region containing seven of Australia's top 10 export markets, Australian exporters diversified their exports to new markets. In the case of the USA, this reflected in part higher exports of processed petroleum, iron, steel and non-ferrous metals (as well as one-off sales of gold for processing). Sales to new markets in the Middle East, Eastern Europe, South Asia and Latin America also increased.¹ These outcomes were partly a result of the Government's market diversification strategy and exporters taking advantage of the relative depreciation of the Australian dollar against other major currencies.

¹ For example, in 1998-99 merchandise exports to Saudi Arabia grew by 95 per cent, to Egypt by 71 per cent, to Mexico by 46 per cent and Chile by 39 per cent.

There has also been a trend towards higher levels of processing in Australia's export composition. As demonstrated by the chart below, the contribution of unprocessed exports to Australia's overall merchandise export composition has fallen steadily over the past decade. This decline in relative importance has been achieved despite the strong export performance in many areas of unprocessed primary products, such as unprocessed fuels, minerals and foods.

Figure 1: Processed and Unprocessed Export Shares 1987-88 to 1998-99



Source: ABS Data on UN Stars Database.²

In the period 1987-88 to 1998-99, the contribution of unprocessed foods, fuels, minerals and other primary products declined from 48 to 39 per cent of Australia's total merchandise exports, and now total \$31.5 billion. Based on growth rates over the past decade, the relative decline in the contribution of unprocessed primary products can be expected to continue for some time.

Trends in exports of processed raw materials

Over the last decade, exports of processed raw materials have grown at widely varying rates. As Table 1 indicates, exports of processed fuels (including automotive spirit and aviation kerosene) have grown rapidly, expanding by more than the overall growth of merchandise exports. Exports of processed minerals and simply transformed minerals manufactures and metals have grown more slowly. Elaborately transformed manufactures, including minerals manufactures and metals, chemical and engineering

² This data covers elaborately transformed manufactures (ETMs), Simply Transformed Manufactures (STMs), Processed Primary Products (PPP) and Unprocessed Primary Products (UPP).

products have shown strong growth. Exports of ETMs more than trebled over this period.

Table 1: Unprocessed and Processed Export Values: 1988-89 to 1998-99: Australian Produce (A\$'000)

| Product Category | 1988-89 | 1994-95 | 1998-99 | Average Annual Growth 88-89 to 98-99 (%) |
|---|-------------------|-------------------|-------------------|--|
| Unprocessed Primary Products | 20,393,386 | 23,885,243 | 31,554,470 | 4.9 |
| Food | 3,973,155 | 4,386,168 | 7,669,371 | 8.9 |
| Fuel | 5,261,101 | 8,532,751 | 10,883,754 | 6.0 |
| Minerals | 4,084,303 | 5,491,852 | 8,132,406 | 6.0 |
| Other | 7,074,827 | 5,474,472 | 4,868,939 | -1.1 |
| Processed Primary Products | 8,773,323 | 14,369,892 | 16,340,405 | 6.2 |
| Food | 4,945,218 | 9,015,847 | 9,981,129 | 7.2 |
| Fuels | 1,170,318 | 2,708,041 | 3,269,408 | 10.1 |
| Minerals | 2,602,316 | 2,469,063 | 2,942,998 | 0.6 |
| Other | 55,471 | 176,942 | 146,870 | 18.0 |
| Simply Transformed Manufactures | 5,086,087 | 7,058,742 | 8,149,723 | 5.7 |
| Minerals manufactures and metals | 4,260,018 | 5,128,261 | 5,919,874 | 3.8 |
| Chemicals and semi manufactures | 594,600 | 1,519,274 | 1,746,98 | 12.1 |
| Other | 231,469 | 411,207 | 482,851 | 14.1 |
| Elaborately Transformed Manufactures | 4,639,754 | 12,576,586 | 15,660,156 | 14.1 |
| Minerals manufactures and metals | 731,573 | 1,702,451 | 1,796,804 | 11.5 |
| Chemicals and other semi manufactures | 714,915 | 1907,305 | 2,601,025 | 14.7 |
| Machinery for specialised industry | 555,237 | 1,599,606 | 2,093,164 | 15.2 |
| Office and telecommunication products | 250,112 | 1,400,507 | 1,215,095 | 18.8 |
| Motor vehicles and parts | 336,764 | 915,783 | 1,894,734 | 16.2 |
| Engineering products | 2,303,233 | 6,963,184 | 8,795,895 | 15.2 |
| Other elaborately transformed manufactures | 890,034 | 2,003,646 | 2,466,432 | 12.0 |
| Other | 3,764,308 | 6,116,528 | 9,533,566 | 8.5 |
| Total | 42,656,857 | 64,006,991 | 81,238,320 | 7.0 |

Source: DFAT TREC data³

One of the most significant elements of Australia's recent trade performance has been the steady growth in the export of processed raw materials with higher levels of value adding. Over the last decade, Australian exports of refined petroleum, manufactures of iron and steel (in various forms such as wire, blooms and billets), asbestos products, glass, chemicals, copper and aluminium products have grown substantially faster than the underlying growth rate in exports. Supporting these fast-growing export items are steadily growing large volumes of processed raw materials such as nickel, alumina, zinc and copper. Highlights of Australia's recent performance in the export of processed raw materials are contained in Table 2.

³ The unprocessed primary products segment includes items such as ores and concentrates of iron, copper, uranium, bauxite, nickel, lead, tin, ilmenite, zirconium, rutile and zinc. The sector also includes coal, crude petroleum, salt, silica, crude fertilisers. The processed primary products segments includes refined petroleum products, alumina, nickel mattes; simply transformed manufactures includes items such as unworked iron, steel, aluminium, zinc and copper alloys; elaborately transformed manufactures include worked iron, steel, aluminium and copper products.

Table 2: Trends in export of value-added raw materials products: 1987-88 to 1997-98 (Australian Produce)

| Product Description | Value in 1998-99 (\$'000s) | Trend growth 1987-88 to 98-99 (%) |
|--|----------------------------|-----------------------------------|
| Processed Primary Products | | |
| Automotive Spirit | 263,695 | 20.6 |
| Alumina | 2,843,130 | 1.2 |
| | | |
| Simply Transformed Manufactures | | |
| Ingots, puddled bars & pilings of iron and steel | 28,830 | 56.4 |
| Nickel and Nickel Alloys (unworked) | 449,828 | 6.9 |
| Aluminium unworked (including alloys) | 2,858,077 | 2.9 |
| Base metals (unworked) | 80,770 | 19.5 |
| Blooms and billets (excluding high carbon steel) | 368,264 | 18.3 |
| | | |
| Elaborately Transformed Manufactures | | |
| Glass | 150,267 | 12.3 |
| Wire rod (not high carbon or alloy steel) | 60,814 | 19.8 |
| Bars and rods of iron or steel | 44,027 | 12.4 |
| Angles, shapes and sections of iron or steel | 63,320 | 25.5 |
| Universals, plates and sheets of iron or steel | 500,445 | 7.1 |
| Iron or steel wire (not wire rod) not insulated | 31,083 | 16.1 |
| Tubes, pipes and fittings of iron or steel | 99,862 | 14.2 |
| Iron and steel casings, forgings & stampings | 100,150 | 15 |
| Copper bars and rods (including wire rod) | 124,073 | 24.2 |
| Copper plates, sheets and strip | 100,873 | 12.5 |
| Aluminium and aluminium alloys, worked | 437,241 | 9.4 |

Source: TREC data on DFAT database

The key point emerging from this table is that some of the fastest export growth is now occurring in industries with a higher level of value adding. For example, exports of alumina, a by-product of bauxite, are slower than exports of higher value added bauxite by-products such as worked aluminium alloys. The implication of this trend is that a full picture of Australia's value adding of raw materials requires a detailed examination of the many mineral items which undergo various degrees of processing. Some activities surrounding the extraction of unprocessed raw materials involve a high proportion of value added inputs and can involve lucrative service export spin-offs.

A useful case study demonstrating opportunities for value adding Australia's raw materials can be seen in energy intensive industries such as aluminium production. For some time aluminium producers have chosen to locate new production facilities in countries with low cost energy and have placed less emphasis on proximity to final markets. In some cases, such as Japan in the early 1980s, production facilities have been closed down and replaced offshore in countries such as Australia and Canada.

Consumption in the major markets of Europe, Japan and the United States - which constitute around 70 per cent of the world's consumption - have continued to expand over recent decades. Imports, rather than domestic production have supplied the increased consumption of aluminium. The global specialisation of the industry has led to a number of exporters emerging, where the major proportion of production is destined for foreign markets. The growth in exports from this small band of countries mirrors the growth in imports for the major markets. For example, OECD data indicates that aluminium production has been amongst the fastest growing industries in Australia, but at the same time has experienced a relative decline across many OECD countries.

Another example of Australia's international competitiveness in minerals processing can be seen in the zinc industry. New projects, such as the Korea Zinc Refinery Project in North Queensland, represent a major new investment from a country with major domestic zinc smelting interests. Analysts expect that the output of this mine will supply regional, as well as Korean users.

Intellectual Property and Services Exports

Effective use of the intellectual property system is an integral part of increasing the added value of raw material exports. A considerable proportion of the value added to raw materials can be attributed to specific know-how or patented technology, and the better this know-how and technology is protected by the intellectual property system, the greater our continuing competitive edge. The mining sector invests heavily in research and development (A\$546 million in 1996-97, compared to \$397 in the motor vehicle industry) and in training (\$896 per employee in 1996, compared to \$185 as a general industry average). The intellectual property system provides the necessary infrastructure for this investment, and, overseas, the protection of intellectual property provides safeguards for the exports of value-added raw exports.

In fact, the expertise that Australia has developed in the exploiting its raw materials has become a valuable export in its own right. For instance, Australia supplies 60-70 percent of mining software worldwide. Other service exports backed by intellectual property protection in the mining industry include exports of high value added services to 50 countries which exceeded \$1 billion in 1997-98 alone. Other particular strengths include mineral exploration, strata reinforcement technology, mine safety, environmental management and rehabilitation, contract mining, processing technology, education, training and mine maintenance technology.

Changes in Demand for Australian Value-Added Exports

Structural adjustments underway in major markets have affected demand for Australian raw materials exports. For example, Japan is Australia's largest single export customer with over half of all merchandise trade comprising

mineral and agricultural commodities. Japan has gradually reduced the importation of metals in relative terms. In 1998 metals accounted for 7.7 per cent of Japan's merchandise imports from Australia, compared to 14 per cent in 1989. Factors explaining this gradual decline in demand for Australian raw materials are complex. They include the activities of Japanese firms in shifting production facilities to developing countries, the more efficient use of raw materials products in modern production processes and the relative increase in the importance of the Japanese services sector.

The relocation of manufacturing industries from developed to developing countries has led to changes in the direction of Australia's raw material exports. Investments from Japan, the United States and parts of the European Union in the export oriented economies across the developing world have resulted in a greater diversification of Australia's exports. These investments are now drawing in greater levels of processed raw materials inputs, such as steel, copper, aluminium, zinc and petroleum products.

2. International Comparisons

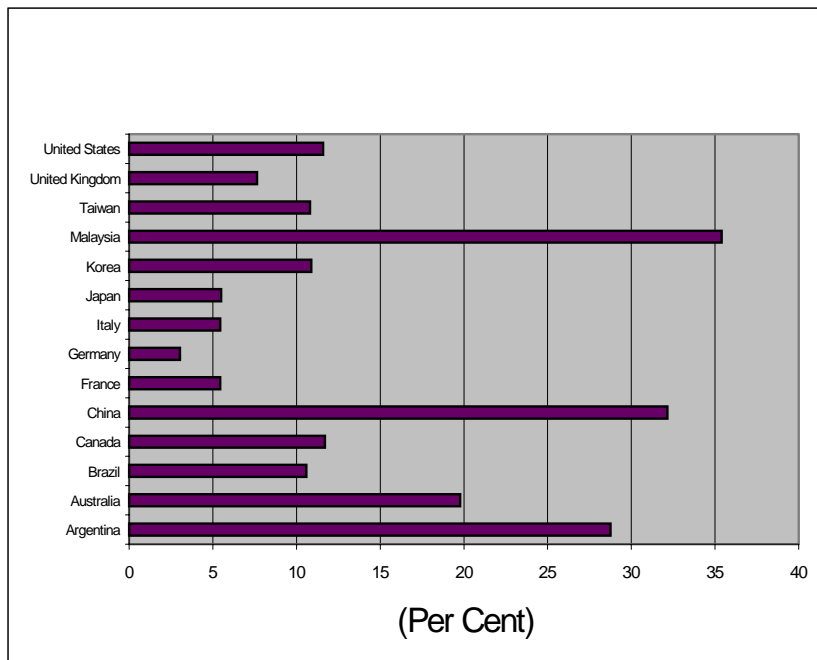
Australia is one of the world's most efficient producers and exporters of minerals and energy products. Resource industries are the most export oriented sector of the Australian economy. Australia is the world's largest exporter of coal, alumina, diamonds, rutile and zircon; the second largest exporter of iron ore, lead, zinc and uranium; and the third largest exporter of gold. Australia is also emerging as a leading exporter of LNG to the growing market in Asia. As previously noted, a higher proportion of Australia's raw materials exports are now processed to various degrees - from basic metals in the STMs category to more worked metal products in the ETM category.

Undertaking international comparisons of Australia's performance in the export of value added items such as food, fuels and minerals with other countries is difficult. The Department of Foreign Affairs and Trade's STARS database, which includes data for a wide range of economies, does not, in practice, make it possible to distinguish between unprocessed and processed raw materials and fuels.

Comparisons of manufactures export rates

However, it is clear that Australia is performing strongly in manufactures exports, particularly ETMs. Figure 3 shows an international comparison of the level of growth in the export of ETMs between 1990 and 1997. During the period, Australian exports in the sector grew at an average rate of 19 per cent. This represents a growth rate substantially higher than that of other developed countries. This comparison demonstrates that Australia's performance in the export of ETMs compared favorably with some of the fastest growing export oriented manufacturing economies in East Asia, over this period.

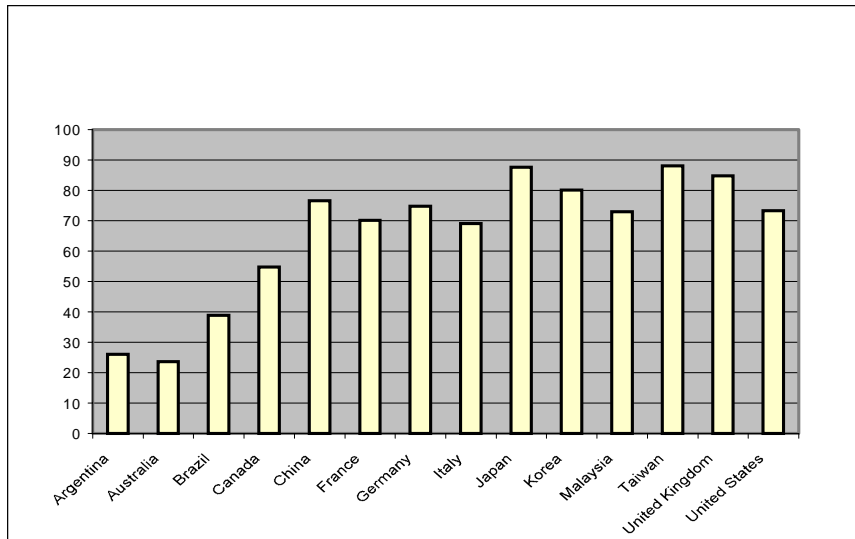
Figure 3: Rate of Growth in ETM Export from 1990 to 1997 (as Per Cent of Total Merchandise Exports)



Source: DFAT UN Stars Database

It should be noted that despite Australia's strong performance, the total contribution of ETMs to overall export performance lags considerably behind many other countries (see Figure 4). This is because Australian ETMs exports are growing quickly compared to other countries, but from a lower base. The lower overall contribution of ETMs to Australia's exports reflects Australia's natural advantage in agricultural and resource exports. It also reflects the fact that a considerable amount of global ETMs trade comprises trade between near neighbours such as the United States and Canada, between the members of the EU and between some East Asian countries.

Figure 4: Exports of ETM's as Percentage of Merchandise Exports: 1997



Source: DFAT UN Stars Database

3. Factors affecting further processing in Australia

A number of factors affect the outlook for raw materials processing in Australia. In general, domestic constraints to further processing have declined in importance over recent years as a result of macro and micro economic reforms. Although unprocessed raw materials trade is not subject to a high degree of international trade distortion, trade related measures in overseas markets do represent impediments to further processing in Australia. Subsidies, price stabilisation schemes and tariffs are among the mechanisms used by a number of Australia's trading partners to influence the supply and demand for raw and processed materials.

Domestic Reform

Domestic economic reforms which have been underway since the mid 1980s have improved the outlook for value adding activities in Australia. Tariff liberalisation has contributed to improved competitiveness and a more productive, outward looking economy. It has also helped to reduce input costs for exporters. Remaining tariffs on imports were estimated to raise input costs to exporters by 3 per cent in 1997⁴. Tariff liberalisation has also

⁴ This figure is based on research conducted by the Centre for International Economics for the Department of Foreign Affairs and Trade in 1997.

encouraged firms which have competed unsuccessfully against imported goods to seek out export markets.

Wide-ranging microeconomic reforms have also fundamentally changed the structure of the Australian economy and made many sectors more efficient, flexible and productive. Obvious areas of improvement include the labour market, banking, finance, transport, public utilities, provision of many government services and the waterfront. These reforms have reduced the costs and increased the productivity of our manufacturers and enabled many of them to compete more effectively in export markets. The result has been a strong increase in manufacturing exports.

Tariffs on Raw Material Exports

The Uruguay Round

The Uruguay Round of multilateral trade negotiations achieved substantial gains in access. For industrial products - which included Natural Resource Based Products (NRBPs) - tariffs were reduced over a six year period commencing on 1 January 1995, with reductions averaging about 38 per cent on a trade weighted basis. Coverage of tariff bindings (that is, a legal obligation not to raise tariffs on particular products above the rate agreed in the negotiations) was substantially increased. Some progress was also made in reducing the incidence of "tariff escalation" affecting more highly processed products.

Substantial gains were achieved for specific materials. The Round delivered tariff reductions of some 32 per cent for aluminium, 43 per cent for copper and 70 per cent for zinc. Other gains included building materials (an overall cut in tariffs of more than 30 per cent), leather and leather goods (also average cuts of over 30 per cent) and wood and wood products (tariff cuts averaging over 61 per cent). For steel, tariffs were to be eliminated over 10 years in major markets, including the US, EU, Japan, Canada, Korea and the Nordic countries.

The approach in the industrials sector aimed at achieving an average tariff reduction across all products. However, negotiations were also carried out on specific sectors, with the aim of carrying liberalisation further or of addressing remaining tariff peaks. These sectoral negotiations had mixed outcomes.

Negotiations in the non-ferrous metals sector covered most NRBPs, including copper, nickel, aluminium, lead, zinc, tin and other base metals (but did not include iron ore or steel products). Australia was positively disposed to participating in any agreement relating to the reduction of tariffs in this sector. However, concerns of the major economies (USA, EU, Japan and Canada) about the extent of coverage prevented agreement being reached. Australia was also concerned that a number of its major trading partners would not be participating in the outcome of the negotiations. Concern was also expressed

by some areas of the Australian industry at the time about their capacity to sustain further tariff reductions.

Uruguay Round negotiations in the steel sector (ores and products) concentrated on the conclusion of a Multilateral Steel Agreement (MSA), which was looking to include disciplines on non-tariff measures as well as tariff reductions. Despite the agreement of major economies to proceed with tariff reductions in this sector, Australia was not prepared to commit to full implementation with further action contingent on the successful conclusion of the MSA after the Round. The U.S. and the EU have not been able to reach agreement on any of the outstanding issues.

Tariff Escalation

The differences in tariff levels between raw materials and processed primary products remain a barrier to greater levels of trade in processed products. While non-ferrous metals, ores, concentrates and scrap generally face low or negligible barriers which are falling as a result of the Uruguay Round, tariff escalation with increasing levels of processing is still significant. The table below shows differences in current tariffs on unprocessed and processed products across some of Australia's major trading partners. The implication of the table below is that the outlook for export of value added products could be improved if tariffs on processed raw materials were reduced.

Table 3: Tariff rates for unprocessed and processed raw materials 1997-98*

| | Unprocessed (Ore) | Processed/STM (Non-wrought) | ETM (Wrought) |
|-----------------------------|--------------------------|------------------------------------|----------------------|
| | Applied | Applied | Applied |
| Australia | 0.00% | 0.25% | 3.41% |
| Canada | 0.00% | 0.37% | 1.76% |
| China | 1.95% | 5.09% | 10.02% |
| European Union | 0.00% | 1.21% | 3.61% |
| Indonesia | 3.95% | 4.05% | 9.22% |
| Japan | 0.00% | 2.33% | 3.06% |
| Malaysia | 0.00% | 0.67% | 5.54% |
| Mexico | 8.70% | 7.89% | 12.46% |
| Pakistan | 10.00% | 10.58% | 25.00% |
| Philippines | 3.00% | 3.00% | 5.83% |
| Republic of Korea | 1.33% | 4.31% | 7.62% |
| Taiwan | 0.00% | 0.48% | 4.61% |
| Thailand | 5.24% | 6.03% | 13.16% |
| United Arab Emirates | 4.00% | 4.00% | 4.00% |
| United States | 0.00% | 1.07% | 2.53% |

* Most recent data available
Source: DFAT TNAS Database⁵

Many countries maintain higher tariffs on non-wrought and wrought products than unprocessed ores in order to protect domestic manufacturers of wrought products, such as steel, copper and zinc. In some cases, higher tariffs on processed materials are part of a package of a concession granted by governments to investors as an incentive to establish smelters and refineries. In these cases, Australia is not able to export processed raw materials at a competitive price.

Policies of these kinds can affect the outlook for Australian value-added raw material exports. For example, a decision by the Thai Government to establish a domestic zinc smelting industry in the 1980s as a means of overcoming large imports of zinc resulted in a 22.5 per cent tariff being imposed on imports of zinc ingots and zinc concentrate. As extraction activity in the domestic mine declined, the Thai Government reduced the tariff on imported zinc concentrate but maintained the tariff on imported zinc ingots. As a result of these tariffs, Australia supplies large amounts of zinc concentrate to Thailand, but very few processed zinc products.

⁵ The objective of Table 3 is to demonstrate how tariff rates escalate with increasing levels of value adding. The Table covers both non-ferrous and ferrous products. Non-wrought items include semi processed metals ingot and pellet form, whereas wrought items are higher value added finished metals products.

Regional Trade Agreements

The impact of preferential tariff arrangements within regional trade agreements can also affect the outlook for exports of value-added raw materials to regional markets. Under the Common Effective Preferential Tariff arrangement within the ASEAN Free Trade Area (AFTA), member states have agreed to reduce tariffs to 0-5 per cent by the year 2003. As a result, Australian firms can face high tariff barriers in a number of potentially lucrative sectors as the differential between AFTA and the Most Favoured Nation (MFN) tariff rates increases. Australian firms have expressed concerns about comparative market access throughout ASEAN.

Industrial cooperation schemes operating within regional trade agreements can also distort the outlook for Australian exports. For example, the ASEAN Industrial Cooperation Scheme is designed to increase industrial production, promote closer regional economic integration and attract inward investment. The Scheme allows eligible investors in ASEAN to take advantage of lower tariff privileges before the implementation of AFTA. New investments in approved sectors are protected by high tariffs, thus potentially accelerating the potential trade diversionary impact of AFTA.

At the ASEAN Leaders' Summit in Hanoi (15-16 December 1998), Leaders issued a "Statement of Bold Measures" which aims to restore business confidence, enhance economic recovery and promote economic growth. As part of the Statement, ASEAN is proposing to advance the implementation of AFTA by one year to 2002. (Vietnam still has an additional three years to comply, and Laos and Burma five years).

Greenhouse Gas Related Issues

Under the Kyoto Protocol to the UN Framework Convention on Climate Change, thirty nine developed countries and economies in transition agreed to achieve an overall target of a reduction of 5.2 per cent of their greenhouse gas emissions (based on 1990 levels) by the first budget period of 2008 to 2012. The Protocol provides for differentiated country commitments, meaning that countries have individual emission targets which accord with their national circumstances. Australia's target of an 8 per cent increase in emission levels compared to a 1990 baseline was negotiated to take into account our resource base, economic structure, trade profile and greenhouse gas emissions profile.

Upon entry into force, the Kyoto Protocol, which includes flexibility mechanisms (international emissions trading, Joint Implementation and Clean Development Mechanism), would have the effect of placing a value on greenhouse gas emissions, which were previously cost-free. Greenhouse gas intensive industries, including many raw material processing industries, would be affected. Some other industries (e.g. forestry) stand to benefit. This effect would not be limited to industries in Australia - most developed

countries (all OECD countries except for Mexico, Korea and Turkey) have targets under the Kyoto Protocol and would be affected by the price to be placed on carbon.

84 countries have signed the Protocol and 12 countries have ratified it, as at 16 July 1999. The Protocol will enter into force 90 days after ratification by 55 countries, accounting for 55 per cent of Annex I countries' greenhouse gas emissions. Australia signed the Protocol on 27 April 1998.

4. Strategies for Increasing Value Adding Activities in Australia

The Department is giving priority to a number of multilateral, regional and bilateral approaches in seeking to ensure better access to foreign markets for Australian value added products.

Multilateral Negotiations

Australia has lodged a comprehensive information paper setting out possible approaches to further tariff reductions in the industrials and non-agricultural sector in the World Trade Organization⁶. This paper canvasses possibilities for using a mixture of a formula approach (e.g. all tariffs to be reduced by an average of X%); sectoral elimination or tariff harmonisation proposals (such as the non ferrous metal sector) and bilateral request-and-offer approaches to fine tune packages offered by individual WTO members. The issue of tariff escalation can be addressed through the application of any one of these processes.

At this stage, industrial products are not part of the so called "built in" agenda on which negotiations are already agreed. However, there is now an increasing level of support for including industrial/non-agricultural products in any future negotiations alongside agriculture and services. A number of ideas of greater or lesser ambition have already been placed on the table including by the EU as well as the product of work programs by APEC members in the form of Accelerated Tariff Liberalisation (the former 'front nine' of the Early Voluntary Sectoral Liberalisation (EVSL) sectors) and, more recently, the 'back six' EVSL sectors. At this time, the U.S. has not specified what it would like to see as part of a non-agricultural negotiating agenda.

The Government is consulting widely before the WTO Ministerial Meeting scheduled for late November in Seattle. The Department is reviewing over 100 submissions from State governments, the private sector, industry associations and individuals. Some of these submissions cover issues of interest to the Australian raw materials industry, such as tariff escalation.

⁶ This paper is available at <http://www.wto.org/ddf/ep/D2/D211e.doc>

Intellectual Property

To safeguard our export markets in value-added raw materials and the associated know-how and expertise, we are continuing our efforts to enhance the protection of intellectual property in overseas markets, in line with current international standards, particularly the Agreement on Trade-Related Intellectual Property Rights (TRIPS) administered by the World Trade Organisation. The progressive implementation of TRIPS-standard intellectual property systems in our trading partners will create a more secure and receptive environment for our value added exports. Ultimately, strengthened intellectual property protection internationally will help Australia reap the competitive advantages that its R&D and know-how in raw material processing can offer, and will buttress our trade in associated services and technology.

Climate Change Negotiations

The Department is involved in advising the Government on international strategies for minimising the economic cost to Australia of implementing its Kyoto target. These strategies include achieving international agreement on rules and modalities for the market-based mechanisms provided for in the Kyoto Protocol (international emissions trading, Joint Implementation and the Clean Development Mechanism) which maximise their use and effectiveness. Australia's objective is to achieve Kyoto mechanisms which are uncapped, open, market-based, transparent, comprehensive and cost-effective. Australia's approach is aimed at utilising the Kyoto mechanisms as well as undertaking domestic action, including the National Greenhouse Strategy and the new measures announced as part of the New Tax System package, to meet Australia's Kyoto assigned amount in a flexible, cost-effective and comprehensive manner.

It is recognised that Australian companies engaged in adding value through raw material processing may be faced with paying for carbon emissions. Consequently, Australia's approach aims to minimise this cost through enabling access to a global market for carbon credits through the Kyoto mechanisms.

Regional Approaches

At the regional level, Australia uses its participation in the Asia Pacific Economic Cooperation (APEC) to pursue improved market access for value-added products. APEC is the region's major economic grouping and in 1994 its members committed themselves to the goal of "free and open trade and investment" in the Asia-Pacific by 2010 (2020 for developing economies).

APEC members record their progress towards the Bogor goal in Individual Action Plans. While the quality of these Individual Action Plans vary, they provide a valuable framework for the early reduction of trade and investment barriers, including those affecting value-added products. Examples of

commitments which will help facilitate exports of value-added products include China's commitment to reduce its simple average tariff for industrial products to around 15 per cent by 2000, and around 10 per cent by 2005. Indonesia has reduced tariffs on all food items to a maximum of 5 per cent; the Philippines is reducing applied tariffs on most products to 5% by 2003; and Chile is reducing its general tariff rate from 11 to 6% in 2003. This year Australia is working hard to secure further improvements in member economies Individual Action Plans. This includes the removal of barriers to investment which inhibit Australian companies establishing facilities in the region to process commodities such as raw sugar and wheat.

APEC's Early Voluntary Sectoral Liberalisation (EVSL) initiative will also help to bring down barriers to increased exports of value added products. The initiative is designed to accelerate the reduction of trade barriers in a number of sectors - including forest products, chemicals and medical equipment. Tariff lines in eight of the sectors have been referred to the WTO. APEC is actively seeking to build support for the package, known in Geneva as the Accelerated Tariff Liberalisation initiative, as part of the broader negotiations expected to be agreed on industrial tariffs. In the meantime, APEC is continuing, albeit slowly, to identify and develop plans for the removal of non-tariff measures.

APEC's work on trade facilitation is also reducing the cost of exporting value-added products to the region. This focuses on improving laws and regulatory procedures which do not prevent companies from exporting, but raise the costs of doing so. Important outcomes of this work include streamlined customs processes, the harmonisation of domestic standards with international standards, the strengthening of intellectual property right systems and the development of mutual recognition arrangements in areas such as telecommunications equipment and automotive products. Under the ASEAN-CER linkage Australia has also undertaken a number of activities to facilitate exports of processed materials through the alignment of standards.

Bilateral Approaches

Bilateral mechanisms form an important part of the Government's overall market opening strategy. Close bilateral relationships build understanding and trust and thereby create a more supportive environment in which to discuss better access conditions for Australian exporters. Close bilateral relations also improve prospects for building effective coalitions on regional and multilateral trade issues. Prime Ministerial visits are a particularly important vehicle for advancing Australia's bilateral interests with other countries. High level visits of these kinds are supported by a range of contacts at officials' level. Bilateral contacts are supported in many cases by regular forums (for example, the Joint Trade Committee with Thailand).

A key area of DFAT activity in developing new markets for Australian value added products is the Market Development Task Force, which coordinates activities of this portfolio, Industry Science and Resources and Agriculture, Fisheries and Forestry in terms of market access, market development and trade promotion activities. The Task Force reports to the Minister for Trade and is chaired by the Secretary of DFAT.

As well as reviewing major objectives for each of the 27 priority markets, the Task Force identifies emerging issues for action in consultation with Australian posts overseas, other government agencies and the private sector. In the case of Taiwan, a major objective of the Task Force is to facilitate inward investment. To achieve this objective, the Task Force has been active in encouraging the co-location of iron ore processing facilities near competitively priced gas supplies, such as the An Feng Kingstream direct-reduced iron plant near Geraldton.

The Task Force has also been instrumental in expanding opportunities for Australian raw materials producers in new markets. For example, the Task Force is working towards exports of LNG and petroleum condensate to India and China. The Indian Government recently agreed to establish a Joint Working Group on Energy and Minerals, providing a forum for discussion of Australian capacity in the sector. Combined with the recent announcement of the construction of 10 LNG terminals, the Task Force activity provides a major opportunity for improving the outlook for exports of value-added raw materials.

Conclusion

It is clear that value added raw materials are playing a significant role in Australian exports. One of the most significant developments has been higher levels of export of processed metals products such as steel, aluminium and copper. Over the longer term this trend towards higher domestic value is likely to continue, although Australia will remain a major exporter of unprocessed raw materials. Australia is clearly a competitive supplier of unprocessed raw materials such as coal and iron ore, and is developing areas of international competitiveness in a number of processed mineral exports as a result of access to competitively priced and abundant energy and raw material inputs.

The activities of the Department of Foreign Affairs and Trade in improving access to international markets for processed raw materials products are designed to provide Australian producers with opportunities to increase sales to international markets.

ATTACHMENT A

Explanatory Note on Trade Exports Classification (TREC)

In this submission, trade is classified according to the Trade Exports Classification (TREC) developed by the Department of Foreign Affairs and Trade. The TREC grouping was introduced in 1977 in order to classify items into more useful and meaningful groupings.

The aim of TREC is to group export commodities according to their level of processing and to provide meaningful aggregates on an industry of origin basis.

The broad levels of classification are:

- Primary products, divided into unprocessed and processed;
- Manufactures, divided into simply transformed and elaborately transformed
- Miscellaneous products

The categories are based on the Standard International Trade Classification (SITC). The manufacturing sector has been divided into "simply transformed" and "elaborately transformed" categories. In broad terms, the ETMs category is defined as products with unique features which permit their identification as differentiated products on world markets. The definition facilitates the identification of goods deemed to be promotable in overseas markets, while excluding basic manufactured products. STMs comprise the residual of Australia's manufactures exports, and consist largely of basic unworked iron, steel and non-ferrous metal products.