

29/10/99

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Inquiry into Increasing Value-Adding to Australian Raw Materials

I refer to the questions asked at the close of our submission at the hearing in Perth on the 25th instant.

I wish to first emphasise there are issues and qualifications to our submission that I cannot address in a public forum. Equally the issues raised need not necessarily be of the highest priority – only that they were unlikely to be raised by other witnesses from the private sector. That said, I believe that many would provide for large, if not much larger, long-term multiplier benefits to the country. They would help redress major impediments in advancing long-term competitive activities.

To the point of benchmarking performance of the Commonwealth Government, and allowing for our federal system of government, I would have to say it is below of what could be achieved. Issues are being addressed at the state level that have a national impact. The prospect of one notable project is handicapped by state resource revenue considerations. There is excessive emphasis on relations with current industry and some of its associations for policy development that I would interpret as being for want of skills within the Australian Government agencies. Enhanced skilling would reduce an bias favouring current industry, part of which are vulnerable to rationalisation and that do not signal long term commitment.

In terms of assistance, subsidies are important to the prospects of increasingly mobile investments, ie. to at least match those offered in other parts of the world (Malaysia in the case of Comalco's Queensland alumina project). I made an example of this project for reasons of its indirect implications to gas demand in Western Australia, scale benefits to existing alumina producers and the prospects for ethane-based petrochemical projects. That is not to say industry subsidies represent the best-valued mechanism and target for public outlays. The equivalent for more general infrastructure, information, research and educational support may provide greater and longer-term returns. It is a matter of identifying externalities with public spillovers. I suggest there are better returns than the provision of common user infrastructure for foreign commodity manufacturing.

In the context of maximising value for public moneys, a weakness in Australia is that there is only limited competitive industry available for educational institutions to cooperate with. Much of the chemical industry is commodity oriented, using imported technology focussed on factor costs as an issue of competitiveness. Overseas, notably in Europe, there are effective industry-education links that have spawned world competitive industries. While acknowledging CRC's and technology diffusion programs, these are fundamentally limited in Australia, at least with chemicals. The government should ensure that specialists are brought to Australia and recognise that there are important value adding activities in Australia not represented by chemical industry associations.

Australia does not capture the potential for technology generated at the interface with our world-competitive agriculture and resource industries. There is on-going technology leakage and underdevelopment that is better handled in countries such as India to capture the technology and know-how rent than Australia. This area could become very productive.

There are no clusters of merit in Australia relating to chemicals. An important role for Government would be to evaluate the location of some projects, identify the support, potential players and the costs of bringing them together.

Without doubt, an immediate initiative available for Government is for some integration of the regulatory authorities aimed at the commercialisation of products. It requires monitoring of world developments in regulations and attitude on a more integrated basis – again with some regard to commercialisation. Agencies such as Environment Australia, NOHSC, NRA, NEPC and perhaps the CWCO could be helpful. While industry will naturally give primacy to regulation rationalisation and minimisation, the regulatory agencies could be instrumental in promoting an industry that produces advanced products. Australia lost a potential opportunity with the 2000 Olympic Games to consider alternatives to PVC resin that employs only around 100 personnel in its manufacture and is subject to price-inflating anti-dumping and tariff protection. The sole producer of PVC, Australian Vinyls, has failed to sell on international markets. It is not a question of this example, but whether alternatives are evaluated in a long term, international context. The mechanism for promoting and evaluating alternatives has not yet been established in Australia. While the market for alternatives may be small in Australia, in a global context they can present large market outlets, in the case of PVC, in the environmentally aware regions of the world. Government agencies can be instrumental in shaping an advanced industry without direct participation or picking winners but simply ensuring the industry remains in a competitive environment.

I would be pleased to work with the Government to help shape a new and dynamic sector that could, on comparison to other countries, grow by 40 per cent and not dependent on factor costs, taxation, regulation review for reasons of costs, and subsidies. For this a study is in preparation on the role for Government in developing the chemical industry in Australia.