

11 January, 2000

**SUBMISSION
TO:**

*Review of Australia's General Tariff Arrangements
Productivity Commission*

**REGARDING:
TARIFF CONCESSION SYSTEM
CUSTOMS TARIFF CODE 4003 00 0024
and
TARIFF ANOMALIES**

SUBMISSION BY:

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The purpose of this submission is to highlight:

Part 1: an example of how application of the tariff concession system impacts on the competitiveness of Australian industry; and,

Part 2: an anomaly in the application of tariffs.

This document consists of 5 pages including cover.

BACKGROUND

Australian Organics is an importer and wholesaler of a variety of raw materials to manufacturing industry in Australia. Some of our products are affected by the tariff concession system.

One such product is called reclaimed rubber, a raw material used by the rubber parts manufacturing industry. It is classified under tariff code 4003 00 00 24. Historically this item has been subject to a tariff concession where 0% duty applied under prescribed item 50. The Howard Government introduced an amendment in it's first term, where 3% duty applied to all code 50 items unless they were for immediate home consumption. Hence reclaimed rubber became subject to 3% duty.

Another material to be reviewed in this submission is compounded rubber classified by tariff code 4005 10 00 26, which is subject to inconsistent application of a 5% tariff.

SCOPE OF SUBMISSION

Primary relevant term of reference: 5b): "Identify and report on the costs and benefits of removing tariffs on tariff lines at the 8 digit level for which there is no significant Australian production."

Secondary relevant terms of reference: 5c), 2b), 2c), 3.

Part 1: TARIFF CONCESSION SYSTEM

DEFINITIONS & FACTS

PRODUCT: Reclaimed Rubber

TARIFF CODE: 4003 00 00 24

TARIFF DESCRIPTION: Reclaimed rubber in primary forms or in plates, sheets or strip.

DETAILED DEFINITION: "Reclaimed rubber is obtained from used rubber articles, especially (Extract from "The Brussels") tyres, or from waste or scrap, of vulcanised rubber, by softening ("devulcanising") the rubber and removing some of the unwanted matter by various chemical or mechanical means. The product contains residues of sulphur or other vulcanising agents in combination and is inferior to virgin rubber, being more plastic and more tacky than virgin rubber. It may be put up in sheets dusted with talc or separated by polyethylene film.

This heading covers reclaimed rubber in primary forms or in plates, sheets or strip, whether or not mixed with virgin rubber or other added substances, provided that the product has the essential character of reclaimed rubber."

PRODUCT APPLICATION: Part substitution of natural/synthetic rubber as an extender of the product, or as a processing aid in production, to lower the overall cost of the product being made.

It is first added into a basic rubber compound (mixture), before that compound is used to make an actual product.

PRODUCTION IN AUST: Nil.
 NB: There is local production of a related but simpler product - being tyre crumb. This is sometimes incorrectly classified under the reclaimed rubber tariff code, but is a simpler product, which actually forms one step in the reclaimed rubber production process. It is fundamentally tyres - ground into crumb. It's application is similar to reclaimed rubber, but more as a cheap filler than substitute or processing aid. The correct code for this material is 4004 00 00 25 "Waste, parings, Scrap".

CONSUMPTION:	(Source: ABS)		
<u>Year ending:</u>	<u>30/6/99</u>	<u>30/6/98</u>	<u>30/6/97</u>
Total imported Kg's	1,230,058	1,160,577	1,054,131
Duty	\$38,241	\$37,574	\$30,874

Part 1: SUBMISSION ARGUMENT

The essence of this submission is simple.

- There are no manufacturers of reclaimed rubber in Australia. The only sources are overseas.
- Imposition of this tax adds 3% to the cost of reclaimed rubber, and therefore products in which it is utilised. This has a direct impact on the competitiveness of Australian businesses against imported products in a fiercely competitive environment.

It therefore adversely impacts on terms of reference:

- (2a) improve the overall efficiency of the Australian economy
- (2b) development of internationally competitive industries
- (2c) capacity to produce competitively priced goods

- In this instance, clearly the tariff system is not protecting Australian business, so it's presence appears purely to be a mechanism for raising revenue.
- At \$38,241 for the entire year ending 30/6/99, the revenue raised is negligible.

In relation to your term of reference 4(g), removal of the 3% levy will clearly not hurt the government. Reducing the costs of raw materials can only assist domestic activity.

In summary, we have a reclaimed rubber subject to 3% duty - the application of which is protecting no Australian business. This is an input cost creating more expensive locally made end products, competing against cheaper imports.

See over for Part 2.

Part 2: TARIFF APPLICATION ANOMALY

Part 2: SUBMISSION ARGUMENT

I will refer now to an inconsistency in the application of tariffs to *one type* of compounded rubber. The relevant tariff code is 4005 10 00 26, (and 4005 99 00 31 has secondary relevance).

By way of introduction, compounded rubber consists of rubber and other ingredients, mixed together, but not yet made into a product. Compound is made by several companies in Australia, and overseas. (As an aside, compound can include reclaimed rubber - which in terms of part 1, is more expensive here than in Australia's major competing countries).

Under the above tariff code, and in direct competition to Australian companies, 1.9 million kg's of "compound" was imported into Australia during the year ending 30/6/99. Of this figure, 1.2 million kg's was sourced from Malaysia alone. (Source: ABS).

This tariff item attracts 5% duty - presumably in protection of Australian industry. Malaysia, however, is specifically excluded from duty - for reasons unknown to the author.

If the purpose of the tariff is indeed for protective purposes, it's existence is futile if not applied universally. Especially when not applied at all toward the major competing source.

CONCLUSION

Recommendation 1:

Removal of the 3% duty application under the Tariff Concession System on item coded 4003000024, since it adds an uncompetitive cost burden to Australian business, and is of no pecuniary significance to the Government.

Recommendation 2:

In regard to tariff item 4005100026, if the purpose of the 5% tariff is to protect Australian rubber compound (or product) manufacturing businesses, then apply the tariff universally, instead of excluding the biggest offshore competitor.

The above recommendations would remove what is effectively a double edged and contradictory burden, whose existence is to the detriment of a level playing field.

Thank you for your consideration of this paper.



Tony Hamilton
Director.