SUBMISSION TO PRODUCTIVITY COMMISSION

REVIEW OF AUSTRALIA'S GENERAL TARIFF ARRANGEMENTS

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SUMMARY OF RECOMMENDATIONS:

A. COMMENTS ON THE RETENTION OF 5% GENERAL TARIFF

A.1 Continuation of a general tariff rate of 5%.

Australian industry still requires a degree of protection to better enable it to compete with imported goods. Although the rate of 5% is not large, it should continue to be imposed on imported goods which could be sourced on Australian producers to continue a protective margin to Australian industry.

To remove this 5% protective margin will put local industries under additional unnecessary depression of prices, reducing profit margins and possibly removing what otherwise would be viable Australian manufacturers.

It is recommended that the current 5% customs duties applying to imported goods be continued.

The following matters under the terms of reference have been presented under the assumption that a general customs duty of 5% continues to apply to goods other than goods covered by the PMV and TCF sectors

B. TARIFF CONCESSION SYSTEM AND 3% REVENUE DUTY

B.1 Objectives of current tariff concession system.

The current system was made effective from 15 July 1996. Its objective is to assist industry to become more internationally competitive and to reduce costs to the general community by the reduction of duties where there is no local industry to protect.

Tariff concessions allow concessional rates of duty to be applied to imported goods where there is no Australian production to assist. That is, it removes unecessary duties imposed by Schedule 3 of the Customs Tariff.

The above objectives should continue to be the tariff concession objectives of the Australian Government.

B2. Division within the tariff concession system for duty free admission and 3% dutiable admission.

It is appreciated that the 3% revenue duty imposition applying to certain goods imported under the Tariff Concession System has budgetry implications. However this paper is recommending that the 3% be removed.

It would seem to make more sense that the 3% impost should have been made against goods subject to 5% general tariffs as, prima face, these goods have Australian produced substitutes. The penalty for importing goods that may have been sourced from Australian producers would have been more logically levied against these goods.

Under the current Tariff Concession System, there are two groups of goods, one free of duty, the other attracting the 3% impost. The goods which have been exempted from the payment of the 3% impost are goods described as "consumption goods". These goods are not inputs to industry or involved in any further manufacturing process in Australia. They are sold, after importation, direct to consumers.

The 3% has been applied to a large group of imported goods not available from Australian manufacture. These goods, in the main, are machinery, chemicals, industrial textile articles and vehicles. Most of these goods are used in manufacture or in Australian industries. This type of import, when not available from Australian manufacture, should be free of duty.

As for the "consumption goods", this paper is not suggesting that this group should attract the 3% impost, but that the machinery, chemical etc., group has much greater merit in not having the 3% impost made against them, particularly in view of the stated Government objectives of the current Tariff Concession System.

This paper recommends that the 3% should be removed from this class of goods.

C. PROJECT AND POLICY BY-LAWS.

C.1 Commercial requirements applying to project proponents.

It is considered to be in the interest of the Australian economy that project activities should be supported and assisted by Government. This is best achieved by the creation of an environment of minimum import duty cost. This is currently the case with the provision of Project by-laws Item 45 and Item 56, permitting duty free admission when certain conditions are met. However it is important that this environment should recognise

commercial obligations and commitments relating to the sourcing of capital machinery and
equipment and normal commercial methods of supply. The administration of the project by-law policy appears to work with single identifiable machines capable of being imported in the one shipment. The administration, however does not accommodate normal commercial methods of overseas production and supply of certain larger machines.

C.2 Benchmark for minimal capital equipment requirements in projects

The current Project and Policy by-laws have an extremely high value qualifying benchmark of $10 million of capital equipment. This figure appears to be a figure to restrict the policy project by-laws from covering too wide a range of projects. However this benchmark does eliminate many worthy projects from duty free consideration. and I recommend that this benchmark be abolished. It is in the interest of the Australian manufacturing industry that as many projects as can be accommodated within the duty free environment should be considered.

It is inherent in a project situation that a major investment is being made by the industry concerned. The Minister can create practical guidelines to identify worthwhile projects but a capital equipment value yardstick should not be one.

It is recommended that the $10 million benchmark for project by-law status be abolished.

C.3 Item 43 split consignment restrictions adversely affecting administration.

The current project by-law system was seriously handicapped by an administrative change in the interpretation of the split consignment concessions (Item 43). This change in interpretation resulted, in many cases, in large projects incurring unnecessary duty imposts. It also placed large additional administrative workloads on applicants with having to itemise large component imports with policy requirements being applied to each component good under individual tariff items.

Briefly the history of the opening up of item 43 as it related to policy by-laws is as follows:

. **Item 43** was introduced with effect on 1 January 1988. The wording then is the same as now, that is:

> *"Goods, as prescribed by by-law, being original components of machinery classified under a heading in Chapter 84, 85 or 90 of Schedule 3"*

. The rate of duty clearly showed the intention of the concession and read

"The rate of duty that would apply to the goods if they were the machine of which they are a component."

. The enactment of Item 43 was preceeded by an announcement by the then responsible Minister, Senator John Button, issued on 25 August 1988 and stated:

"The new arrangements will mean single appliances/functional units can be imported in split consignments and from separate points of departure, from separate sources and still attract a single unit rate of duty."

. Senator Button added:

"I would stress however that the new concession will only apply ... for large single appliances/functional units as defined in the Customs Tariff, where , for economic and transport reasons, it is logical for industry to import such units in progressive or separate consignments. This means the concession will not extend to cover, for example, a complete civil engineering project that could involve a wide range of separate functional units, pipeworks, kit buildings and the like. This concession will therefore not disadvantage local component manufacturers. However to ensure that there is not any misuse of this concession which might effect component manufacturers, approval to import will be determined on a case by case basis."

The above shows the way the Government of the day implemented the more commercially realistic policy of project split consignments.

The first and prime aim of the split consignment provisions for industrial projects should be to minimise input costs to proponents, thereby assisting in the development of internationally competitive industries in Australia.

Item 43 is not a tariff protective policy by-law but an item which enables the same rate currently applying to the whole to apply to individual components of that whole.

The changes were not to extend split consignment provisions to projects containing a large number of machinery but to projects which contain large single functional machines identified in the Customs Tariff. Such tariff classifications are not notional classifications as such, but are tariff classifications identifying single functional machines, just as the Collector does now under the current split consignment provisions.

The approach also permitted components to be sourced in Australia and overseas without affecting the rate of duty applying to the imported components as being that of the whole machine. This approach encouraged the sourcing of local components without jepeodising the duty rates applying to the remaining imported components.

This approach greatly assisted major projects covering, for example paper making and pulp making machines and steel rolling mills. These machines are classified under single tariff classification in the Customs tariff but, because of their immense size, cannot be manufactured other than progressively and cannot be imported other than progressively. And by allowing the components to be shipped from various overseas ports removed the uneconomic and pointless practice of shipping the components from overseas ports to the one port of export before shipping to Australia.

The interpretation was changed some two years ago and was reverted to the then existing Item 43 prescription that was administered by State Customs Collectors. This resulted in Item 43 concessions only being applied to machinery complete and ready for shipment at the one port but because of size could not fit on the one ship or because of a shortshipment error the goods came out in more than one ship.

It has been suggested by Customs that legally only goods as imported can be examined from a project criteria point of view and that no notional view can be taken. This was not the case when the Government introduced the broadened Item 43 in August 1988 and should not prevent the previous policy being reimplemented.

It is recommended that the previous provisions implemented in August 1988 be reinstated to enable the Government's intention to reduce costs to project proponents be effectively applied.

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11 January 2000