



Independent Paper Group

PRODUCTIVITY COMMISSION INQUIRY

Review of Australia's General Tariff Arrangements

Submission

by

Independent Paper Group

NON-CONFIDENTIAL

IPG Members

- CPI Group Limited
- Asia Pulp & Paper (Australia) Pty Ltd
- UPM-Kymmene Pty Ltd
- Central National Australia Pty Ltd
- Daiei Australasia Pty Ltd
- Mondi Paper Sales Australia Pty Ltd
- K.W. Doggett & Co. Pty Ltd
- Holman Paper Pty Ltd
- Elof Hansson (Australia) Pty Ltd
- Stora Enso Australia Pty Ltd
- Paper Agencies (Australia) Pty Ltd
- Sappi Trading Pty Ltd

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IDENTIFICATION

▷ **Independent Paper Group**

- ▷ **Address:** Secretariat
PO Box 5048
Kingston, ACT 2604

▷ **Group Member Companies & Locations (Head Office)**

- CPI Group Limited: Braeside, Victoria
- Asia Pulp & Paper (Australia) Pty Ltd: Balwyn, Victoria
- UPM-Kymmene Pty Ltd: Chatswood, NSW
- Central National Australia Pty Ltd: Wantirna South, Victoria
- Daiei Australasia Pty Ltd: Mulgrave, Victoria
- Mondi Paper Sales Australia Pty Ltd: Pymble, NSW
- K.W. Doggett & Co. Pty Ltd: Heidelberg West, Victoria
- Holman Paper Pty Ltd: Carlingford, NSW
- Elof Hansson (Australia) Pty Ltd: North Sydney, NSW
- Stora Enso Australia Pty Ltd: North Sydney, NSW
- Paper Agencies (Australia) Pty Ltd: Hawthorn, Victoria
- Sappi Trading Pty Ltd: West Chatswood, NSW

▷ **Main Activities of Group Members**

- Marketing and sale of locally produced and imported pulp, paper and paper products.

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OVERVIEW AND SUMMARY OF RECOMMENDATIONS

Overview

This submission is being put forward on behalf of the Independent Paper Group (IPG).

The IPG was recently established on an informal basis to provide an independent (independent of local paper producer and its associates) view to Government on a range of industry issues - including those subject to this inquiry. Further details of the role and activities of the Group are set-out in Section 2.

As the Group was only recently formed, it has not the resources at this stage to comment in detail on the broader economy-wide effects of further reductions to the general tariff (5%) but we have considered the question in the context of the current tariff and tariff related arrangements for the pulp, paper, paper products and printing industries (5Ps). A summary of the current arrangements is set-out in Section 3 of this submission.

In Section 4 we have broadly examined the scope for further reductions in the 5Ps industries and implications for the relevant tariff related arrangements such as policy by-laws and tariff concessions. We believe there would be benefits to downstream industries and consumers emanating from a reduction to the general tariff rate (to free rate) longer-term in line with further reductions in tariffs for the PMV and TCF industries and Australia's APEC commitment of zero tariffs by 2010. In the meantime there is scope for more immediate reductions to tariffs in the newsprint, uncoated mechanical, and coated printing and writing paper areas. These reductions would have adverse impacts on A.P.'s coated paper operations in the main. In this regard, we recognise the need for a viable local paper industry and some form of short-term offsetting bounties (relatively small) would be desirable to assist it to develop its operations to the full potential. The removal of these tariffs would have substantial benefits for downstream printers, publishers and consumers as well as reducing costs associated with the elimination of some end-use by-laws, and the introduction of the GST. If these recommendations are not acceptable, then all existing by-laws should remain; however, the Tariff Concession System should be modified/improved by the elimination of the 3% tariff on non-consumer TCO goods and an additional criterion allowing more flexibility in the system. Finally, we have commented briefly on the Group's deep concerns with the local industry's and Government's approach to Australia's anti-dumping system and its perceived politicisation over recent years. We will comment more comprehensively on this matter at a later inquiry.

Summary of Recommendations

1. The Group believes that there is scope for longer-term reductions in the remaining 5% tariffs, taking into consideration the arrangements for the PMV and TCF industries and Australia's APEC commitment to free trade by 2010.
2. The timing for such reductions would appear to be between 2005 and 2010.
3. In the meantime, there is scope for more immediate reductions in the 5% rate applicable to tariffs in the newsprint, uncoated mechanical and coated paper areas - specifically the following tariff items:
 - 4801.00.10 }
• 4801.00.20 } Newsprint items
• 4801.00.31 }
 - 4802.60.90 } Uncoated mechanical printing papers
 - 4810.11.90 }
• 4810.12.90 } Coated woodfree printing and writing papers
 - 4810.21.00 } Lightweight coated mechanical printing papers (≤ 72 gsm)
 - 4810.29.00 } Other coated mechanical printing papers
- the above action would obviate the need for coated paper by-laws and some tariff concessions.
4. To offset the adverse effects on Australian Paper's (A.P.) relatively small scale, high cost coated paper operation, and to support its increased investment in this area over the past two years, the Group recommends that consideration be given to the re-introduction of bounties (equivalent to 5% tariff) on all A.P.'s local production/sale of coated papers for a three to five year period at a relatively small cost of \$4 million to \$6 million per annum.
5. The current Manufacture in Bond, Tradex System, and various policy by-laws for paper should be retained until reductions to the free rate take place.
6. The tariff concession system should be amended immediately by abolishing the 3% rate applicable to non-consumer goods/inputs and the introduction of a second criterion to the effect that, despite the availability of locally produced substitutable goods on a broad basis, the local manufacturer/s agrees to the concessional entry of particular goods.
 - Note: no market test - just the written agreement of the local manufacturer/s.
7. A more balanced and timely approach to anti-dumping actions should be adopted by the responsible Minister in line with the Government's commitment and the WTO Anti-Dumping Agreement.

SECTION 1: TERMS OF REFERENCE & ISSUES FOR CONSIDERATION

1.1 Terms of Reference

The Commission states that the central issue for consideration is the scope for post 2000 reduction/s in the general tariff, covering only rates of 5% or less, and excluding the Passenger Motor Vehicle and Textile, Clothing and Footwear Sectors. In this regard, the Commission points out that as of 1/1/2000 approximately 2,800 tariff items (at 8 digit classification level) were expected to have general rates of zero and will therefore be excluded from the inquiry. Of the remaining items (approximately 2,200) virtually all are dutiable at a general rate of 5%. Thus, in contrast to previous tariff inquiries, which dealt with high and disparate tariff rates, this inquiry deals with tariff rates which are relatively low and uniform.

1.2 Main Issues in Brief

As part of the inquiry, the Commission has been asked to consider a range of factors including:

- (i) the economy-wide effects of tariff reductions, including the costs and benefits to Australian consumers, industries, employees, regions and the general community;
- (ii) implications for trade negotiations, acknowledging Australia's commitment to the APEC goal of free and open trade and investment in the Asia Pacific region by 2010 for industrialised economies and 2020 for developing economies;
- (iii) the scope for further deductions in "nuisance" tariffs at the 8 digit level for which there is no significant Australian production;
- (iv) the appropriateness of other assistance measures, including the Tariff Concession System and by-law arrangements.

1.3 Scope of Submission by Independent Paper Group (IPG)

As the IPG was only recently established, it has not the resources at this stage to comment in detail on the broader economy-wide costs and benefits of any future tariff reductions but we will attempt to do so in the context of the pulp, paper, paper products and printing industries. Additionally, we have a strong interest in possible earlier reductions in some "nuisance" paper tariffs and the implications for the by-law and tariff concession systems.

SECTION 2: INDEPENDENT PAPER GROUP - ITS ROLE AND ACTIVITIES

2.1 Formation and Role of Group

The Independent Paper Group (IPG) is an informal group of non-aligned (to local paper industry and its merchants) paper merchants, overseas paper mill agents and importers which was recently (November 1999) formed to provide an independent view to Government/s on a range of industry policies and issues affecting the Group as a whole - particularly industry assistance, trade, tariff and dumping policies and issues relating to the marketing and sale of both locally produced and imported pulp and paper.

The IPG is comprised of some twelve substantial companies involved in the marketing and sale of both locally produced and imported pulp and paper from around the world. It is envisaged that membership will grow rapidly in the immediate future but its role will evolve more gradually over time.

2.2 Activities to Date

Being only recently formed, the Group has had limited opportunities to put its views to Government on the broader issues covered in this inquiry. Despite this, the Group has met to agree on issues of mutual concern, including Australia's anti-dumping system. In this regard, members of the Group have deep concerns with the Industry's and Government's approach to anti-dumping actions involving paper and issues such as balance and fairness in their consideration by the Minister. We will continue to pursue this issue at the highest levels of Government and hope to make a detailed submission to any future inquiry on Australia's anti-dumping system which may be referred to the Commission.

SECTION 3: CURRENT TARIFF AND TARIFF RELATED ARRANGEMENTS

3.1 Tariff Rates Generally

In line with the general tariff rates, the 5% and free rates apply to pulp, paper, paper products and printed matter of chapters 47, 48 and 49 of the tariff - for example:-

- All pulp of chapter 47 is subject to the free rate.
- Most newsprint of Item 4801.00.00 is subject to the free rate, except certain upgraded newsprint conforming to the revised Harmonized definition of newsprint which is subject to the 5% rate - in theory because of the possible transfer of some printing and writing papers of heading 4802 which are subject to the 5% rate,
 - only a relatively small quantity of these dutiable newsprint papers have been imported since 1 July 1996 (when 5% rate introduced).
- Uncoated woodfree printing and writing papers, in reels and larger sheets of sub-heading 4802.5 are generally subject to the 5% rate, with a small preference of 2.5% applying to paperboards > 150 gsm from Canada. A free rate applies to DCS countries (no paper production facilities) and of course new Zealand under the CER Agreement and its preference requirements. Embossed printing and writing papers are subject to the 5% rate and a free rate for papers > 205 gsm.
- Uncoated mechanical printing and writing papers of heading 4802.60 are in theory subject to a 5% rate of duty but the free rate applies to "old newsprint" of item 4802.60.10 and a good proportion of item 4802.60.90 via a policy by-law for printed matter and a tariff concession order for telephone directory paper.
- Tissue or facial stock of heading 4803 is subject to a 5% rate of duty,
 - small quantity of imports because of relatively high level of natural protection for local producers.
- Uncoated kraft (packaging and wrapping papers mainly) and other uncoated paper and paperboard are subject to the 5% rate with small Canadian preferential rates applying to some items,
 - relatively light imports and natural protection on lower-priced grades.
- Vegetable parchment and similar papers of heading 4806 and composite papers and paperboards of 4807 are free.

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- Corrugated, creped, crinkled, embossed etc. papers of heading 4808 are subject to the 5% rate except paperboards > 205 gsm - subject to the free rate.
- Carbon, self-copy and similar papers in larger rolls and sheets are subject to the 5% rate.
- Clay coated woodfree printing and writing papers of sub-headings 4810.1 and 4810.2 are subject to the 5% rate except:
 - cast coated papers of items 4810.11.10 and 4810.12.10; and
 - papers used in the production of prescribed magazines (and their inserts) vide policy by-law No. 9440015 which are free,
 - growing proportion of these papers entered duty-free for production of magazines and their inserts.
- Clay coated mechanical printing and writing papers are nominally subject to the 5% rate; however, the major proportion of imports enter duty-free under policy by-laws for printed matter (≤ 67 gsm) and magazines (all weights), for example:-
 - well over 95% of lightweight coated paper (≤ 72 gsm) imports under item 4810.21.00 enter duty-free for the production of all printed matter under policy by-law 9440017;
 - imports of the majority of heavier weight coated papers of item 4810.29.00 enter duty-free for the production of magazines and inserts under by-law 9440015.
- Other clay coated papers of headings 4810 and other coated, impregnated etc. papers of heading 4811 are generally subject to the 5% rate.
- Paper products (including stationery, self-copy papers and cut ream papers etc.) are subject to the 5% rate except those of headings 4812.00.00 (filter blocks) and 4813 (cigarette papers).
- Printed products of chapter 49 are in theory subject to the 5% rate (eg. advertising material) but a good proportion of imports are subject to the free rate in accordance with Australia's accession to the Florence Agreement and various policy by-laws for special groups or purposes.

An overview of the tariff situation for printing and writing papers, paper products and printed matter is set-out in Attachment A.

3.2 Policy By-Laws

As indicated above, a number of policy by-laws provide for the duty-free entry of a range of printing and writing, packaging and other papers. Most of these are long-standing and have resulted from previous industry assistance inquiries and successful applications for the duty-free importation of papers (eg. paperboard for the production of fruit juice etc. cartons) under Item 57 on the grounds that the imported product/s has superior performance characteristics. As examples, the policy by-laws applying to printing and writing papers and promulgated under Item 39A of Schedule 4 of the Tariff, and some Item 57 by-laws, are set-out in Attachment B.

Duty-free imports under these by-laws have provided substantial benefits to both downstream users and consumers over the years and the Group firmly believes that they must be retained until such time that any general reduction to the free rate takes place or at an earlier date in some cases where the 5% tariff is considered a "nuisance" tariff because of lack of, or insufficient, local production.

3.3 Bounties

As the Commission is aware, the Book Bounty Scheme was abolished some two years ago and replaced by the Printing Industry Competitiveness Scheme. This scheme (operating from 1/1/99 to 30/6/2003) aids the Australian book printing industry by allowing printers to claim 4% of the purchase price of both locally produced and imported papers used in the production of eligible books to offset the costs of the tariff effects (5%) on paper. The Group recommends the continuation of this scheme but other arrangements may be more beneficial and less costly to administer.

Up until 1997 bounties applied to the local production of uncoated mechanical and lightweight coated mechanical printing papers used in the production of printed matter (except telephone directories) to offset the duty-free entry of papers imported under by-law. Initially, these bounties provided amounts of \$70/t (uncoated mechanical) and \$90/t (lightweight coated mechanical); however, these were reduced to \$56/t and \$72/t from 1/7/87 resulting from budgetary considerations. Eventually, they were eliminated altogether resulting from the IAC 1987/88 5 Ps inquiry because of lack of sufficient local

production, and investment it is believed. Additionally, no bounty was provided for the local manufacture/sale of magazine papers to offset the duty-free entry of coated magazine paper imported under by-law.

The Group supports the concept of a viable and competitive local industry and believes it has made positive moves in terms of rationalisation and investment over the past two to three years - particularly in the area of cut ream copy and coated paper production. However, it is obvious it is still struggling to reduce its relatively high costs (particularly of coated paper) as evidenced by its relentless pursuit of anti-dumping actions over recent years. These actions are having a most negative effect on Group members, printers and consumers and perhaps it would be best for the local industry and all concerned that consideration be given to the reintroduction of bounties equivalent to 5% tariff (some \$50/t to \$60/t) on the local production/sale of all coated papers. This could be done at a reasonable cost to the community with substantial offsetting benefits as outlined in Section 4 following.

3.4 Export Concessions

Most members of the Group have little need to use the Manufacture in Bond Scheme or the Tradex System; however, we fully support their retention while the tariff remains above a free rate.

3.5 Tariff Concession System

The tariff concession system must be considered an integral part of any future tariff arrangements. Until the introduction of harsh amendments in July 1966, it provided importers and users with a wide range of duty-free papers not produced in Australia and/or having no substantial adverse effects on the local production of certain papers. However, it must be acknowledged that some importers and/or their agents, misused the system with a consequential increase in number of applications and administration costs. The Government overacted to this situation in our view and introduced a number of amendments, including the following, which have severely reduced the effectiveness of the system:

- The elimination of the "substantially adverse effect" criterion with the sole criterion being the availability of very broadly defined "substitutable goods".
- The imposition of a 3% "concessional" duty on non-consumer goods - with consumer goods remaining free.

The above amendments have substantially reduced the number of applications for TCOs for papers considered not produced in Australia because of the costs associated with the lengthy pre-application, application, approval process and the 3% duty. It is difficult to comprehend the Government's introduction of this duty (a pure revenue duty) when it continues to pursue a policy of reducing the costs of inputs.

3.6 Anti-Dumping Actions

The Group is deeply concerned with the aggressive approach being taken by the local industry (Australian Paper) in pursuing anti-dumping actions, the manner in which they pursue these actions, and the politicisation of the process by the lobbying of the Minister to delay and/or overturn ACS/ADA recommendations which are not favourable. For example, ACS recommendations to the Minister for the revocation of a price undertaking in respect to certain Indonesian exports, and the termination of inquiries into Brazilian exports have been delayed some 7 months and 2 months respectively.

At the heart of the problem, we believe, is the implementation of little understood policies and administration by both the Government and Opposition. These factors have encouraged the intense lobbying by the local industry and contributed to the politicisation of the process as far as paper is concerned - so much so that the system is not fast nor fair, contrary to the stated intentions of the Government and the WTO Anti-Dumping Agreement.

We understand that the Government may refer the Anti-Dumping System to the Productivity Commission for review in the not too distant future, and we will make a more comprehensive submission at that time.

SECTION 4: SCOPE FOR REDUCTIONS IN GENERAL TARIFFS AND IMPLICATIONS FOR TARIFF RELATED ARRANGEMENTS

4.1 Scope for General Tariff Reductions

As indicated earlier, the Group was only recently formed and has not yet the resources to assess or model the economy-wide effects of a further tariff reductions in the general 5% rate post 2000. However, on the basis of previous studies, it would appear that such reductions could have positive overall effects on the economy providing Australia achieves better access to APEC and other markets.

Based on the somewhat "outdated" IAC 5 Ps report, it is believed that a further reduction to the remaining generally prevailing 5% rates applicable to the paper, paper products and printed matter would have overall positive effects on downstream industries and customers while having somewhat negative effects on the printings and writings sector of the paper industry and the stationery manufacturers - these sectors being the most trade exposed and subject to intense import competitiveness and competition from a wide range of overseas producers - many of which are represented by members of this Group. On the other hand, some members purchase and sell locally produced papers and it is in the overall interests of the Group as a whole (and its customers) to be regarded as an important and integral part of the Australian paper industry. In this regard, the Group supports a competitive local paper industry which can compete internationally with minimal levels of assistance.

On the above basis, the Group believes that there is scope for longer-term reductions in the remaining 5% tariff, taking into consideration the arrangements for the PMV and TCF industries and Australia's APEC commitment to free trade by 2010. Thus the scope for longer-term reductions appears to be between 2005 and 2010.

In the meantime, the Group believes there is scope for more immediate reductions in the 5% tariff, particularly "nuisance tariffs", as they apply to newsprint, other uncoated mechanical papers, and all coated printing and writing papers.

4.2 Scope for More Immediate Paper Tariff Reductions

4.2.1 Newsprint

In an earlier section we pointed out that a "free" rate applied to all newsprint imports until 1 July 1996. Since that time, a very small quantity has entered under 5% items introduced with the changed Harmonized definition of newsprint - these items being:

- 4801.00.10/ Statistical Key 58
- 4801.00.20/ Statistical Key 59
- 4801.00.31/ Statistical Key 60

In view of the relatively small volume of imports under these items since 1/7/96, consideration should be given to their removal as "nuisance tariffs".

4.2.2 Other Uncoated Mechanical Printing and Writing Papers

The ABS statistics also reveal that most imports under tariff item 4802.60.90 enter duty-free under a tariff concession order for telephone directory paper, and the policy by-law for uncoated mechanical printing papers for printed matter. In view of this, consideration could be given to the earlier removal of the 5% substantive tariff with subsequent savings in administration emanating from the removal of tariff concession orders and the policy by-law (9440033). However, a bounty on the local production/sale of these papers for printed matter might be considered.

4.2.3 Coated Printing and Writing Papers

The chart at Attachment C demonstrates that well over 95% of all imports of lightweight coated printing paper (≤ 72 gsm) enter duty-free under the LWC policy by-law (9440017) for printed matter - principally direct mail. Additionally, 65% of heavier-weight coated mechanical printing papers entered duty-free (1998/99) under the policy by-law for coated magazine papers in 1998/99.

In total, over 90% of all the considerable volume of imports (148,000 tonnes) of clay coated mechanical printing and writing papers entered duty-free in 1998/99 under the following items:

- 4810.21.00/ Statistical Key 11
- 4810.21.00/ Statistical Key 12
- 4810.21.00/ Statistical Key 13
- 4810.29.00/ Statistical Key 47
- 4810.29.00/ Statistical Key 48
- 4810.29.00/ Statistical Key 49
- 4810.29.00/ Statistical Key 50

In view of the above, we believe that the 5% substantive tariff applying to these items should be removed at an earlier date. However, recognising the substitutional effects with woodfree papers and Australian Paper's possible recent re-entry into this area, we believe that consideration could be given to the re-introduction of a bounty on the local production/sale of all these papers until the general tariffs are reduced. This would involve minimal costs (\$40 to \$50/t approximately) of around \$1 million P/A in our view.

Consideration could also be given to the extension of the above arrangements in respect to all locally produced and imported coated papers. In this regard, It will be noted from Attachment C that nearly 26% of all clay coated woodfree papers \leq 150 gsm (the main area of A.P.'s coated production) entered duty-free in 1998/99 and nearly 10% of all coated papers $>$ 150 gsm (A.P. does not produce in this area) entered duty-free - making a total of over 20% of all coated woodfree papers. Most of these imports entered via tariff concession orders (eg. for label papers), the policy by-law for coated magazine papers and other by-laws.

Taking into account the high costs of the limited local coated paper production (some 60,000 tonnes projected to increase to 100,000 tonnes - viz-a-viz 1998/99 imports of over 391,000 tonnes), we believe there would be substantial benefits in applying an earlier reduction to additional (additional to items 4810.21.00 and 4810.29.00) items 4810.11.90 and 4812.12.90 with an offsetting bounty being paid on the production and local sale of all coated woodfree and mechanical printing papers produced by Australian Paper. We envisage this bounty could stay until the reduction in overall tariff rates (or 5 years - whichever the sooner) and be equivalent to the 5% tariff (some \$50 to \$60/t). On this basis we estimate total costs to the community (in terms of bounty payments) being in the vicinity of some \$4 million, increasing to \$6 million per annum at the maximum. These relatively small amounts would be offset by the following examples of benefits flowing to importers, downstream printers, and consumers:

- Printers and users would have the benefit of duty-free papers - thus increasing their competitiveness.
- Importers', printers' and publishers' costs would be reduced through reductions in GST payments.
- Substantial departmental and industry costs would be saved through the resultant revocations of by-laws and tariff concession orders.
- Australian Paper would have the opportunity and assistance to bed down their recently improved coated paper operations and make them more viable.
- Savings would emanate from reduced payments under the Printing Industry Competitiveness Scheme.

4.3 Improved Tariff Related Arrangements

4.3.1 Policy By-Laws

Should the earlier reductions in tariffs outlined in 4.2 above take place, a number of policy by-laws relating to uncoated and coated printing and writing papers could be eliminated - thus saving on administration costs. However, until this occurs, the retention of these by-laws is absolutely essential to the well being of the printing industry.

4.3.2 Tariff Concession System

As indicated earlier, we strongly believe that the effectiveness of the Tariff Concession System has been severely undermined with the introduction of the broader definition of "substitutable" goods and the 3% tariff applying to non-consumer goods. However, this should not be taken to mean that the system should be abolished altogether. On the contrary, we believe that the system should again be amended to:-

- (i) abolish the 3% revenue tariff on TCO industrial goods or inputs; and
- (ii) include a second criterion to the effect that, despite the availability of substitutable goods on a broader basis, the local manufacturer/s agrees to the concessional entry of particular goods for whatever reason.

4.3.3 Australia's Anti-Dumping System

We will leave our detailed comments on this issue until a later date.