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SUBMISSION TO THE PRODUCTIVITY COMMISSION

REVIEW OF AUSTRALIA'S GENERAL TARIFF ARRANGEMENTS

As a logistics and transport service provider, DHL has a direct interest in the growth of Australia's manufacture and export capacity and has been a proud supporter of Australian industry for many years through the Austrade export awards.

This interest in Australia's manufacturing and export development led to DHL's involvement in the reintroduction of the Manufacturing-in-Bond (MiB) scheme, that is included within the terms of review of this inquiry. DHL has also had a continuing concern with the interaction of several non-tariff barriers that directly interact with Australia's tariff regime (eg Customs cost recovery, Customs import thresholds).

Manufacturing in Bond – Implications of tariff reductions

As one of its many functions, this review by the Productivity Commission has been tasked with considering the interaction that any tariff variations may have on tariff concession arrangements including the MiB and TRADEX schemes. The circulated Issues Paper asks - *What are the possible implications of tariff reductions for these concession arrangements?*

As indicated in the discussion paper any move to reduce tariff levels to zero would have a direct impact on the value of these schemes. However, the removal of the tariffs in isolation would not necessarily render these schemes obsolete. Such a notion ignores the potential for these schemes to remove other impediment to trade in areas including Customs charges and related administration costs associated with Australia's cross border trade.

For some years now, DHL has tried to promote the concept of Australia as an ideal centre for regional manufacturing and distribution activity to complement the success of our regional headquarters program. A key element in this lobbying activity has been endeavours to develop a viable Customs scheme that will allow Australia to directly compete with the free trade zones (FTZs) in this region.

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The success of these overseas zones in attracting such new investment, and drawing manufacturers away from Australia, should not be understated and our inability to develop a competitive scheme has directly attributed to the loss of significant opportunities for growth within our economy. This has compounding effects on key areas such as employment and infrastructure development.

There were some signs of success in these endeavors when the Government announced the reintroduction of the MiB scheme in November 1997 and the plans for the development of the related TRADEX scheme as part of its 'Investing for Growth' strategy. Unfortunately, the apparent political desire of the time has been stifled by continuing administrative hurdles in the implementation of these schemes.

Over two years has now passed since that announcement, and we still do not have a commercially attractive scheme that can be measured against the regional FTZs when global manufacturers are making decisions on where to locate operations in Asia. From DHL's perspective, two key elements of the MiB package remain unresolved, and continue to hamper Australia's potential to provide a package to attract this new investment. These are:

- provision for specific tariff treatment for goods entering the Australian market from an MiB facility; and
- removal of cost recovery charges.

DHL and other industry representatives have recognised that if Australia is to properly compete with the Asian FTZs, then we will need to have a comparable Customs tariff package (while ever Australia has tariffs in place). A key problem in this area of development relates to what is often referred to as an inverted tariff structure in specific instances – ie where imported components have a higher tariff rate than the finished product. An often used example of this is in the computer manufacturing sector, where certain imported components continue to have a tariff applied, while a finished computer can enter Australia duty free.

DHL had hoped that in the development of a package to improve the competitiveness of Australian manufacturers, the MiB scheme could have been implemented in a form that overcame such anomalies, and allowed Australian manufacturers to compete on the same level as overseas manufacturers. Unfortunately, this has not occurred and the Government has now introduced legislation that will mandate that such a development will not be possible without further major legislative change.

Further detail on this matter is included at Attachment 1, in the form of the text of a recent letter distributed to interested parties.

The second detraction in the current MiB package relates to Customs cost recovery charges applied on any imported goods that enter an MiB facility. Following the Government's reintroduction of the MiB scheme in November 1997, DHL commenced a campaign for the removal of such charges. This effort was eventually rewarded, with the April 1999 announcement by Senator Vanstone that these charges would be removed.

Unfortunately, as the legislation to remove these charges has been directly linked to the current debate on tariff treatment of MiB goods, the removal of these charges is now floundering in the parliamentary process.

Accordingly, it is felt that schemes such as MiB and Tradex, will continue to play a vital role in terms of the stated policy objectives:

- to improve the overall efficiency of the Australian economy;
- to encourage the development of sustainable, prosperous and international competitive industries in Australia; and
- to promote the provision of high quality, competitively priced goods and services to Australian businesses and consumers.

Their value will really only be truly brought into question if tariffs and all other border impediments are fully removed.

Related Impediments to Trade

As indicated above, it is felt that any consideration of tariff measures needs to have regard to numerous factors that impinge on import/export trade in Australia. Such non-tariff barriers and cost impediments have a significant role in reducing Australia's attractiveness for new investment, and need to be considered in conjunction with any industry policy developments.

Recent papers distributed by Customs indicate that organisation is now looking to recoup some $ 75.5 million annually through Customs cost recovery charges on import transactions. This burden is passed to the import/export community, directly impacting on the international competitiveness of our manufacturers.

In addition to issues such as Customs charges and related administrative burden, the interaction of elements such as Customs thresholds also has a direct impact on the efficiency of manufacture in Australia. This threshold issue was the focus of debate during a study on internet commerce conducted by the Joint Committee of Public Accounts and Audit. Despite the tabling of the JCPAA report in June 1998, which included specific recommendations on action in the area of thresholds, industry is still awaiting the government's response.

While the points above have related to Australia's tariff and non-tariff measures, the terms of this review also look to the need for action in removing overseas barriers to Australian exports. DHL certainly supports any such action, including the commitment to free and open trade and investment in the Asia Pacific.

Much of Australian industry has now undertaken the hard work in restructuring to produce goods that are internationally competitive in terms of quality and price, it is therefore essential that the Australian Government take all steps necessary for these goods to enter those international markets without unreasonable barriers.

Summary

DHL welcomes the fact that this review does not appear to be limiting its consideration of Australia's tariff regime in isolation. It will be essential that when developing any industry policy in the area of tariffs that regard be given to the full range of factors that may effect our international competitiveness and attractiveness.

In this regard, while ever tariffs exist in Australia, and we have other border-based impediments such as Customs cost recovery, then concessional schemes such as MiB and TRADEX should remain. In the meantime, Australia needs to look at means to improve these schemes to assist in the development of a package that can attract new investment in this country. With such a package, Australia may be able to recognise its potential as a regional manufacturing and distribution centre, with consequential flow-on benefits throughout the economy and the community.

Attachment 1

LETTER TO INTERESTED PARTIES ON TARIFF TREATMENT OF MiB GOODS

8 November, 1999

(address)

Dear

Manufacturing in Bond Scheme in the Balance

I am writing to seek your support in lobbying the Government in the development of a more flexible Customs system in relation to the 'Manufacturing-in-Bond' scheme that was reintroduced in early 1998. Legislation on the tariff treatment of goods is currently before the Senate and unless amendments are made to that legislation, Australia will find itself continuing to be at a significant disadvantage in the attraction of new manufacturing investment into this country.

Background

For several years now, DHL's Asian offices have fielded inquiries from global manufacturing companies looking to determine the ideal location for their Asian manufacturing and distribution operations. Despite the many attributes of Australia, including the fact that it provides one of the largest markets in the region, Australia has not made the short list on many such occasions and significant opportunities for growth have been lost to our economy.

One key impediment to Australia's attractiveness in these instances relates to complexities and costs associated with Australia's Customs clearance regime. While many Asian countries have embraced the concept of free trade zones to attract such investment, Australia has fallen behind in the development of a competitive Customs system.

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Over recent times, DHL Australia has embarked upon a campaign to press the Federal Government for a package that will allow Australia to compete against other Asian countries in the attraction of this new manufacturing investment. Given some fundamental political and social concerns regarding the establishment of designated Free Trade Zones, DHL has focused it's campaign on the re-establishment and expansion of the previous Manufacturing in Bond scheme.

The MiB scheme benefits from being non-site specific and therefore allows Australian based manufacturers to utilise the scheme regardless of their location.

In late 1997, the government advised that it would reintroduce the MiB scheme and also develop an associated package (Tradex) to replace the TEXCO and duty drawback schemes. While this announcement was welcomed, DHL recognised that without associated amendments, in areas such as cost recovery and tariff treatment, the scheme would not be commercially viable.

After a substantial lobbying campaign, in April this year the Minister for Justice and Customs agreed to the removal of the Customs cost recovery charges associated with goods entering an MiB facility. This was a significant step forward in making the scheme more attractive for new manufacturing operations and improving the competitiveness of current Australian operations.

Industry welcomed this action, including the provision of priority for the introduction of the associated legislation. However this has now been tempered by the Government's inclusion of a provision that would formally impose an undesirable and inflexible tariff treatment on goods that enter the Australian market from an MiB facility.

The authorities have sought to impose a system whereby such manufactured goods are treated as their constituent components rather than as the finished product. This can have a dramatic effect on the attractiveness of Australia as a regional manufacturing centre for certain products. As an example, you can have the situation where a computer manufactured elsewhere in Asia would enter the Australian market with a 'duty free' status, but the same machine produced in an MiB site in Australia would have a duty liability attached to it based on specific input components.

Why would a new manufacturing venture consider Australia as a base for such operations under that arrangement ? It would be more logical to establish the operation in a non Australian based FTZ, and then import completed units to Australia. Australia then loses the investment, employment and expanded capacity for component producers to enter that supply chain.

Given the desire to use this MiB scheme as an element in the attraction of new investment from off-shore, this tariff treatment issue is of significant concern. DHL and other industry participants have suggested that in order to maximise the attractiveness of the scheme, a more flexible tariff treatment should be provided.

Critically, the legislation currently before the Senate aims to mandate this inflexible tariff treatment within the Customs Act itself.

The Current Position

The Opposition and Democrats are now considering an amendment to the current Bill, in order to provide some flexibility in tariff treatment. This amendment does not seek to predetermine the tariff treatment for goods at this time, but simply allow for flexibility and more discussion on the topic. The amendment would move the determined treatment from the Customs Act to Customs Regulations which would need to be developed with provision for greater flexibility.

Current indications are that the Government will not accept this proposed amendment and may now also jeapordise the removal of the cost recovery charges.

Summary

DHL remains firmly of the belief that, in key sectors, a well structured MiB scheme will

1. assist in attracting new regional manufacturing and distribution business into Australia; and
2. improve the competitiveness of current manufacturers as they strive to compete against overseas manufacturers in the Australian and overseas markets.

This would bring economy wide benefits in key areas such as employment, expansion of tax base and an expanded market for up stream suppliers.

The current actions by the Government directly threaten this goal and lack an appropriate level of reasonableness.

It is likely that this matter will again be considered by the Senate during the last Spring sessions commencing on 22 November. DHL is now seeking the support of industry and state governments in an effort to ensure that the amendment put forward by the Opposition is successful, and the MiB scheme becomes a real tool in the attraction of new manufacturing investment.

I would implore you to voice your opinion to the Government on this matter. If you wish to discuss the matter, please do not hesitate to call me – ph 02 6242 6985, fax 02 6242 6987.

Yours sincerely

Ken Muldoon
Customs Affairs Manager