



AUSTRALIAN ELECTRICAL &
ELECTRONIC
MANUFACTURERS' ASSOCIATION
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Review of General Tariffs

AEEMA and ATIA Submission to the Productivity Commission
Review of Australia's General Tariff Arrangements

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Executive Summary

AEEMA's Viewpoint

Key Points

Tariffs and Trade Policy

- *It is in Australia's best interest that international trade arrangements be as open and transparent as feasible.*
- *AEEMA considers Australia has more than established its commitment towards an open trade regime.*
- *Non-tariff barriers (NTBs) are gaining currency as protective device, and Australia is comparatively ill-equipped to trade-off the use of them. Greater attention also needs to be paid to reducing NTBs.*
- *To maximise the opportunities of trade liberalisation Australia should encourage other economies to reduce their effective levels of protection to similar levels as soon as possible*
- *Prospective benefits are highly dependent on other countries displaying the same level of commitment to trade reform that Australia has exhibited to date. Decision-makers must be confident our commitment to implementing reform will be matched by other nations we seek to trade with.*
- *Trade liberalisation must be regarded as a desirable means to an end, not an end in itself. Prospective tariff changes should be considered in light of their impact on trade policy and capacity to provide nett benefits to Australia.*

'Nuisance Tariffs'

- *'Nuisance Tariffs' have a significant direct adverse impact on the electrical and electronic sectors.*
- *'Nuisance tariffs' a production tax.*
- *'Nuisance tariffs' are a form of indirect taxation that will be anomalous after the introduction of the GST.*
- *The issue of 'nuisance tariffs' should be separated from the issue of 'general tariffs', and 'nuisance tariffs' should be abolished as soon as possible.*

Responses to the Issues Paper

- *Concession schemes should remain in operation until after any application of a universal zero tariff rate occurs.*

- *When assessing what the post-2000 rate of general tariffs should be consideration should be given to:*

Policy objectives, other than revenue-raising, underlying any application of that tariff;

Wherever possible, the goods subject to tariff should be produced domestically in a volume or manner of economic significance to the well being of the nation and its people, unless another strategic policy objective capable of clear and transparent expression can be provided;

The need for development of industrial capacity;

Defence needs, and:

Potential impacts on trade policy and its capacity to provide nett benefits to Australia.

- *Wherever possible, the prevailing general rate of tariffs should be 'across the board'.*
- *It would be desirable for tariff rates applying to the PMV and TCF sectors post-2005 to be aligned to the arrangements for 'general rate' sectors from 2005 to 2010.*
- *Any assessment of the merits of a future reduction of the general tariff rate needs consider Australia's strategic needs, potential adjustment costs and the international trading environment in which we believe we be operating.*

Introduction

AEEMA and the ATIA welcome the opportunity to provide comments to the Productivity Commission's Review of Australia's General Tariff Arrangements.

AEEMA and ATIA

Industry Vision

- *To grow the electrical, electronics and communications infrastructure sectors by increasing direct exports and establishing international distribution partnerships for the industry's products, systems and services.*
- *To establish a reputation for the industry and provide growth opportunities which attract multinational support and investment in Australia.*
- *To contribute to reducing the Australia's trade deficit, particularly in the area of Elaborately Transformed Manufacturing.*
- *To generate opportunities for high value adding employment supported by a flexible and adaptive education system.*
-

Representing electrical, electronic and communications industry

AEEMA is the peak industry association representing local and international companies in the electrical, electronics and communications infrastructure industries. Through the Australian Telecommunication Industry Association (ATIA), AEEMA maintains a specific focus on telecommunication issues.

Membership of the association comprises more than 385 companies of all sizes (95% of the industry by turnover). AEEMA's membership includes most local and international companies involved in the design, development and production of electrical and electronic products and systems in Australia.

AEEMA's objective is to strengthen the competitive position of the Australian electrical, electronic and communications infrastructure industries in both domestic and international markets.

With the growing internationalisation of the Australian economy, and a rapidly changing regulatory and policy environment, AEEMA is involved in an expanding range of issues and activities on behalf of its members.

AEEMA's role in Information economy has now been extended to support the industries providing "virtual" infrastructure - industries such as: smart cards, security,

telecommunications and authentication, including providers of hardware, software, services (e.g. smart card scheme operating), consultancy services and systems.

AEEMA's involvement in E-commerce includes promoting industry and its capabilities (domestic/international), Government liaison and providing input into issues associated with establishing the framework for e-commerce. This includes: security of transactions, standards, protection of intellectual property, taxation, trade law, privacy and many other issues.

Industry Partnerships

AEEMA is a partner member of the Technology Taxation Alliance and the IT&T Skills Task Force.

R&D Partnerships

AEEMA is a partner in the Photonics CRC, and is represented on its Governing Board.

Related Bodies

AEEMA also provides secretariat services to a range of kindred bodies. They include:

- Asia Pacific Smart Card Forum. <http://ittsecurity.aeema.asn.au/>
- AUSTENERGY –the Australian Energy Systems Exporters Group. <http://www.austenergy.asn.au/>
- Australian IT&T Security Forum.
- Certification Forum of Australia –representing certification and authentication in electronic commerce.
- CESA –the Consumer Electronic Suppliers Association.
- DESA –Defence Electronics and Systems Association and other Defence industry bodies, such as C3IRF and AFCEA (Australia).
- The Photonics Industry Forum

International Role

AEEMA has strong export promotions focus, and is a participant in a range of international activities, particularly related to standards and conformance issues. These include APECTEL, the International Electrotechnical Commission (IEC), Industry Cooperation on Standards and Conformity Assessment (ICSA), the recently established Australian Energy Network (AEN) – which supports Australia's representatives on the APEC Energy Working Group (EWG), and the World Electronic Forum (WEF).

The Tariff Regime in context

Trade Policy Environment

AEEMA's VIEW

Commitment to open trade

Australia has had a long-standing commitment to supporting an open multilateral trading system. This is well demonstrated by the Government's efforts in ensuring a successful conclusion to the Uruguay Round negotiations. For an economy Australia's size it is in our best interest that international trade arrangements be as open and transparent as feasible.

AEEMA has assisted the Australian Government's efforts to reduce and remove offshore trade barriers to Australian exporters, illustrated by the association's support of APEC working groups, the Information Technology Agreement (ITA) and assistance with presentations to the WTO.

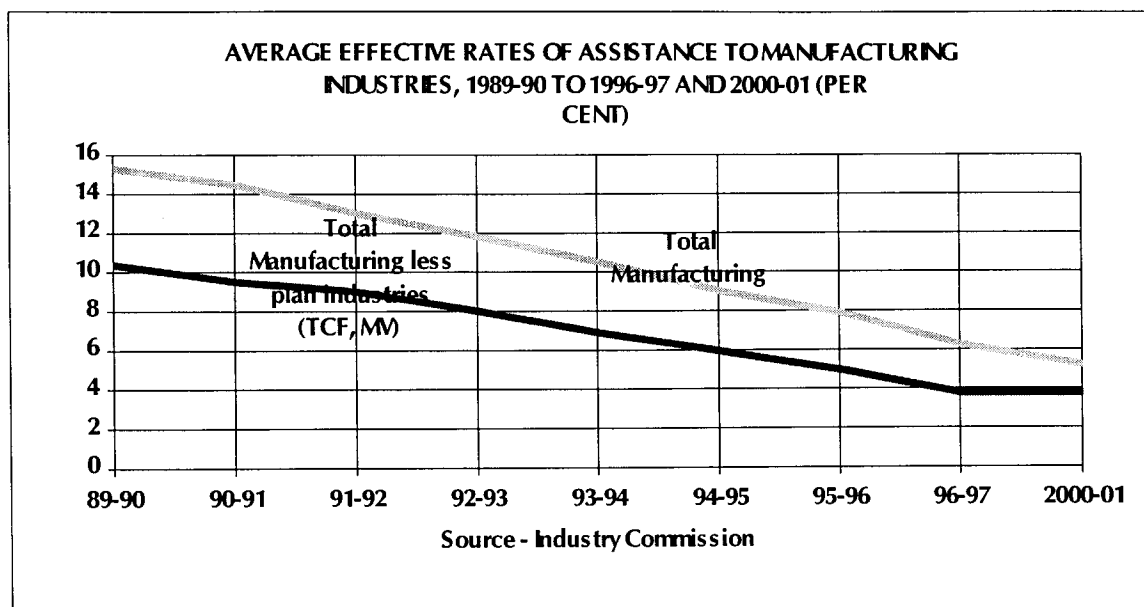
From the perspective of the electrical, electronic and communications infrastructure industries, AEEMA considers Australia has more than established its commitment towards an open trade regime. To maximise the opportunities of trade liberalisation Australia should encourage other economies to reduce their effective levels of protection to similar levels as soon as possible

Australia's recent record

Over the past decade Australia has been among the GATT members which have demonstrated the greatest commitment to reducing trade barriers, primarily through a progressive program of wide-ranging reductions in tariff assistance.

Excluding the Passenger Motor Vehicle (PMV) and TCF industries, by July 1996 the maximum tariff applying to any imported product was five per cent. Other assistance mechanisms such as quotas have also been removed.

The effective rate of assistance (ERA) to the Australian manufacturing sector fell from nearly 30 per cent in the early 1980s to nine per cent by 1994. Excluding the PMV and TCF industries, the average ERA by mid 1996 was approximately four per cent and by 2001 will be under three per cent. (Industry Commission 1993/94 Annual Report - see Chart over page).



Both GATT and the OECD have been highly complimentary of the Australian steps taken to reduce tariffs and other assistance mechanisms.

It is particularly worth noting that in 1996, the latest year for which statistics are available, the average tariff rate on Australian manufacturing, at 4.8 per cent was comparable with that in the world's three major trading nations-the United States (5.4 per cent), European Union (7.7 per cent) and Japan (3.3 per cent).

Promised benefits of liberalisation

Australia's recent trade liberalisation process has, in large part been driven by APEC commitments, notwithstanding the voluntarist nature of that forum. APEC commitments made at Bogor call for free trade and investment in 'advanced' economies by 2010, and in all the APEC economies by 2020.

AEEMA notes the timing of this **Review of General Tariff Arrangements** fulfils Australia's APEC commitment to review such arrangements by the end of this year (2000).

According to a study by the Australian-APEC Study Centre, achievement of this goal will provide duty free access to economies that 996/97 accounted for 71 per cent of Australia's total trade. (Source: Luttrell, T. *APEC - The Gains and Losses for Australia*, Australian APEC Study Centre Issues Paper No.12, Dec. 1977)

"APEC economies in that year bought 75 per cent of Australia's exports and supplied 66 per cent of imports. Their overall economic importance is indicated by the fact that in 1995 APEC member economies produced 56 per cent of world Gross National Product." Source: Luttrell, T. *APEC - The Gains and Losses for Australia*, Australian APEC Study Centre Issues Paper No.12, Dec. 1977)

In theory this should result in nett gains to Australia. Proponents of such a view argue the benefits to Australia of liberalisation by our trading partners should rapidly outweigh further costs incurred as domestic trade liberalisation proceeds.

Evidence suggests this is not a fait accompli, and should not be regarded as such. Unfortunately, prospective benefits are highly dependent on other countries displaying the same level of commitment to trade reform that Australia has exhibited to date.

Unilateral tariff reductions will not necessarily prompt others to display the same commitment to genuine reduction of their overall trade barriers. This is a point made by the Federal Liberal/National Party Coalition in its 1996 Industry and Commerce Policy.

"There is no doubt that as tariffs are lowered around the world Australian industry will reap the benefit of lower input costs at home and greater market access abroad. However, the full benefits of trade liberalisation can only be realised when all countries co-operate in this process. Unfortunately this has not always been the case". (Source: p.11, Federal Liberal/National Coalition, *Industry and Commerce Policy*, 1996)

By the same token high tariff levels are no guarantees of additional bargaining power in international trade negotiations, or that they will even occur. Protagonists on both sides of the tariff debate should not forget that assessing the impact of human behaviour in negotiation processes is no science.

Tariffs are not the only barrier

No reconciliation of the costs and benefits to the domestic economy of trade liberalisation should confine itself to considering tariff reductions alone when assessing the impact of other nations' policy decisions.

Australian reform effort - and, hence, public debate- has in recent times focussed on tariff reductions. Yet the issue of non-tariff barriers (NTBs) has equal significance when making genuine international comparisons of the effect of liberalisation efforts. Australia is a low user of NTBs compared with the United States, European Union, Japan and many of our regional neighbours.

The figures quoted earlier refer to average tariffs, and do not include protection provided through non-tariff barriers (NTBs). The impact of NTBs should be of particular concern to Australia for two reasons.

Firstly, NTBs lack often transparency as trade barriers and can provide considerable obstacles to Australian exporters.

Secondly, as a very low user of NTBs Australia is, to some extent, at a disadvantage because this reduces our bargaining options in international negotiations. It has been argued this disadvantage may have been compounded in recent times by lowering domestic tariff levels. This, many argue, has surrendered points of leverage that could have been used to bargain with.

This is not to argue that Australia should maintain have maintained excessively high levels merely as a bargaining tool, or for any other reason. But the facts must be noted when considering the future level of tariffs in the context of trade policy effects on the domestic economy. NTBs could be gaining currency as protective device, and Australia is comparatively ill-equipped to trade-off the use of them.

No less an authority than the OECD has said 'there are concerns that NTBs may be gaining greater importance as a means of protecting domestic producers of goods and services and impeding access to international markets'.

In June 1999, Issue 65 of the *OECD Observer* noted:

"While the level of tariffs and certain quantitative import controls have declined and are programmed to fall further, there are concerns that non-tariff barriers to trade in general (NTBs) may be gaining greater importance as a means of protecting domestic producers of goods and services and impeding access to international markets." (Source: *OECD Observer*, Issue 65, June 1999)

While NTBs are less transparent than tariffs, and there is no general measure of the restrictiveness of such barriers, the OECD tries to monitor NTB frequency and coverage.

Non-Tariff Barriers in OECD Countries

	Frequency ratio ^a			Import coverage ratio ^b		
	1988	1993	1996	1988	1993	1996
United States	25.5	22.9	16.8	16.7	17.0	7.7
European Union	26.6	23.7	19.1	13.2	11.1	6.7
Japan	13.1	12.2	10.7	8.6	8.1	7.4
Canada	11.1	11.0	10.4	5.7	4.5	4.0
Australia	3.4	0.7	0.7	8.9	0.4	0.6
New Zealand	14.1	0.4	0.8	11.5	0.2	0.2

- a. The frequency ratio is the proportion of national tariff lines that are affected by a particular NTB, or by a specified group of NTBs, irrespective of whether the products affected are actually imported.
- b. The import coverage ratio is the share of a country's own imports that is subject to a particular NTB or any one of a group of NTBs.

(Source: Emmery, M. *Australian Manufacturing: A Brief History of Industry Policy and Trade Liberalisation*, Economics, Commerce and Industrial relations Group, Commonwealth Parliamentary Library, October, 1999, quoting: OECD, *Indicators of Tariff & Non-tariff Trade Barriers*, Update 1997, pp. 53 and 56.)

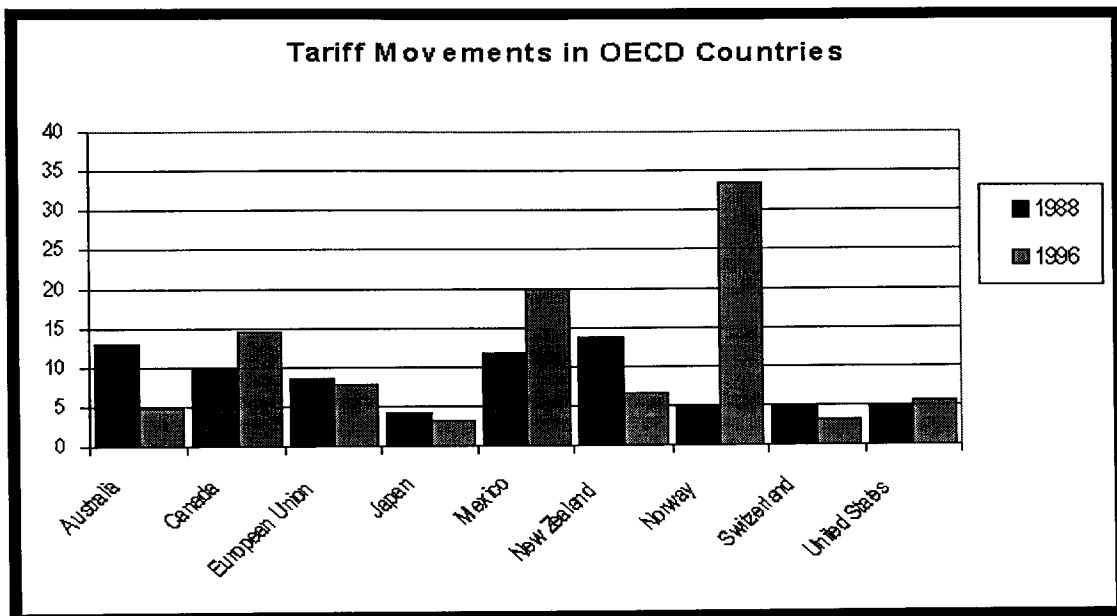
According to the OECD, two forms of NTB that appear to be on the increase-technical barriers to trade in the human health and safety area and anti-dumping actions. (Source: *OECD Observer*, Issue 65, June 1999)

International enthusiasm may be waning

Doubts about international commitment to universal trade liberalisation are borne out by emerging trends as well as recent history. There are increasing indications of international disenchantment with the pace of recent trade liberalisation. Both factors suggest it would be prudent to proceed with caution.

According to the Commonwealth Parliamentary Library:

Trends differed markedly between countries. In four countries-United States, Canada, Mexico and Norway-manufacturing tariffs rose over this period [1988-96]. (Source: p.26, Emmery, M. *Industry Policy in Australia*, Economics, Commerce and Industrial relations Group, Commonwealth Parliamentary Library, September, 1999)

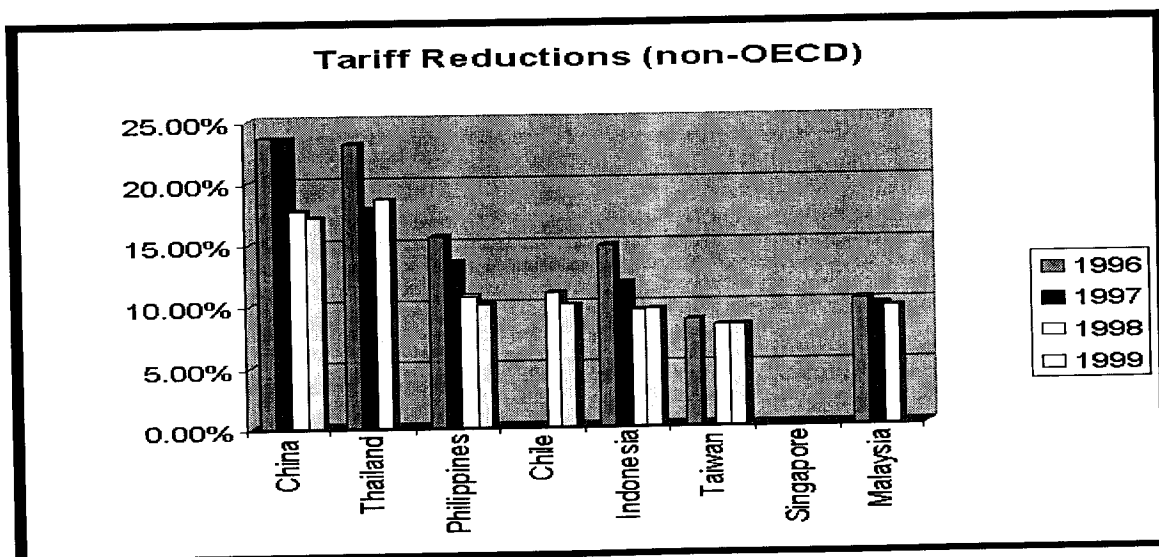


(Source: (Source: p.26, Emmery, M. *Industry Policy in Australia*, Economics, Commerce and Industrial relations Group, Commonwealth Parliamentary Library, September, 1999 -Compiled from data in *OECD Economic Outlook*, June 1999, p. 209. (a) Production-weighted average tariff rates)

The Asian financial crisis, and consequential reductions in economic growth, further tested the depth of commitment some of Australia's trading partners have to meeting their commitments, particularly to the Bogor declaration.

The Commonwealth Parliamentary Library has pointed to the practical implications in an analysis of figures supplied to it by the Department of Foreign Affairs and Trade.

While marked reductions in average tariffs have occurred in these countries, current tariff levels generally remain significantly higher than in Australia and most other OECD countries. (Source: p.267 Emmery, M. *Industry Policy in Australia*, Economics, Commerce and Industrial relations Group, Commonwealth Parliamentary Library, September, 1999)



(Source: p.27 Emmery, M. *Industry Policy in Australia*, Economics, Commerce and Industrial relations Group, Commonwealth Parliamentary Library, September, 1999)

There is some emerging evidence of declining enthusiasm among APEC nations, for instance, to tackle the practicalities of trade liberalisation.

The 1997 APEC ministerial meeting in Vancouver agreed to accelerate trade reform in nine key sectors. By contrast the 1998 ministerial meeting in Kuala Lumpur, could not be reach agreement on the fast track proposals.

All nine APEC sectoral proposals were then referred to the WTO for possible conclusion at its 1999 Seattle meeting. As recent history records, this was not to be. Despite significant pre-Summit indications that President Clinton and the United States would be going to considerable efforts to achieve major progress on trade reform at Seattle it did not occur.

Public pressure

Much of the commentary seeking to explain the failure of the WTO Seattle meeting does so in terms of the impact adverse public opinion about universal trade liberalisation had on participants.

In the immediate aftermath of violent demonstrations in Seattle during the WTO meeting President Clinton publicly stated the demonstrators 'had a point'. This remark was made notwithstanding the fact that the demonstrators widely agreed to be led by extremist groups.

Assuming the US President made his remarks after some consideration, such comments indicate other nations may become wary of according universal trade liberalisation the political priority they have devoted it in recent years.

Recent study by the Australian National University, reported in the Australian Financial Review, supports this possibility. Residents of 16 countries, including Australia, were asked to rate their support for trade liberalisation on a scale of 1-100, with strong support for an open economy rated at '100', and strong support for a protectionist economy rated at '0'. (Source: *AFR*, 8 July, 1999 p.21)

Only three cities surveyed, Tokyo, Oslo and Prague, recorded majority support for free trade. Support for an internationally open economy stood at 36 per cent in US cities (Population over 1m), 36 per cent in London, 32 per cent in Manila and 29 per cent in Madrid. Support for free trade was 26 per cent in Sydney, and marginally better in other Australian capitals at 27 per cent.

The Commonwealth Parliamentary Library has catalogued "...recent, well publicised incidents which have been interpreted in the press and elsewhere as indicative of a world-wide resurgence in protectionist pressures".

(Source: p.29 Emmery, M. *Industry Policy in Australia*, Economics, Commerce and Industrial relations Group, Commonwealth Parliamentary Library, September, 1999)

These incidents include:

- the recent failure of APEC to reach agreement on a program to fast track trade liberalisation in nine key sectors
- increased protectionist pressures in the Unites States as indicated by recent action to curb steel imports, the quotas and tariffs imposed on lamb imports and the intensity of recent trade disputes between the United States and the European Union over apparently small issues such as bananas and hormone-treated beef
- the continuation of high Japanese barriers to rice and other food products and the extensive use of non-tariff barriers, and
- the sharp increase in anti-dumping actions worldwide. (Source: p.29 Emmery, M. *Industry Policy in Australia*, Economics, Commerce and Industrial relations Group, Commonwealth Parliamentary Library, September, 1999)

Domestic events in the US relating to international trade policy bear specific consideration. For instance, President Clinton recently failed to gain congressional support for 'fast-track' authority to negotiate trade treaties. (This has implications not only for those seeking to trade directly with the United States, but also for nations –such as Australia- wishing to rely on US support for trade liberalisation efforts in multilateral negotiations.

Students of trade semiotics have noticed consequential changes in the language used by senior trade officials in the Clinton administration.

The Australian press reported that the United States (US) Treasury Secretary, at a briefing on United States barriers to lamb imports, indicated the White House has redefined America's commitment to free trade to that of 'free and fair trade'. (Source: p.279 Emery, M. *Industry Policy in Australia*, Economics, Commerce and Industrial relations Group, Commonwealth Parliamentary Library, September, 1999)

Such trends may well exacerbate if the US continues to face large trade deficits, and the OECD has noted them arising in other nations. According to the *OECD Economic Outlook* '...[w]idening imbalances in current account positions across some of the major OECD economic areas have raised concerns about related increases in protectionist sentiments'. (Ibid.)

By contrast, Australian Government trade rhetoric indicates much greater sympathy with unguarded trade liberalisation, omitting the caveat implicit in using the linguistic conceit of 'free and fair'. The terms of this review, for instance, refer to 'free and open trade and investment in the Asia Pacific by 2010 for industrialised economies and 2020 for developing economies'

Telecommunications perspective

Australia's telecommunications industry already operates in a duty free environment. The process of removing tariffs imposed on IT&T products was completed on 1 January, 2000. Micro-economic reform in the communications sector allows open access to any interested party to the Australian services and equipment market. Few member economies within APEC offer similar levels of access to either their services or equipment markets.

Australia has also signed onto the Information Technology Agreement (ITA) by which there is intended be free trade in a comprehensive range of Information Technology and Telecommunications from the year 2000. Most nations within APEC are signatories. A number of APEC members have sought derogations for certain product categories to allow the phasing-in of zero tariffs, including both Korea and Taiwan for selected telecommunications products (including switching and cellular products).

On June 4 1997 Australia tabled the changes to the applied tariff schedule to represent our commitments under the ITA. Australia accelerated the implementation of its ITA-related tariff undertakings in the wake of the December 1997 industry policy statement, *Investing for Growth*, which established the Information Industries Action Agenda.

As the Government noted in its response to the Productivity Commission's *Telecommunications Equipment, Systems and Services Report* it brought forward the removal of tariffs on the majority of items covered under the ITA to July, 1998. In addition, it introduced a new Schedule 4 Item in the Customs Tariff to cover a range of inputs to information industries manufactures not included in the ITA. This measure allows for duty-free entry of inputs that were previously subject to Tariff Concession Orders (TCOs).

AEEMA recognises efforts have been made to conclude an "ITA II", listing additional products and countries for inclusion within the ITA. AEEMA, through the ATIA, has said that it supports the following:

- *there should be an examination of additional product coverage, particularly in related technologies and input products*
- *there should be additional country coverage*
- *there should be aggressive targeting of non-tariff barriers*
- *Australia should maintain an aggressive posture in winding back the derogations a number of our trading partners have for specific products in making the year 2000 deadline.*

Unfortunately, the "ITA II" process has been a disappointing one; essentially remaining stalled.

Participants in the WTO's *Committee of Participants on the Expansion of Trade in Information Technology Products* continued to discuss the lists, provide clarification, exchange views, and negotiate with a view to making a decision on whether to revise the ITA Attachments by 30 June 1998. However, no agreement could be reached at that time, and the process continued throughout 1998.

At the Committee's meeting in December 1998, still no agreement could be reached and to date there has been no products added to the original coverage. Various country delegations placed the matter on the agenda for Committee's meetings during 1999, but no discussions occurred.

What the aim should be

AEEMA agrees with the Government's position that trade be conducted under the rules and procedures established within the umbrella of the World Trade Organisation/GATT framework. In the context of trade liberalisation activities within APEC, the procedures and philosophies of the World Trade Organisation/GATT should be the guiding principles, but there must be widespread adherence to them.

Greater attention also needs to be paid to reducing non-tariff barriers. The association has assisted the Department of Foreign Affairs and Trade (DFAT) in delivering presentations on how the removal of non-tariff barriers being achieved in through the APECTEL MRA may provide a model for other sectors. Work by the DFAT Information Industries Market Access Team may provide a model for use in other sectors.

For details of this presentation refer to: <http://www.dfat.gov.au/ma/infotech/> .

Australia can gain from liberalisation in a number of ways:

- from increased growth driven by advantages flowing from lower trade barriers,
- through improved market access,
- through improved transparency of trade and investment regimes,

- and from lower transaction costs in doing business (ranging from simpler business visas to faster processing of shipping).

Unilateral liberalisation poses risks, nevertheless. For this reason AEEMA urges a cautious approach when considering what should be the speed and timing of domestic tariff liberalisation in this context. Free trade, as reflected in Australia's Bogor undertakings, is a laudable objective, but decision-makers must be confident our commitment to implementing reform will be matched by other nations we seek to trade with.

'Nuisance Tariffs'

Effect on Industry

AEEMA's VIEW

'Nuisance Tariffs' aptly named

'Nuisance tariffs' are aptly named. In AEEMA's view they amount to little more than a tax on turnover, with no redeeming strategic policy intent. To quote the Managing Director of one prominent Australian-owned manufacturer and exporter:

"With the globalisation of trade and the very open nature of the Australian market, the nuisance tariffs have put Australian manufacturers at a disadvantage in our domestic market, and added administrative costs to our export activities". (Source: Private correspondence to AEEMA Secretariat)

While the effect of 'nuisance tariffs' is largely indirect for AEEMA's members in the communications sector, they have a significant direct adverse impact on the electrical and electronic sectors. This is because many component items used in both sectors are imported, a declining proportion are sourced domestically, and many categories of what has to be imported are subject to 'nuisance tariffs'.

Significant impact on the electrical and electronic sectors

Through a combination of structural changes in the worldwide electrical and electronics industries and, ironically, trade liberalisation it is increasingly common for components to be sourced on a global basis, rather than manufactured locally.

In the electrical capital equipment industry a number of key components can only be obtained by importation –all are subject to 'nuisance tariffs'. Some examples include:

- Electrical steel (less than 600mm)	7226.11.00
- Electrical steel (600mm or more)	7225.11.00
- Insulation (paperboard)	4804.51.00
- Insulation fittings (Other than ceramic or plastic)	8547.90.00
- Tapchangers	8535.30.00
- High voltage condensor bushings	8546.20.00
- Continuously transposed cable	8544.11.00

Local manufacturers required to use such material to manufacture their products compete with others from all over the world in domestic and export markets. Their competitors come from developing and developed nations with tariffs on inputs of 0% and 5%.

Adverse impact will not diminish

The adverse impact of 'nuisance tariffs' is not likely to diminish in the industries AEEMA represents. In fact, it could well increase.

This is for a number of reasons:

- Electrical and electronic goods contain a high proportion of imported components, often subject to 'nuisance tariffs';
- Use of imported components is on the increase, and this trend is likely to continue through a combination of trade liberalisation and structural change;
- Electrical and electronic products require capital-intensive production methods and components form a relatively high proportion of total product cost.

The flow-through impact of nuisance tariffs on component costs can have a significant impact on electrical and electronic manufacturers. According to Paul Zuber, the Managing Director of the Bluegum Group, a large contract electronics manufacturer, "...components often comprise up to 90 per cent of a product's total cost". (Source: *Australian Electronics Engineering*, 4 June 1999)

'Nuisance tariffs' a production tax

Given 'nuisance tariffs' are nothing more than a revenue measure, their practical effect is to be a production tax on manufacturers. Many AEEMA members have this view. The point is illustrated well by an example provided on a 'commercial-in-confidence' basis to the AEEMA Secretariat by an affected manufacturer.

Company 'X' is a major supplier to the Australian domestic market in its product category. In recent years it has exported an average 25% of turnover. 60% of the company's production costs are in materials, of which 50% can only be imported, as they are not available from domestic producers. The bulk of these materials were once imported duty-free, but now attract the 'nuisance tariff'. Simple arithmetic indicates the imposition of the 3% 'nuisance tariff' has imposed a 1% non-rebatable production tax on Company 'X'. (Source: *Private correspondence and discussions with AEEMA Secretariat*)

Contrast with GST

As a revenue measure imposed on business inputs, not intended to confer benefits to equivalent domestic production, 'nuisance tariffs' contrast with the GST and key arguments supporting its introduction.

Three key arguments advanced in favour of introducing the GST to replace the WST regime are:

- Unlike the WST, the GST is fully rebatable in the pre-retail stage, therefore it does not impose 'cascading' taxation costs through each production and distribution stage;
- Where the GST is intended purely as a revenue measure, and not as a policy device, it is imposed without discrimination, therefore increasing the relative neutrality of the indirect tax system (Exceptions exist, of course);

- The GST removes input taxes on exporters by being rebatable, therefore improving their competitiveness in target markets.

'Nuisance tariffs' meet none of these tests. Nor are do they have any policy intention justifying the additional input costs they imposed. This contrasts with both the intent of Government policy, as expressed in arguments in favour of the GST, and with 'normal' tariffs imposed in support of strategic policy objectives.

Recent Government action welcomed

The Federal Government recently completed a Review of Nuisance Tariffs, and subsequently the Minister for Industry, Science and Resources, Senator Minchin, announced the removal of 400 such tariffs.

AEEMA welcomes this move, and urges the removal of further 'nuisance tariffs' upon the completion of the Productivity Commission Review of Australia's General Tariff Arrangements.

What the aim should be

The issue of 'nuisance tariffs' should be separated from the issue of 'general tariffs' (Those applying for strategic policy reasons, such as industry development, in addition to being revenue devices).

In the absence of mitigating strategic policy grounds for imposing them 'nuisance tariffs' constitute a form of indirect taxation that will be quite anomalous after the introduction of the GST.

'Nuisance tariffs' should be abolished as soon as possible.

In doing so care should taken to ensure that those tariffs that are abolished in this context are actually 'nuisance tariffs'. Unfortunately, AEEMA and its members have direct experience of administrative errors leading to changes in the tariff treatment of certain products that the Government had not intended to change.

Some responses to the Commission's approach

Issues Paper

AEEMA's VIEWS

Taking an 'Economy-wide' perspective

AEEMA agrees that the implications of any tariff reductions for trade reduction strategies should be considered in the context of improving overall domestic welfare.

AEEMA agrees that there are benefits in attempting to maintain a relatively uniform structure of tariff rates, rather than setting rates at varying levels from industry to industry. However, such an objective should not be misused as an argument removing tariffs in their entirety where an agreed standard rate has been applied and the strategic policy grounds for applying that rate have not diminished.

Trade Aspects

As this submission has emphasised earlier trade policy factors should be taken into account when considering post-2000 tariff reductions.

Australian governments should explicitly reserve the right to link plans for future tariff reductions to future international trade liberalisation. Doing so in itself may have a potential to be used as a tool in achieving such liberalisation in international negotiations. Doing so allows governments a wider range of negotiating options in future negotiations -IE Enabling a concrete demonstration of a capacity for reciprocity if this is seen as beneficial at any given time.

In addition, it enables the retention of devices to protect domestic producers affected by unfair trade practices if liberalisation does not proceed according to Australian Government aspirations.

It is a matter for judgement, according to time and circumstance, whether a delay by Australia making further reductions in *applied* rates would alter our bargaining power in international trade negotiations which concentrate on *bound* rates.

Concession arrangements

AEEMA agrees with assessments that the closer general tariff rates are to zero the less assistance schemes like Manufacture in Bond, Tradex, Tariff Concession Orders (TCOs) and

project By-law arrangements will confer. Clearly, TCOs for instance will have no benefit if general tariff rates fell to 3 percent.

It is correct to say the administrative and compliance costs of concession arrangements will be of increasing significance in assessing nett benefits of concession schemes. This does not, however, amount to an unimpeachable argument they should be abolished before a universal zero tariff rate applies –if that ever occurs.

The administrative and compliance costs of different policy instruments vary, possibly from enterprise to enterprise, and so it is difficult to strike common point where nett benefits disappear.

AEEMA's view is that concession schemes should remain in operation until after the application of a universal zero tariff rate. The rationale for this that it is the association's view that the only tariffs that should ever be imposed are those primarily intended to achieve a strategic policy objective other than pure revenue raising.

AEEMA accepts judgements will always need to be made about actual, as opposed to intended, effects of tariffs. In this light, it is equitable for Governments to retain mechanisms to redress unintended adverse consequences if tariffs are to be applied.

Schedule for PMV and TCF tariff reform

It has been argued that any reductions in the general rate of tariffs post-2000 will confer additional benefits on the more highly protected PMV and TCF sectors, further increasing the larger rates of effective assistance enjoyed by those sectors.

AEEMA agrees with this view and believes the nett result of such an increase in the effective rate of assistance to PMV and TCF producers may diminish overall community welfare.

The exclusion of the PMV and TCF sectors from the Productivity Commission's current inquiry does not necessarily have the potential to have a large impact on assessing the 'general tariff' environment for the period 2000 to 2005. This is because PMV and TCF schedules for that period are a known quantity.

This exclusion does have a potentially large impact on consideration of the post-2005 environment for 'general tariffs' because it precludes discussion of what rates will apply for those sectors in the five years leading up to the nominal date for implementing Australia's Bogor undertakings (2010).

Given the high rates of tariffs applying in the PMV and TCF sectors already attracts adverse comment in international trade negotiations –sometimes to justify measures imposed against Australian products- it seems to make little sense to delay discussions about them post-2005.

Post 2005 PMV/TCF arrangements may well effect the trade negotiation value of how general rate arrangements are set the ahead of the Bogor target are made –not to mention public perceptions of them.

What the aim should be

Scope for a post-2000 reduction in the general tariff

As stated, AEEMA believes that the imposition of tariffs can only be justified where the tariff is intended to achieve a policy objective, other than raising revenue, intended to benefit the nation.

AEEMA recognises tariffs impose monetary costs on purchasers of goods and services –and not just on the goods subject to tariffs. This has an economy wide effect in terms of ‘cascaded’ costs and potential to distort economic activity.

This does not mean tariffs are intrinsically evil. One reason societies have coalesced under Governments is in order to have a mechanism by which the laws of nature and markets can be tempered through intervention. Tariffs are merely an instrument governed societies use to effect outcomes that would not necessarily achieved without intervention. Good Government means rigorously assessing the cost and benefits of such instruments.

Considerations

When assessing what the post-2000 rate of general tariffs should be, consideration should be given to the following factors:

- *Policy objectives, other than revenue-raising, underlying any application of that tariff;*
- *Wherever possible, the goods subject to tariff should be produced domestically in a volume or manner of economic significance to the well-being of the nation and its people, unless another strategic policy objective capable of clear and transparent expression can be provided;*
- *The need for development of industrial capacity;*
- *Defence needs, and:*
- *Potential impacts on trade policy and its capacity to provide nett benefits to Australia.*

Wherever, possible the prevailing general rate of tariffs should be ‘*across the board*’. While tariffs applying to the PMV and TCF sectors fall outside the immediate ambit of this inquiry, AEEMA would like to record the view that it would be desirable that the rates applying to those sectors post-2005 be aligned to the arrangements for ‘general rate’ sectors from 2005 to 2010.

By 2005 the PMV and TCF sectors, and those employed in them, should have had sufficient time to determine their economic viability under arrangements applying to other sectors. This will diminish the justification for requiring the rest of the community to meet the economic costs of the additional assistance they currently receive.

Australia’s APEC commitment to ‘*open and fair trade and investment*’ by 2010 remains a praiseworthy goal, but it should never be regarded as an end in itself. Efforts to achieve such a goal should only be considered in light of their nett benefits to the community, its future welfare and Australia’s capacity to remain a viable advanced economy.

Any assessment of these factors needs to take into account Australia’s strategic needs, potential adjustment costs and the international trading environment in which we believe we be operating. Policy-makers should take care that such assessments can be made with reasonable levels of certainty as to potential outcomes.

A useful start to this necessary analysis would be to propose, but not mandate, a process whereby Australia could move from the current general rate to a universal zero rate between the years 2005 and 2010.

Such a proposal would enable three things to occur before any action was taken:

1. Widespread community debate;

2. Transition plans to be made, and;
3. Time for genuine assessment as to whether it assists Australia to improve its overall economic welfare, particularly as result of reciprocal actions by other nations.

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