GENERAL REVIEW OF TARIFFS

ACCI SUBMISSION
TO
THE PRODUCTIVITY COMMISSION

JANUARY 2000

Commerce House, 24 Brisbane Ave, Barton ACT 2600 • PO Box E14, Kingston ACT 2604 Australia
Telephone: 61-2-6273 2311 • **Facsimile:** 61-2-6273 3286 • **Email:** acci@acci.asn.au

The Australian Chamber of Commerce and Industry (ACCI) is the peak council of Australian business associations. ACCI's members are employer organisations in all States and Territories and all major sectors of Australian industry.

Through our membership, ACCI represents over 350,000 businesses nation-wide, including the top 100 companies, over 55,000 enterprises employing between 20-100 people, and over 280,000 enterprises employing less than 20 people. That makes ACCI the largest and most representative business organisation in Australia.

Membership of ACCI comprises State and Territory Chambers of Commerce and national employer and industry associations. Each ACCI member is a representative body for small employers or sole traders, as well as medium and large businesses.

Each ACCI member organisation, through its network of businesses, identifies the concerns of its members and plans united action. Through this process, business policies are developed and strategies for change are implemented.

Introduction

Tariffs are no longer the major issue in Australian industry policy. With the tariff applied to all items other than TCF and PMV less than 5% there remains little in the way of tariff barriers into Australian markets.

The lesser importance of tariffs as an issue in Australian industry policy should not impede the momentum for further tariff reductions. The benefits that have accrued over the past decade are evidence of the need for further reductions in tariffs.

In particular, the amendments made to the Tariff Concession Scheme in 1996, notwithstanding the revenue implications, should be reversed immediately. The Tariff Concession Scheme is in essence a tax on Australian industry that creates an incentive for business to relocate production overseas.

Nuisance tariffs are tariffs that have no benefits to the economy other than a small revenue aspect, but which result in increased costs to business and consumers, reducing the international competitiveness of Australian industry.

The main issue for Australia in relation to tariffs in the next decade is not ensuring that Australia's remaining tariff barriers are removed, but rather maintaining the impetus for international reductions in our trading partners (tariff and non-tariff) trade barriers.

Unilateral reductions in tariffs benefit the domestic economy. However, given the world trading environment as it is, it would be missing an important opportunity to leverage lower protection levels amongst our trading partners if unilateral reductions occurred at this time. Bilateral and multilateral reductions in trade barriers should be pursued instead.

Tariff Concession Scheme

Amendments made to the Tariff Concession Scheme (TCS) in 1996 were explained as a way of business sharing in the burden of the deficit reduction process. The changes resulted in a three per cent tariff on many business inputs as a means to raise revenue. With the budget now well and truly back into surplus, the Government needs to reverse this highly distortionary and anti-competitive revenue measure.

The TCS was introduced to exempt from tariffs those goods for which there is no locally produced substitute. This policy recognised the fact that no competitive advantage arises for domestic industry from applying tariffs to goods it does not produce, while these tariffs disadvantage business using imported inputs by increasing costs and reducing competitiveness.

In the 1996-97 Budget the Coalition Government announced that business needed to share in the burden of deficit reduction. However, instead of abolishing the TCS for both business and consumer goods, the Government, under pressure from opposition parties announced that business inputs entering under Tariff Concession Order (TCO) would be subject to a three per cent tariff while consumer goods imported under a TCO would enter tariff free.

Therefore, imported consumer goods for which there were no Australian-produced substitutes could be imported duty free, while imported business inputs, for which there were no Australian produced substitutes, would incur a three per cent revenue-raising tax (tariff duty).

As a result of these amendments Australian business has effectively been asked to compete internationally, but with artificially higher input costs. To the extent that Australia's businesses use imported inputs to produce goods for domestic consumption, this also means that domestic consumers continue to carry a tariff burden, albeit in an indirect way.

ACCI does recognise that businesses that import products that incur this 3% tariff duty may be able to seek exemption under the TRADEX/TEXCO schemes. However, it must also be recognised that there is a cost to business from complying with these schemes which needs to be taken into account.

When announcing the changes, the then Minister for Industry Science and Tourism, John Moore MP, estimated revenue of over $417 million from the TCS changes in 1996-97 alone. Although it is difficult to determine the exact value of these changes, conservative figures estimate that revenue in excess of $300 million per year is being raised.

To the extent that it is possible to ascertain the incidence of the three per cent tariff, the burden appears to be borne by a wide range of producers in the agricultural, mining, manufacturing and services sectors. From analysis of the ABS data, the largest incidence of the TCS penalty impost appears to be on the manufacturing sector. This additional three per cent has had a negative impact on many firms' competitiveness. In the highly competitive markets in which most Australian firms operate, even a three per cent cost impost can make a significant difference to international competitiveness.

The negative or distortionary impacts of the TCS amendments on the Australian economy do not appear to have been fully evaluated. There has been no modelling conducted to estimate the value of lost exports or employment as a result of the TCS amendments. Nor is there any publicly available analysis to estimate the value of lost business or lost income tax revenue as a result of the TCS amendments.

The Government has already moved to reduce some business-input costs through tariff reductions. This includes the current review of nuisance tariffs and the lowering of input costs for IT manufacturers and industries using IT componentry through the bringing forward of the removal of tariffs on certain inputs including the majority of items covered under the Information Technology Agreement.

As the phase-down of general tariff levels has occurred, and bounty schemes for a number of industries have ended, the Government has rightly expressed its concern at the impact of negative assistance on industries where tariffs are imposed on inputs but the imported finished product attract no such impost.

While the Government's decision to lower costs for the local information technology industry by removing tariffs (and particularly the three per cent TCS duty) is supported, an industry-by-industry approach is not the appropriate way to deal with the issue for the rest of Australian industry.

The approach to the TCS remains completely at odds with the Government's otherwise progressive support for continuing trade liberalisation. It is also worth noting that this burden on our import-competing industries may at some time in the future be judged as contrary to international rules under the World Trade Organisation.

As the Budget is now in surplus, the Government should reverse the changes it made to the Tariff Concession System in 1996 immediately.

Nuisance Tariffs

Nuisance tariffs serve no real benefit to the Australian economy other than as an inefficient revenue tool. Nuisance tariffs raise less than $100,000 each in revenue per year and are therefore not significant contributors to revenue.

The cost of nuisance tariffs is, however, borne directly by Australia's exporting industries that are unable to pass on their artificially higher production costs. These artificially high costs inhibit the ability of Australian business to export goods and services resulting in lost income, lower growth and higher unemployment in Australia.

ACCI supports the continued removal of nuisance tariffs.

The removal of these nuisance tariffs should, wherever possible, be used as bargaining chips to achieve reciprocal reductions in trade barriers from our trading partners. But irrespective of whether such agreements can be reached, all nuisance tariffs should be eliminated.

General Level of Tariffs

ACCI supports continued reduction in Australia's general level of tariffs, but believes that any further reductions in tariffs must be considered in the context of a whole-of-Government industry policy.

The scheduling of any further cuts in the level of protection must be considered part of a wider package of comprehensive domestic reform of workplace relations, the waterfront, regulatory compliance and micro-economic reform, implementation of national competition policy and, in terms of external trade, improved market access.

ACCI does not take the view that further tariff reform should be contingent on further progress in other areas of micro-economic reform. Rather, we would emphasise that the wider reform agenda is far more important to the Australian economy. Further, the gains from tariff reform will be less, and the damage inflicted on the losers will be greater, if tariff reform is not undertaken in an environment of broader micro-economic reform.

ACCI recognises that there are benefits to the Australian economy from unilateral reductions in tariffs and believes that Australia should continue to reduce tariff duties.

Even while there are large benefits from unilateral reductions in tariffs, such benefits would be vastly increased if there were simultaneous reductions in protection levels by our trading partners. It would therefore appear to us that unilateral tariff reductions should not be pursued at present but that bilateral and multilateral tariff reductions be pursued instead.

Additionally, with the progressive removal of international tariff barriers the Australian Government must ensure that Australia's trading partners do not seek to replace tariff barriers with equally restrictive non-tariff barriers to trade. Non-tariff barriers do in effect present the same restriction to trade as tariffs and have the potential to reduce or remove potential benefits from multilateral tariff reductions.

Concession Arrangements

Whilst ever there remains tariffs on goods imported into Australia, there will remain a role for programs such as the Manufacturing in Bond and TRADEX/TEXCO Schemes.

Both of these schemes enable Australian exporting companies to compete in international markets where tariff barriers would have otherwise ensured that production was shifted overseas.

The existence of these programs is, however, only necessitated by the existence of tariffs.

Although the benefits of these schemes are diminished as the general rate of tariffs is reduced, there is a role for these schemes whilst ever tariff duties remain. The premature removal of these schemes would promote business to locate overseas, resulting in lost economic opportunities for Australia.

Conclusion

The reversal of the amendments made to the Tariff Concession Scheme in 1996 must be a priority for the Australian Government. Given that the budget has returned to surplus, there remains no justification for this highly distortionary measure.

The removal of these measures should not be contingent on seeking leverage for reciprocal tariff reductions; rather its removal should occur as a matter of priority. Any negative revenue implications that may arise should be addressed through less distortionary measures.

The efficiency with which revenue is raised has been the driving force behind the tax reform debate that has occurred intensively for the past two years. Although the importance of tariffs as a revenue tool has been greatly reduced over the past decade, the revenue implications from the removal of tariffs need to be taken into consideration, in particular the efficiency of alternative revenue measures.

In seeking the continued removal of tariffs it is essential that any alternative revenue measures which are required to offset reduced revenue from tariffs be considered as part of Australia's whole taxation system and that the most efficient alternative source of revenue be utilised, if required.

GENERAL REVIEW OF TARIFFS

Although there are benefits to the Australian economy from unilateral reductions in tariffs, there are greater benefits from multilateral tariff reductions. It should be in seeking these multilateral reductions in tariffs that Australia should focus in the immediate future.

Received 18/1/2000