CBCA

17 January 2000

Review of Australia's General Tariff Arrangements
Productivity Commission
PO Box 80
BELCONNEN ACT 2616

Dear Sir/Madam

REVIEW OF AUSTRALIA'S GENERAL TARIFF ARRANGEMENTS

The Customs Brokers Council of Australia Inc. (CBCA) has noted with interest the Productivity Commission Review of Australia's General Tariff Arrangements (the Review). The CBCA's members, as service providers to industry, act as the administrative link between industry and Government as to any outcomes of Government policy resulting from reports from entities such as the Productivity Commission. The CBCA has therefore over the years, made submissions on tariff and trade arrangements to Government and the then Industry Assistance Commission. These included, *inter alia* the;

- Customs Legislation (Tariff Concession and Anti-dumping) Amendment Bill 1992;
- Department of Industry, Science and Technology 1995 Evaluation of the Tariff Concession Scheme;
- Australian Customs Service (ACS) End Use Tariff Concession Orders; and
- various other aspects relating to tariff concessions.

In addition, the CBCA was instrumental in the business and industry position being developed with Government in 1996, in discussing the ramifications of employment, investment and revenue implications of the Government's decision, as to modifications to the Tariff Concession and Policy By-Law Scheme(s). Therefore, in respect to the terms of reference to the Review, the CBCA is of the opinion that it is in a position to provide general comment as to any variation in tariff arrangements to improve the overall efficiency of the Australian economy.

While these comments may be general in nature, the CBCA would be happy to meet with the Commission to provide any additional comment on the issues raised.

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Trade Liberalisation

The CBCA has been involved in, and followed with interest, the outcomes of the Asia Pacific Economic Co-operation (APEC) arrangements, and has particularly noted the outcomes of the Sub-Committee on Customs Procedures (under the APEC Committee of Trade and Investment). This Sub-Committee has addressed the process of the facilitation of trade, in particular the enhancement of the customs clearance process which gives effect to the Government's commitment to the APEC goal of free and open trade in the Asia Pacific region by 2010. For economies such as Australia, this support is clearly commendable. However, in noting the recent outcomes (or more appropriate lack of outcomes) of the World Trade Organisation (WTO) meeting in Seattle, as service providers (and consumers) within Australia, CBCA members question why Australia should be "at the point" of trade liberalisation, in particular any introduction of zero tariffs. While the economic arguments and processes are understood, the timing for zero tariffs within the window of opportunity up until 2010, is an issue which needs to be addressed in terms of the current reticence of other APEC industrialised economies to move their own respective tariff regimes to support zero tariffs.

In terms of the Commission's Review, perhaps it will be in a position to provide to Government the most appropriate timing for any zero tariff arrangements. It should also be noted that zero tariffs cannot, unless other import prohibitions and restrictions imposed by Governments are removed, meet the free trade goal as expressed by APEC. As the Commissioner is aware, other APEC economies use such measures as trade protection barriers and are yet to yield to any pressure from APEC or even the WTO to amend their respective processes.

Tariff Rates

As the Commission is no doubt aware, Customs Tariff Proposal No. 7 (1999) was tabled in the House of Representatives in December 1999, to give effect to the Government's decision to remove the customs duty on a number of so called *"nuisance"* tariffs, and these tariff reductions were operative on and from 15 December 1999. This process gives support to the Government's policy of tariff simplification and is supported by the CBCA. However, as the Commission is no doubt aware, save for the textile, clothing, footwear and motor vehicle industries there has been an ongoing reduction of tariffs over the last five years to the existing thresholds. This position, save for the 3% (revenue) duty, is seen as appropriate in meeting the Government's policy as to the balance of trade liberalisation with a level of protection to those Australian industries identified as requiring the full period to 2010 for the introduction of the zero tariffs.

Revenue Duty

As previously advised, the CBCA was a catalyst in industry representation to the Government's decision in 1996 to vary the Tariff Concessions Scheme. On this issue the Minister for Industry, Science and Tourism, the Hon. John Moore, on 11 April 1996 commented that the modifications to the Tariff Concession and By-Law System, particularly as it related to the application of the 3% (revenue) duty, to goods under Tariff Concessional By-laws (previously free of customs duty), was in fact *bad policy*. While the meeting of 11 April 1996 between Government and industry travelled across the economic rationale as to the Government's position, the CBCA suggested at that time, a slow down of the phase down of the general tariff rates (until the requisite $417 million for the 1996/97 budget deficit had been achieved), as being an appropriate alternative. This was seen by the CBCA as a more suitable approach rather than varying the longstanding free rate of customs duty to 3% (revenue) duty for goods subject to a tariff concession. Until 1996 the Tariff Concession Scheme (the Scheme), provided a duty free (concessional) rate of duty which allowed consumer or consumption goods and business inputs into local manufacture, such as capital equipment components, parts and raw materials, to be imported free of customs duty. In respect of those business imports integrated into local manufacture, the Scheme assisted by making Australian produced goods, it was presumed, more competitive, both in terms of domestic and international market opportunities.

The decision made by Government (in terms of achieving its budgetary surplus, which from recent figures provided by the Treasurer, this surplus has now been truly met), for a 3% (revenue) duty to be applied only against those goods under the Scheme which were deemed, by way of tariff references, as business inputs was clearly not equitable. For determined consumption goods imported under the provisions of the Schemes, to remain free of customs duty, including luxury items such as televisions, video cassette recorders and hi-fi equipment was a political, not an economic decision. As can be determined by the Commission, the equity of the 3% (revenue) duty was applied arbitrarily between business inputs as to consumption goods and is clearly not an effective or efficient taxation process.

As previously advised in 1999, the Government announced a surplus, part of which was obviously achieved by way of the 3% (revenue) duty, in that the amount that was sought to be recovered in the first instance as part of the budget deficit arrangement, was clearly over recovered within the terms of 3% (revenue) duty. The amount which the Government had originally sought to recover is now an over-recovery and can only be regarded as an indirect tax on business and consumers. As previously stated a similar imposts have not been applied to fully manufactured consumption goods imported under the Scheme, against which Australian manufacturers of goods may be required to compete in the same market.

As a consequence, this unorthodox form of business taxation acts to make fully imported consumption goods more competitive than locally produced goods which require business inputs. This leaves Australia as one of the few, if not perhaps the only country in the world,

to apply to its manufacturing industry, a form of taxation which has the impact of encouraging imports by making such goods more competitive as against locally produced goods!

This disparity will be further exacerbated when on 1 July 2000 the Goods and Service Tax (GST) is introduced, as the 3% (revenue) duty will comprise part of the value for the assessment of the taxable value for the determination of GST payable on imports. While this may be an inadverted outcome of the Government's introduction of GST, nevertheless GST will further exacerbate the price disadvantage that is imposed on imported business inputs as a result of the Government's 1996 agreed *bad policy*.

Outcomes

In terms of any change to the tariff rates and the implications of ensuring regulatory compliance under the Customs Act 1901 (the Act) and the Customs Tariff Act 1995 (the Tariff Act), it should not be overlooked that the correct tariff classification of goods is relied upon by various regulatory authorities including the:

- Australian Bureau of Statistics (ABS);
- Australian Customs Service (ACS); and
- Australian Quarantine and Inspection Service (AQIS).

These regulatory authorities are charged with various responsibilities in providing Government's administration of particular policy aspects in relation to trade and community protection arrangements. There has been, over the years, on the basis of information provided to Government, particularly as it relates to the express clearance industry, a diminution in the integrity of statistical data and the need to provide the appropriate tariff classification, as it relates to the determination of the correct duty rate, has declined. Without a revenue implication the concept of *"close enough is good enough"* will clearly not provide to Government the meaningful trade data it requires in positioning Australia in international markets.

Under the provision of the Act, administrative penalties provide an incentive for persons entering goods to, as far as possible, enter the goods correctly, however, as has been evident by the doing away by the ACS of export entries and replacing them with simple export clearance document, data integrity suffers accordingly. It has been estimated by Government administration in Australia and the United States of America that the integrity of export data is as low as 10% in terms of correct classification or the determination of the value of goods. In addition, as previously commented upon, community protection and profiling arrangements for goods imported into Australia, particularly as they relate to quarantine matters, are referenced to tariff headings and the revenue implications resulting from determining the correct rate of duty and spectre of administrative penalties, provided the impetus to ensure goods were correctly entered.

While some of the identified deficiencies have been overcome by way of the co-regulatory arrangements between AQIS and customs brokers by way of Broker Accreditation and Compliance Agreements, other regulatory authorities such as the ACS and the ABS have also received benefits from these arrangements.

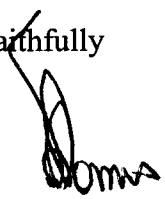
It is the CBCA's opinion that a need exists in relation to any tariff review, to be mindful as to implications of any customs duty variations and for these to be noted by the Commission to ensure that the regulatory needs are met within the terms of a coding system (tariff classification), which is now not only used as a revenue and statistical tool, but also a profiling arrangement in not only Australian, but in many developed economies. The Tariff Act is now a management tool over and above its trade and revenue process.

Revenue Implications

It should be noted that the barrier clearance sector of industry, which is represented in the main by CBCA members, will be responsible for the determination or collection of $17 billion of Government revenue on goods imported (customs duty and goods and services tax). This industry sector therefore has a desire to ensure that whatever decision is taken by Government, the customs duty and taxation implications are clearly referenced.

As previously commented, should representatives of the Commission wish to discuss any of the issues raised, please do not hesitate to contact me.

Yours faithfully



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