Submission by the *Australian Industry Group* to the review of Australia's General Tariff arrangements being conducted by the productivity commission

January 2000

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Overview and Recommendations

AUSTRALIAN INDUSTRY
GROUP

SECTION 1

INTRODUCTION

The Productivity Commission - under direction from the Assistant Treasurer - announced a review of Australia's general tariff arrangements on 21 October 1999, to be completed by 22 July 2000. In announcing the inquiry, the Minister for Industry, Science and Resources indicated that it would fulfil Australia's APEC commitment to review its general tariffs in 2000 or earlier.

According to the Commission, 'the central issue is the scope for a post-2000 reduction in the general tariff, covering only rates of 5 per cent or less, and excluding the PMV and TCF sectors'.[1]

As part of the inquiry, the Commission will consider a range of questions including:

- the costs and benefits of tariff reductions to Australian consumers, industries and their employees and the general community;
- implications for trade negotiations; and
- interactions with the manufacture in Bond and the TRADEX schemes, the Tariff Concession System and Project By-Law arrangements.

Importantly, the Commission has been asked to also have regard in the course of the inquiry to issues relating to nuisance tariffs and 'the appropriateness of the Tariff Concession System and Project By-Law arrangements'.

The Australian Industry Group represents approximately 11,500 companies, the majority of which operate in the general manufacturing sector. These companies will be directly affected by the outcome of this inquiry.

In preparing our submission Ai Group undertook five studies focussing on specific issues relevant to the Terms of Reference. Together with this overview, these papers form Ai Group's submission to this inquiry. The studies comprise:

- A survey of approximately 550 Ai Group members on the review and the impact of a reduction in the general import tariff (Paper 1);

[1] Circular Productivity Commission 10 November 1999

- A commissioned paper undertaken by Professor John Quiggin examining the welfare benefits to the economy of a reduction in the general tariff and, interalia, the interaction between tariffs and the exchange rate (Paper 2);

- A paper on progress in world trade liberalisation including an examination of progress in WTO negotiations and Australia's obligations and performance under APEC arrangements and an analysis of Australia's barriers to trade vis a vis competitor nations (Paper 3);

- An analysis of the Strategic Importance of Australian Manufacturing focusing on our Defence interests (Paper 4); and

- An analysis of the Tariff Concession System (Paper 5).

SECTION 2

IMPLICATIONS OF FINDINGS FOR FURTHER UNILATERAL REDUCTIONS IN THE GENERAL TARIFF

The five studies taken both individually and collectively indicate that given the adjustment costs to the economy and the community there is no scope for a further reduction in Australia's general tariff from 5% to 0%. They suggest that to do so would involve considerable risk with little potential benefit:

- Professor Quiggin's analysis indicates that the welfare benefits from a reduction in tariffs to zero are small while the adjustment costs are 'likely to outweigh any static efficiency ~~costs~~ benefits'.

- Ai Group's survey would suggest that the adjustment costs - particularly in terms of employment and production, would be substantial. It further suggests that investment in the industry would contract sharply, putting at risk the long-term viability of the industry in Australia.

- Ai Group's paper on the strategic importance of manufacturing reinforces the need not to allow this to occur.

- Professor Quiggin's paper also identifies the buffer provided by the tariff against exchange rate uncertainty. It begs the question of what is the definition of free trade in a floating exchange rate environment?

- Our analysis of trade liberalisation in Australia and abroad would indicate that a decade plus of rapid and unilateral tariff cuts has made Australia the most open market for imports in the Western world, while other countries have lagged behind. Australia's tariffs are now among the lowest in the developed world, and unlike other countries, Australia has hardly any **non-tariff** barriers. It should be noted that Ai Group's survey indicated that non-tariff barriers constituted a major restraint to companies selling their products overseas for over one in four companies (27%).

- As well Australia is also already well ahead of many of our APEC partners in our trade liberalisation program.

- Australia has virtually no negotiating coin left to play in world trade negotiations. We have everything to lose and little left to gain from the world stalling on its trade liberalisation programs.

- In the meantime, the prospects for further world trade liberalisation in the immediate future are bleak. WTO and APEC action appears unlikely until

well into the first decade of the new century. Indeed it appears that the opposite is more likely to be the case - that there might in fact be a resurgence of protectionism, particularly in the US and Asia.

- The studies support an holistic approach to this issue, one which acknowledges wider community goals and which places tariff policy within the broader context of mechanisms which can influence our economic performance. As Professor Quiggin has argued, a comparison of Australia and New Zealand - which pursued similar policies of tariff reform but very different monetary and exchange rate policies, would indicate that macro-economic not micro-economic reform has been 'decisive' in recent years.

- The studies would provide no support for placing a tariff on inputs to production which are not manufactured in Australia. It is clear the current TCS is damaging the competitiveness and viability of Australian industry. It is a tax on industry for which the case for removal is irrefutable. Consistent with this, every effort to remove genuine nuisance tariffs should be supported.

SECTION 3

KEY FINDINGS FROM AI GROUP STUDIES

PAPER 1 - SURVEY OF Ai GROUP MEMBERS

A survey of 550 Ai Group members operating in 11 sectors of manufacturing was conducted in December 1999. The key findings were:

- Members were evenly divided on the need for the review - 54% favouring the review, with 42% opposed and 4% undecided;

- Among those who supported a review, about half still wanted the general tariff to remain at 5% after 2000. Combined with those respondents who opposed the review, the overwhelming majority favoured the retention of a 5% general tariff after 2000.

- The vast majority of members surveyed (81%) indicated that they would prefer any lowering of Australia's general tariff to be conditional on reciprocal action by our trading partners;

- Such a reduction in Australia's general tariff was expected to adversely affect various aspects of manufacturing operations. While input costs and selling prices could be expected to fall for just over half of respondents (58%), production overall was forecast to fall in 56% of respondent companies (by an average of 14.3%) and sales in a similar percentage of companies (55%) with an average impact of 14.2%;

- Significant implications for employment and investment were predicted. 56% of respondents anticipating a reduction in employment and 46% a reduction in investment.

- The average reduction of 15.2% in employment and 25.7% in investment would clearly have serious consequences for the Australian economy, particularly in regions where previous Ai Group surveys have found extremely high levels of unease about the impact of lower tariffs.

- Some uncertainty surrounds whether business would be prepared to accept a lower general tariff if the Federal Government agreed to a trade-off to establish an industry development fund equivalent to the tariff lost. Just over half respondents were against such a move, but around 1 in 5 (22%) unsure and 24% in favour.

- Over one in four surveyed companies (27%) identified non-tariff barriers as a major restraint in selling their products in overseas destinations, a significant finding that needs to be considered when reviewing general tariff arrangements. Key non-tariff barriers were identified by members and included content requirements, geography and labour costs. Content requirements covered issues relating to additional safety standards required as well as the need for some sort of lcoal content. These tended to cover those businesses exporting to European nations or North America. Labour costs were the key difficulty in successfully competing with Asian companies in their own markets. Lower prices were also an issue in these markets. Issues related to geography included high freight costs, and applied to any exporting business regardless of where the product was destined to go. Trading blocs and preferential treatment for local industry were also mentioned.

PAPER 2 - REVIEW OF AUSTRALIA'S GENERAL TARIFF ARRANGEMENTS

Ai Group commissioned Professor John Quiggin to undertake an analysis of the case for a further reduction in Australia's general rate of tariff. Professor Quiggin was also asked to assess whether it was arguable that the existing tariff constituted a buffer against exchange rate uncertainty in a context of a floating exchange rate regime.

The main findings of Professor Quiggin's analysis are:

- The classical case for free trade is based on the idea of comparative advantage. The fact that trade is mutually beneficial implies that Australians will be made better off by taking advantage of all available trading opportunities, even if others fail to do so. Hence, there is a *prima facie* case for a unilateral move to free trade.

- Although the theory of comparative advantage provides a case in favour of free trade, it also implies that the benefits of a move to free trade will be relatively small. Some attention has therefore been focused on arguments about 'dynamic' gains from trade, which are claimed to be large.

  The main arguments against a move to free trade have been:

  (i) static arguments based on optimal tariff theory;

  (ii) second-best arguments based on the existence of other distortions in the economy;

  (iii) distributional arguments based on the adverse effects of tariff reductions on low-income workers; and

  (iv) dynamic arguments based on the benefits of interventionist industry policy.

- The static comparative advantage model yields the conclusion that if the standard assumptions are exactly satisfied, the optimal tariff is exactly zero. By contrast, dynamic arguments do not yield a case for the optimality of zero tariffs. **The static neoclassical model yields the estimate that a move from a 5 per cent uniform tariff to zero yields benefits equal to approximately 0.01 percent of GDP. This is equal to about $60 million/year ($3 per person per year) or about 1 days' economic growth. So, if a decision to hold the tariff at 5 per cent avoided adjustment costs to the extent of permitting two days of normal growth in place of two days of zero growth, it would be beneficial. It seems likely that adjustment costs will outweigh any static efficiency benefits.**

- The analysis so far has taken no account of exchange rates. However, the effective level of protection received by an industry depends on the interaction of tariffs and exchange rates. There have been frequent occasions on which short-term interest rates in Australia have been held at levels higher than those in the rest of the world, in part because of the reduction in inflationary pressure associated with the maintenance of an overvalued exchange rate (that is, an exchange rate in excess of purchasing power parity).

  The effect of a deviation from purchasing power parity is similar to that of a (positive or negative) combined tariff and export subsidy. If the real exchange rate is lower (higher) than that consistent with purchasing power parity, exporters and import-competing industries benefit (suffer).

  From the view point of a risk-averse import-competing firm, the existence of a tariff offsets risk resulting from deviations of the real exchange rate from purchasing power parity. **Hence, the tariff may be said to constitute a buffer against exchange rate uncertainty.**

PAPER 3 - TRADE LIBERALISATION

The key findings of this analysis are:

- The program of unilateral tariff reductions undertaken in Australia over the past 30 years and with stronger momentum in the nineties, has made Australia one of the most open economies in the world.

- Over the last 30 years, the level of barrier protection afforded to Australia's manufacturing industries, mainly via the tariff, has been reduced from 35% to 5% in 2000-01[2]. By the year 2000-01, average protection in the manufacturing sector will be just 3% (nominal) and 5%(effective rate).

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[2] Michael Emmery 1999, 'Australian Manufacturing: A Brief History of Industry Policy and Trade Liberalisation', Parliamentary Library

- Australia now applies a maximum tariff of 5% on imports with the exception of the TCF and PMV sectors. By the year 2000, the highest tariffs will be 25% for some TCF products and 15% for PMV. The Government has clearly defined strategies to review any reduction is tariffs in the latter two sectors.

- Australia's non-tariff barriers to trade on both a frequency and import coverage rate basis, are negligible (0.7% and 0.6%). The incidence of these barriers are significantly greater in other comparable OECD nations - most notably the US, European Union, Japan and Canada[3].

- Reflecting these circumstances, the import penetration rate for Australian manufacturing industries has doubled since 1970, rising by almost 50% in the first half of the 1990's[4].

Trade Liberalisation Forums WTO and APEC

- Australia has limited bargaining power in our negotiations for improved access to world markets. This situation exists because we have unilaterally reduced our own barriers - especially in relation to manufacturing products and also because of our relatively small market in many product areas.

  Multilateral trade negotiation forums are therefore essential in assisting Australian industry to enter markets protected by either tariff or non-tariff barriers.

- Despite reductions in tariff rates on world markets over the last 15 years, resulting in average tariff rates being quite low for industrialised economies, there are still many examples of high tariff peaks on significant products, eg. the automotive industry in ASEAN economies. Non-tariff barriers continue to pose enormous problems in many markets.

- The WTO Ministerial Meeting held in Seattle in November 1999 was a disaster. Given the US Presidential election later this year, it is most likely that no serious progress will be made before 2001.

- Despite the best negotiating circumstances imaginable, it would then be 2004-5 before any meaningful trade liberalisation measures would come out of this next WTO Round. In the meantime, WTO member economies retain barriers against Australian exports.

- APEC is also proving similarly disappointing. While the Australian Industry Group has strongly supported APEC, given its enormous potential for trade

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[3] OECD Economic Outlook June 1999

[4] Opcit

liberalisation when leaders of some of the world's largest economies gather to discuss these issues, unfortunately APEC meetings in recent years have stalled.

This disappointment with progress on the APEC agenda was acknowledged in the Communique released by the APEC Trade Ministers who met in Auckland in June 1999, which stated:

"Ministers, reflecting business concerns, agreed to further improve the credibility of their Individual Action Plans."

- The Government's request to the Productivity Commission in its reference to this inquiry to take into account *"the Government's commitment to the APEC goal of free and open investment in the Asia Pacific by 2010 for industrialised economies and 2020 for developing economies"* has already been demonstrated in the Australian Government's unilateral tariff reductions to date. Australia is already well ahead of many of our APEC partners in our trade liberalisation program. It is time for other economies to catch up to Australia before we need to take yet another unilateral step.

- Australia has virtually no negotiating coin left to play in this world trade liberalisation bargaining pursuit. We have everything to lose and nothing to gain from the world stalling on its liberalisation programs.

- **Now is not the time for Australia to deliver its last step on general tariff reductions, when it would be done unilaterally and not elicit any proportionate or reciprocal response.**

PAPER 4 - THE TARIFF CONCESSION SYSTEM

- The fundamental objective of the Tariff Concession System (TCS) was originally to assist the competitiveness of Australian industry by allowing duty free entry of goods where there was no local manufacturer.

- This original policy vehicle has been completely overturned as a result of a "grab for cash" by the previous Labor Government and continued by this Government. Latest estimates show that the Government will raise some $400 million under the TCS this financial year.

- The whole basis of this particular Productivity Commission Inquiry is to look at the competitive implications for Australian industry if the Government moves on a variety of tariff issues - the TCS being one of these critical review items.

- The 3% tariff (tax) imposed on industry under the TCS should be abolished. It is bad policy when assessed against any measurement to improve the international competitiveness of Australian industry.

- The TCS 3% duty is now simply and solely a revenue measure.

- If the Government is going to be influenced purely by revenue considerations then any prospect of the abolition of the 5% general tariff rate is completely at odds with the 3% duty under the TCS.

- However, the Australian Industry Group argues in this submission that it is very good policy in endeavouring to enhance the international competitiveness of Australian industry, by removing unwarranted taxes on industry (3% duty under the TCS) while retaining the 5% general tariff rate.

- Further, by dutying business inputs at 3% as purely a revenue measure, the Government is effectively penalising value added manufacture in Australia

Nuisance Tariffs

- Consistent with the Australian Industry Group's standing recommendation to abolish the 3% duty under the TCS, the Australian Industry Group also fully supports the abolition of "nuisance tariffs" where these serve only as business input costs and do not provide support to any local manufacturing capability.

- The Australian Industry Group has worked very co-operatively with the Minister for Industry, Science and Resources and his Department to ensure that where known Australian local manufacturers exist, that duty is not removed as part of the "nuisance tariffs" exercise. The Australian Industry Group recommends this position be endorsed by the Productivity Commission.

PAPER 5 - THE STRATEGIC IMPORTANCE OF AUSTRALIAN MANUFACTURING

- When assessing the costs and benefits of abolishing the remaining five per cent general tariff rate, it is essential to consider the strategic implications for Australia of a possible diminution in our manufacturing base, not just the economic impact. Recent events in Indonesia have clearly demonstrated the importance of our defence capability in supporting stability in our region. Specifically, Australia's policy of defence self-reliance depends critically on a dynamic and growing base of Australian manufacturers, and any change in that base potentially has significant implications for the nation's security.

- Australia's defence contractors possess technologies, infrastructure and trained personnel that are vital to the nation's defence effort in areas ranging from electronic warfare to fighter aircraft avionics. These capabilities have been built up through a concerted process of investment by government and industry over the past 15 years.

- As Australia pursues self-reliance in an environment characterised by strategic uncertainty, the Australian manufacturing industry is a key player in our efforts to divorce Australia from dependence on overseas support.

- A strong, globally integrated and high-technology manufacturing industry in Australia is also essential to provide advanced systems, or adapt those systems provided by other countries, so that they can operate effectively in our unique physical environment.

- Beyond its strategic role in peacetime, Australian manufacturers would play a vital role in supporting defence operations by repairing and maintaining key high-technology systems, and by adapting those systems to enable them to operate safely in hostile environments.

SECTION 4

CONCLUSIONS AND RECOMMENDATIONS

It has been strongly argued that the reduction in protection has forced Australian industry to improve competitiveness and become more export oriented.

It is true that tariff reform together with a competitive exchange rate and the rapid growth rates in Asia recorded during the nineties, coincided with a strong improvement in productivity in Australian manufacturing - the sector accounted for 45% of total productivity growth in the economy between 1990 and 1995, and strong growth in manufacturing export volumes - between 1990 and 1998 export volumes of Australian manufactures grew by 117%, double the growth in global exports of manufactures.

However, while encouraging, these figures disguise the inherent tenuousness of the sector's performance. Even if the downturn of the early 1990's is excluded, Australia's manufacturing industry grew at only half the rate of economy wide GDP (2.1% pa compared to 4.1% for economy wide GDP in the 7 years to 1998-99)[5]. Indeed during this period, while Australia's overall economic growth ranked amongst the world's best, the growth rate of our manufacturing sector, despite its best efforts, lagged.

It is inaccurate to suggest that manufacturing world-wide shared this experience. Australian manufacturing, in experiencing a growth rate in production below the economy-wide rate, was in fact out of sync with many of its trading partners. The US economy during the period 1990-98 grew production by 23.1% while manufacturing production grew by 24.87%; the Canadian economy grew by 18% during this period, its manufacturing sector by 24.8%; Sweden's economy grew production by 8.3% while its manufacturing industry grew by 35.8%. Australia, with growth in economy-wide production of 30.2% over the period and a growth in manufacturing production of 12.2%, was well off the pace[6].

The unrelenting pressure on prices and margins clearly contributed to the pressure further constraining growth rates and accelerating the rate of rationalisation.

It should come as no surprise that the trade deficit in manufactures increased rapidly and substantially during this period contributing substantially to our current account woes. The manufacturing trade deficit accelerated largely in response to strong growth in imports. Overall, the manufacturing trade deficit widened to $55.8 billion dollars in 1998-99, a rise

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[5] ABS 1350 October 1999

[6] OECD Economic Outlook 1999

of 13% on the previous year, and over 78% higher than at the start of the decade[7]. We need no reminder that the current account deficit remains the biggest and darkest shadow hanging over our economic future.

Today, the manufacturing sector constitutes:

- 12.5% of GDP
- 12.5% of employment - Over one million Australians are employed in the manufacturing sector, 90% full-time.
- 33.9% of exports;
- 21.1% of new capital expenditure; and
- 57% of private sector R&D.[8]

It is our contention that a unilateral reduction in tariffs would render further damage to this sector which is clearly so significant to the Australian economy for very little economic gain.

We therefore would recommend that the Productivity Commission find that:

- **Given the adjustment costs to the economy and the community there is no scope for a reduction in the general tariff from 5% to 0%.**
- **Any reductions in Australia's barrier protection should be contingent upon reciprocal and proportionate action by our trading partners.**
- **The present duty applied to inputs to production under the Tariff Concession System be abolished.**
- **Efforts to abolish 'nuisance tariffs' continue where such tariffs serve only to increase business input costs and do not provide support for any local manufacturing capability.**

[7] DFAT Exports of Primary and Manufactures Products 1999

[8] ABS 5206 Sept 1999; 6203 Aug 1999; 5625 Sept 1999
DFAT Exports of Primary and Manufactures Products 1999
ABS 8104 1997/98

Part 2
Research Studies

AI GROUP MEMBERS SURVEY ON THE IMPACT OF A REDUCTION IN THE GENERAL IMPORT TARIFF

1 Introduction and summary of findings

The Productivity Commission—under direction from the Assistant Treasurer—announced a review of Australia's general tariff arrangements on 21st October 1999, to be completed by July 2000. According to the Commission, "the central issue is the scope for a post-2000 reduction in the general tariff, covering only rates of 5 per cent or less, and excluding the PMV and TCF sectors.

As part of the inquiry, the Commission will consider a range of questions including:

- the costs and benefits of tariff reductions;
- implications for trade negotiations; and
- implications for the Manufacture in Bond and the TRADEX schemes, the Tariff Concession System and Project By-Law arrangements."[9]

Given that Australian industry would have a keen interest in such matters, the Australian Industry Group has undertaken a survey that asks members their opinion on the impact of a reduction in the general import tariff.

The survey of 550 members operating across all manufacturing sectors in NSW, Victoria and Queensland, covering both cities and regions, was conducted in early December 1999 following the announcement of the review.

The key findings to emerge from the survey were:

- members were evenly divided on the need for such a review - 54% favouring the review, with 42% opposed and 4% decided.
- among those who supported a review, about half still wanted the general tariff to remain at 5% after 2000. Combined with those respondents who opposed the review, the overwhelming majority favoured the retention of a 5% general tariff after 2000.
- an overwhelming majority of members (81%) were opposed to any unilateral reduction in the general tariff without reciprocal action by our trading partners.

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[9] Source: http://www.pc.gov.au/inquiry/tariff/index.html

- such a reduction was expected to adversely affect various aspects of manufacturing operations. While input costs and selling prices could be expected to fall for just over half of respondents (58%), production overall was forecast to fall in 56% of respondent companies (by an average of 14.3%) and sales in a similar percentage of companies (55%), with an average reduction of 14.2%.

- significant implications for employment and investment were predicted, with 56% of respondents anticipating a reduction in employment and 46% a reduction in investment.

- The average reduction 15.2% in employment and 25.7% in investment would clearly have serious consequences for the Australian economy, particularly in regions where previous Ai Group survey have found extremely high levels of unease about the impact of lower tariffs.

- when asked whether industry would accept a trade-off between a lower general tariff and the establishment of an industry development fund in its place, just over half were against the move, 22% were unsure and 24% in favour.

- over one in four survey companies (27%) identified non-tariff barriers as a major restraint in selling their products in overseas destinations, a significant finding that needs to be considered when reviewing general tariff arrangements.

2 Detailed national results

On a national basis, general support for the Commission's review was fairly evenly split, with 54 per cent indicating that they approved, and 42 per cent preferring that the Commission left well enough alone.

Amongst those who supported the review, almost half 48% favoured the tariff being kept at 5% after 2000 and only 39% favouring a zero tariff. This helps to explain why there was strong opposition to any unilateral reduction in the general tariff rate, with more than three-quarters of respondents opposed to such a move.

The vast majority of members (81 per cent) also indicated that they would prefer any lowering of Australia's general tariff to be conditional on reciprocal tariffs applying with our trading partners.

Table 2.1. Support for various options (per cent of respondents)

	Yes	No	Don't know
Support for review	54	42	4
Support unilateral lowering	21	77	1
Reciprocal tariff lowering	81	16	3
Support industry fund trade-off	24	54	22

When asked to nominate an appropriate general tariff rate after 2000, 71% of respondent wanted the rate left unchanged at 5%. This is in contrast to 21% who favoured a zero tariff.

Table 2.2. Preferred tariff rate (per cent of respondents)

	0	1	2	3	4	5
Post-2000 general tariff	21	0	2	5	2	71

The tariff reduction is expected to adversely effect various other aspects of manufacturers operations. Specifically, production, sales, employment and investment are all forecast to decline as a result of this move.

Although there was only minimal support for a unilateral lowering of tariffs, the majority of respondents (58 per cent) indicated that the price of inputs to their production process would fall as a result of lowering the general tariff from 5 to 0 per cent. This appeared likely to be directly passed on to consumers, however, as the same proportion of firms indicated that selling prices would also fall, and by a similar amount to the input price reduction.

Table 2.4 shows the responses by sector in terms of impact on employment and investment. The worst impact in employment and investment were in the TCF, metals and transport equipment sectors, where over 60% of respondent expected lower employment and over half lower investment. The expected reductions in employment varied from 27% in transport equipment to 9.8% for basic metals. In terms of investment, the expected reductions varied from 40.7% in textiles to 19.4% in construction.

Table 2.3. Impact on prices (per cent of respondents)

	Up	Down	Same	Don't know/ not answered
Impact on:				
Production input prices	8	58	16	18
Selling prices	7	58	16	19
Production	10	56	17	17
Sales	16	55	16	14
Employment	10	56	18	16
Investment	11	46	20	23
Average per cent change:				
Production input prices	6.6	-5.0	.	.
Selling prices	6.7	-5.0	.	.
Production	3.8	-14.3	.	.
Sales	4.2	-14.2	.	.
Employment	2.6	-15.2	.	.
Investment	5.4	-25.7	.	.

Table 2.4. Impact on employment and investment by sectors

	% expecting lower employment	% expecting lower investment	Expected fall in employment	Expected fall in investment
Food, beverages & tobacco	32	41	19.4	32.9
Textiles	67	61	23.3	40.7
Clothing & footwear	67	50	23.5	29.4
Wood, wood products & furniture	69	50	14.0	27.1
Paper, printing & publishing	31	31	7.8	27.8
Chemicals, petroleum & coal products	53	47	14.7	21.5
Basic metal products	73	63	9.8	24.5
Fabricated metal products	66	52	14.7	24.4.
Transport equipment	63	56	27.0.	36.2.
Machinery & equipment	54	40	13.2	20.3
Construction	43	36	11.5	19.4.

More uncertainty surrounds whether business would be prepared to accept a lower general tariff if the Federal Government agreed to a trade-off to establish an industry fund equivalent to the tariff lost. Just over half were against such a move, but around 1 in 5 respondents were unsure. When asked whether industry would accept a trade-off between a lower general tariff and the establishment of an industry development fund in its place, just over half were against the move, 22% were unsure and 24% in favour.

Over one in four survey companies (27%) identified non-trade barriers faced as a major restraint in selling their products in overseas destinations, a significant finding that needs to be considered when reviewing general tariff arrangements. Key non-tariff barriers that were given by members included content requirements, geography and labour costs.

Content requirements covered issues relating to additional safety standards required as well as the need for some sort of local content. These tended to cover those businesses exporting to European nations or North America. Labour costs were the key difficulty in successfully competing with Asian companies in their own markets. Lower prices were also an issue for these markets. Issues related to geography included high freight costs, and applied to any exporting business regardless of where the product was destined to go. Trading blocks and preferential treatment for local industry were also mentioned.

REVIEW OF AUSTRALIA'S GENERAL TARIFF ARRANGEMENTS

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Summary

The classical case for free trade is based on the idea of comparative advantage. The fact that trade is mutually beneficial implies that Australians will be made better off by taking advantage of all available trading opportunities, even if others fail to do so. Hence, there is a *prima facie* case for a unilateral move to free trade.

Although the theory of comparative advantage provides a case in favour of free trade, it also implies that the benefits of a move to free trade will be relatively small. Some attention has therefore been focused on arguments about 'dynamic' gains from trade, which are claimed to be large.

The main arguments against a move to free trade have been

(i) static arguments based on optimal tariff theory;

(ii) second-best arguments based on the existence of other distortions in the economy;

(iii) distributional arguments based on the adverse effects of tariff reductions on low-income workers; and

(iv) dynamic arguments based on the benefits of interventionist industry policy.

The static comparative advantage model yields the conclusion that if the standard assumptions are exactly satisfied, the optimal tariff is exactly zero. By contrast, dynamic arguments do not yield a case for the optimality of zero tariffs. The static neoclassical model yields the estimate that a move from a 5 per cent uniform tariff to zero yields benefits equal to approximately 0.01 per cent of GDP. This is equal to about $60 million/year ($3 per person per year) or about 1 days' economic growth. So, if a decision to hold the tariff at 5 per cent avoided adjustment costs to the extent of permitting two days of normal growth in place of two days of zero growth, it would be beneficial. It seems likely that adjustment costs will outweigh any static efficiency benefits.

The analysis so far has taken no account of exchange rates. However, the effective level of

protection received by an industry depends on the interaction of tariffs and exchange rates. there have been frequent occasions on which short-term interest rates in Australia have been held at levels higher than those in the rest of the world, in part because of the reduction in inflationary pressure associated with the maintenance of an overvalued exchange rate (that is, an exchange rate in excess of purchasing power parity).

The effect of a deviation from purchasing power parity is similar to that of a (positive or negative) combined tariff and export subsidy. If the real exchange rate is lower (higher) than that consistent with purchasing power parity, exporters and import-competing industries benefit (suffer).

From the viewpoint of a risk-averse import-competing firm, the existence of a tariff offsets risk resulting from deviations of the real exchange rate from purchasing power parity. Hence, the tariff may be said to constitute a buffer against exchange rate uncertainty.

REVIEW OF AUSTRALIA'S GENERAL TARIFF ARRANGEMENTS

This paper has been prepared as part of a submission by the Australian Industry Group to the Review of Australia's General Tariff Arrangements being undertaken by the Productivity Commission.

The paper begins with a review of the case for free trade, including classical comparative advantage arguments, arguments about the dynamic benefits of free trade. Criticisms of these static and dynamic arguments are then considered. This material provides a background for considering the question of whether, assuming that the balance of the argument is in favour of free trade, there is any particular merit in going to a zero tariff. It is argued that the welfare benefits of changing tariff rates from 5 per cent to zero are quite small, while the adjustment costs may be substantial. The final section of hte paper deals with the literature on exchange rate uncertainty and optimal tariffs, and concludes that moderate tariffs provide a buffer against exchange rate uncertainty.

REVIEW OF THE CASE FOR FREE TRADE

The classical case for free trade is based on the idea of comparative advantage. The fact that trade is mutually beneficial implies that Australians will be made better off by taking advantage of all available trading opportunities, even if others fail to do so. Hence, there is a *prima facie* case for a unilateral move to free trade.

Assuming Australia is a small country, that is, we face perfectly elastic demand for and supply of traded goods, we can take the international prices as given without worrying about how they are determined. Assuming that the Australian economy is perfectly competitive and fully employed, that there no externalities or other market failures, and that lump sum redistribution is feasible, a potential Pareto improvement arises when the economy shifts from tariff protection to free trade. Problems with these assumptions are discussed below.

Dynamic arguments

Although the theory of comparative advantage provides a case in favour of free trade, it also implies that the benefits of a move to free trade will be relatively small. Some attention has therefore been focused on arguments about 'dynamic' gains from trade, which are claimed to be large.

As an example of the dynamic gains argument, it is frequently suggested that protection made Australian firms inward looking and complacent. Until recently, it was suggested that under free trade, competition from imports would make firms 'lean, mean and efficient', and that an outward-looking, export-oriented economy would yield dynamic benefits associated with the growth of the Asian region. When Asian growth rates collapsed in the late 1980s, it was claimed that previous tariff reductions had made the economy more flexible and therefore able to withstand the effects of adverse external shocks.

The weakness of these arguments may be seen by comparing the experience of Australia and New Zealand, which pursued similar policies of tariff reform, but very different monetary and exchange rate policies. New Zealand used high interest rates to avoid a depreciation of the currency, and experienced a recession. Australia kept interest rates low, allowed the $A to depreciate against the $US (there was only a modest depreciation in trade-weighted terms) and maintained strong growth. It was macroeconomic policy, not microeconomic reform, that was decisive.

This example illustrates the more general point that the effects of tariffs cannot be considered in isolation. The terms of trade faced by import-competing industries depend on the interaction between tariffs and exchange rates.

Arguments against free trade

The classical case for free trade is based on the assumptions that the economy is perfectly competitive and fully employed, that there no externalities or other market failures, and that the country is a price-taker in international markets. This list of assumptions gives rise to many criticisms of the standard case for free trade. The Australian economy is neither perfectly competitive nor fully employed, and for some goods, such as wool, Australian production has a significant effect on the world price. Moreover since lump sum redistribution is not feasible, changes in trade policy will, in general, make some groups in the community better off and others worse off.

The main arguments against a move to free trade have been

(i) static arguments based on optimal tariff theory;

(ii) second-best arguments based on the existence of other distortions in the economy;

(iii) distributional arguments based on the adverse effects of tariff reductions on low-income workers; and

(iv) dynamic arguments based on the benefits of interventionist industry policy.

Each of these issues has been debated at length.

The most common response of advocates of free trade has been to argue that, to the extent that these arguments are valid, alternative instruments will achieve the same benefits with efficiency costs less than those of tariff protection. For example, it may be argued that labour market policies will promote employment goals more effectively than tariff protection. This argument becomes steadily less compelling as the tariff rate approaches zero and the associated efficiency costs become small.

Is zero the optimal tariff?

The static comparative advantage model yields the conclusion that if the standard assumptions are exactly satisfied, the optimal tariff is exactly zero. By contrast, dynamic arguments do not yield a case for the optimality of zero tariffs. For example, the argument about the

benefits of competition from imports appears to imply that even better results would be obtained if tariffs were replaced by import subsidies, yielding negative effective protection. Similarly, a belief in the virtues of an 'outward looking' orientation appears to suggest a strong case for subsidising exports.

Since advocates of dynamic arguments for tariff reductions rarely follow these arguments through to their logical conclusion, it seems reasonable to infer that dynamic arguments are being advanced to support a predetermined policy stance in favour of zero tariffs, rather than being used to determine appropriate policies. Moreover, since many dynamic arguments (for example those derived from endogenous growth theory) favour support for selected manufacturing industries, it is highly unlikely that a policy analysis based on dynamic arguments will yield the conclusion that zero tariffs are optimal, or will provide a firm basis for cutting existing tariffs.

Returning to the static comparative advantage model, few advocates of freer trade would claim that the assumptions of the model are exactly satisfied. Rather, it is usually suggested that deviations from the standard assumptions are not very important, and that considerations such as the possibility of retaliation make it unwise to impose substantial tariffs even if an initial analysis suggests that such tariffs are optimal. Whatever, the force of such arguments, they do not restore the validity of the claim that zero tariffs are optimal. This claim is valid only if the benefits of moving from a low tariff rate to zero exceed the costs. An assessment of this issue requires a comparison of the welfare costs of tariff protection with the adjustment costs of changes in tariff rates.

The welfare costs of tariff protection

We can derive approximate estimates of the aggregate efficiency loss due to tariffs using the welfare triangle method (Harberger.1964) The welfare loss from a tariff, expressed as a proportion of total output, may be approximated by $1/2(\varepsilon + \eta)t^2$, where ε and η are the elasticities of demand and supply and t is the tariff rate.

This reasoning permits us to make a 'back of the envelope' estimate of the cost to the economy, expressed as a percentage of GDP, of a uniform tariff on manufactured imports. Suppose the aggregate supply and demand elasticities for manufactures are both 0.5 and that value-added in import-competing manufacturing makes up 10 per cent of GDP. Then the welfare cost of a 5 per cent tariff, expressed as a proportion of GDP is

$$\Delta / GDP \approx 0.5*0.1*(0.05)^2 = 0.000125$$

That is, the estimated welfare loss is approximately 0.01 per cent of GDP. This is equal to about $60 million/year ($3 per person per year) or about 1 days' economic growth. So, if a decision to hold the tariff at 5 per cent avoided adjustment costs to the extent of permitting two days of normal growth in place of two days of zero growth, it would be beneficial.

Adjustment costs

There are few precise estimates of the adjustment costs associated with tariff reductions, but there is little doubt that they are positive and that they are not fully offset by benefits to other sectors of the economy. The critical issue is the net loss of labour resources to the economy through increases in overt or hidden unemployment.

Evidence about the impact of large scale retrenchments, reported in Industry Commission (1996), suggests that around 50 per cent of retrenched workers remain unemployed or out of the labour force after three years, suggesting that a substantial proportion have effectively been lost to the economy. Against this must be set the impact on long term unemployment of those industries that expand as a result of tariff cuts.
It seems reasonable to suppose that the adjustment costs to the economy will be greater the more rapid the pace of adjustment. Where employment in the protected sector (manufacturing) is in any case contracting as a result of technological change the effect of tariff reform is simply to hasten the pace of adjustment, and therefore, probably, to raise the level of adjustment costs.

The order of magnitude of adjustment costs sufficient to outweigh the efficiency benefits of a move from 5 per cent protection to zero may be illustrated by the following example. Suppose that the elasticity of supply in the import-competing manufacturing sector is 2 and that 1000000 workers are employed in the sector. Then the tariff cut will displace 100,000 employees. Suppose that these employees earn an average of $30 000 per year, that 50 per cent of them withdraw from the labour force, and that the job loss in formerly protected industries is offset by the creation of 70 000 jobs elsewhere in the economy of which 20 000 go to workers previously long term unemployed or out of the labour force. Then there is a net loss of 30 000 workers or $90 million per year in wage income (assuming involuntary leisure is valued at zero). If this loss persists for 15 years the net present value of adjustment costs (discounted at 8 per cent) exceeds the net present value of the stream of efficiency benefits generated by the tariff cuts. This calculation does not take account of adjustment costs incurred by firms (bankruptcy, restructuring and so on) or by workers whose job loss is only temporary.

Efficiency gains and transfers

An alternative way of assessing the importance of adjustment costs is to compare the relative magnitude of the efficiency gains and wealth transfers associated with the equilibrium effects of a policy change. The larger are the wealth transfers relative to the efficiency gains the greater is the likelihood that adjustment costs will outweigh efficiency benefits.

The magnitude of the wealth transfers associated with a tariff is a linear function of the tariff rate, while the efficiency benefits are a quadratic function of the tariff rate. This means that the ratio of wealth transfers to efficiency benefits increases steadily as the tariff rate approaches zero. If the initial tariff rate is near zero, changes in the rate act primarily to redistribute income, since efficiency gains are small in comparison to transfers.

Public choice arguments

One argument put forward by advocates of a zero tariff is derived from the theory of public choice, which rests on the assumption that policies are determined, not by considerations of public welfare, but by the relative strength of lobby groups. It is argued that, if tariffs are eliminated altogether, the lobby groups supporting tariffs will be weakened or eliminated, thereby reducing the likelihood of a return to high tariffs.

The empirical evidence does not support this argument. The most important case of a nation adopting a zero-tariff policy is that of Britain, which eliminated its last tariffs (apart from revenue tariffs matched by domestic excise duties) in 1874, having moved to a low-tariff policy with the repeal of the Corn Laws in 1849. In 1903, the tariff debate was reopened with the foundation of the Tariff Reform League by Joseph Chamberlain, and by 1931 Britain had returned to a strongly protectionist policy.

In any case, arguments of this kind have no place in the deliberations of a Public Inquiry. The process of public inquiry is designed to enhance the role of rational debate as against lobbying, not to advise governments on how to manipulate lobby groups, weakening some and strengthening others.

Exchange rate uncertainty and optimal tariffs

The analysis so far has taken no account of exchange rates. However, the effective level of protection received by an industry depends on the interaction of tariffs and exchange rates. There has been a good deal of debate over the question of whether tariffs represent a buffer, offsetting exchange rate uncertainty.

A survey of the literature

At the time of the first rigorous development of general equilibrium theory, Arrow (1954) and Debreu (1954) showed how uncertainty could be incorporated in a general equilibrium model. Having already considered goods differentiated by time and place of delivery, Arrow and Debreu proposed modelling uncertainty in terms of a set of possible states of nature and considering goods differentiated by the state of nature in which they were produced.

The key insight of Arrow and Debreu was that the basic logic of competitive equilibrium is unchanged as a result of the introduction of uncertainty. Provided there exist competitive markets for every state-contingent commodity a competitive equilibrium will exist and will be Pareto-optimal. If, in addition, wealth can be costlessly transferred between individuals, then any social optimum can be achieved simply by undertaking appropriate wealth transfers and allowing the competitive equilibrium to emerge. Under these assumptions, interventions such as tariffs are always suboptimal.

However, as Arrow stressed, the number of markets required to guarantee the optimality of competitive equilibrium under uncertainty may be immense, including markets for insurance against every possible eventuality a firm may face, contingent markets for every possible factor affecting demand for exports and supply of imports and so on. Hence, Arrow

suggested, the absence of sufficient markets for risk management is likely to provide the rationale for many forms of investment.

The Arrow-Debreu model was applied to the problem of trade policy by Helpman and Razin (1978, 1980). Helpman and Razin assumed the existence of a complete set of state-contingent markets and derived the result that in this case, if the other assumptions noted above remain valid, free trade remains the optimal policy. The main interest of Helpman and Razin was in considering the optimal choice of policy instrument assuming that it was desired, for some

political or second-best reason, to protect a particular sector. This issue was examined further by Anderson and Young (1982) and Eldor (1986).

The argument that, in the absence of perfect markets, tariffs might be an optimal, or at least a welfare-improving policy was clarified in the debate between Jabara and Thompson (1982, 1985) and Grossman (1985). Jabara and Thompson (1982) presented a range of arguments to support the view that tariffs were an appropriate response to uncertainty about exchange rates and the terms of trade, and that the adoption of such policies by developing countries was justifiable. Grossman restated the argument of Helpman and Razin that free trade would be the optimal policy in the presence of complete state-contingent markets and showed how, in the absence of complete markets, tariffs might improve welfare. However, consistent with the general Arrow-Debreu analysis, Grossman observed that direct redistribution of endowments would in general be superior to tariffs.

In response, Jabara and Thompson (1985) observed that governments in less developed countries might not have the revenue to implement alternatives to tariffs of the kind proposed by Grossman. A more general version of this argument is presented by Quiggin (1995). Whenever direct redistribution is costly, the optimal policy is not to rely entirely on redistributive policies but to employ interventions such as tariffs up to the point where the marginal cost of those interventions is equal to the marginal cost of achieving the same outcome through additional direct redistribution.

A further development of the debate on trade policy under uncertainty arose from consideration of the idea of strategic trade policy. Although the initials models of strategic trade policy (Brander and Spencer 1984) were based on the assumption of certainty, it became apparent that more realistic modelling of the problem required consideration of uncertainty (Laussel and Soubeyran 1993). Grant and Quiggin (1997) adapted the ideas of Klemperer and Meyer (1989) to derive conditions for the optimal of fixed, ad valorem and quadratic tariffs.

In summary, the literature on tariffs under uncertainty shows that, where import-competing firms face uncertainty associated with fluctuations in the exchange rate or the terms of trade, and where the markets for financial assets to manage risk are incomplete or imperfect, tariffs may increase economic welfare. In general, there may exist alternative policy instruments which yield the same risk-management benefits at a lower efficiency costs. However, where the efficiency costs of the tariff are minimal, as is the case with a general tariff levied at a rate of 5 per cent, it is unlikely that the efficiency benefits of such alternative instruments would be sufficient to offset the administrative and adjustment costs of a change in policy.

Tariffs as a buffer against external uncertainty

Most theoretical analysis of tariff policy is undertaken using models in which there is no currency and trade takes the form of barter. This simplification of the analysis is justified if exchange rates always satisfy the purchasing power parity condition, namely that the purchasing power of a unit of currency in one country is unchanged if it is converted, at the prevailing exchange rate, into units of another currencies. A weaker version of the purchasing power parity assumption permits differences in the relative efficiency of production of traded and non-traded goods to be reflected in exchange rates.

Even in this weaker form, there is ample evidence that the purchasing power parity assumption is persistently violated. In particular, there have been frequent occasions on which short-term interest rates in Australia have been held at levels higher than those in the rest of the world, in part because of the reduction in inflationary pressure associated with the maintenance of an overvalued exchange rate (that is, an exchange rate in excess of purchasing power parity).

The effect of a deviation from purchasing power parity is similar to that of a (positive or negative) combined tariff and export subsidy. If the real exchange rate is lower (higher) than that consistent with purchasing power parity, exporters and import-competing industries benefit (suffer).

From the viewpoint of a risk-averse import-competing firm, the existence of a tariff offsets risk resulting from deviations of the real exchange rate from purchasing power parity. For plausible parameter values (relative standard deviation of the real exchange rate greater than or equal to 10 per cent, coefficient of relative risk aversion greater than 1) the benefits of the tariff would only partially offset the risks associated with variations in the real exchange rates. Hence, the tariff may be said to constitute a buffer against exchange rate uncertainty.

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TRADE LIBERALISATION

Australia is already one of the most open and deregulated economies in the world. Over the last 30 years, the level of barrier protection afforded to Australia's manufacturing industries, mainly via tariffs, has reduced from 35% to 5% in 2000-01[10].

The process of trade liberalisation in Australia commenced with an across-the-board tariff cut of 25% in July 1973, which saw the average nominal rate of assistance for manufacturing fall from 22% to 17% and the average effective rate from 35% to 27%.

Over the period 1974-75 to 1984-85 the average level of protection for the manufacturing sector as a whole remained stable, although within manufacturing there was considerable variation in the level of assistance afforded to different sectors. Large increases in assistance to the textiles clothing and footwear (TCF) and passenger motor vehicle (PMV) sectors during this period were offset by declining assistance to other manufacturing sectors.

Since 1984-85 there has been a continuous decline in the level of assistance afforded the manufacturing sector, including the TCF and PMV sectors. As a result of these changes by the year 2000-01, average protection in the manufacturing sector will be just 3% (nominal) and 5% (effective rate).

Australia now applies a maximum tariff of 5% on imports with the exception of the TCF and PMV sectors. By the year 2000, the highest tariffs will be 25% for some TCF products and 15% for PMV. The Government has clearly defined strategies for the reduction of tariffs in the latter two sectors.

This program of unilateral trade liberalisation has made Australia one of the most open economies in the world. As can be seen from Table 1.

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[10] Michael Emmery 1999, "Australian Manufacturing: A Brief History of Industry Policy and Trade Liberalisation", Parliamentary Library

TABLE 1 PRODUCTION-WEIGHTED AVERAGE TARIFF Rates[a]
Per cent

(ISIC)[b]	Agriculture forestry, fishing (1)	Mining and quarrying (2)	Manufact-uring (3)	Food, beverages and tobacco (31)	Total, all products	Domestic tariff spikes[c]	Standard deviation
United States							
1989	3.8	0.2	4.7	7.6	4.4	4.5	7.7
1993	4.1	0.2	5.0	8.2	4.7	4.0	8.6
1996	7.9	0.2	5.4	15.9	5.2	3.8	14.2
European Union							
1988	6.4	0.5	8.4	27.4	8.2	2.2	6.1
1993	6.1	0.3	8.6	27.1	8.4	2.3	6.1
1996	10.7	0.6	7.7	32.5	7.7	4.8	20.7
Japan							
1988	5.1	0.5	4.1	15.6	4.2	5.3	8.9
1993	5.1	0.3	3.5	17.5	3.6	5.7	12.7
1996	5.0	0.3	3.3	18.9	3.4	6.8	11.8
Canada							
1988	4.1	3.4	10.0	16.8	8.7	0.5	8.8
1993	4.0	3.4	9.7	15.6	8.4	0.3	8.4
1996	5.5	1.9	14.4	57.4	12.1	1.4	27.5
Norway							
1988	1.9	6.6	4.8	7.9	5.3	12.2	6.9
1993	1.5	3.8	4.9	8.1	4.0	12.3	6.9
1996	60.3	3.0	33.4	135.1	22.3	7.6	91.1
Switzer-land							
1988	2.9	0.7	5.0	23.4	4.8	6.4	13.0
1993	2.7	0.5	4.6	18.7	4.5	6.3	11.6
1996	2.6	0.8	3.2	11.7	3.2	4.9	7.4
Australia							
1988	1.7	2.2	12.8	6.2	11.2	3.1	14.3
1993	0.7	0.7	7.7	3.2	6.6	7.9	12.1
1996	0.5	0.5	4.8	3.3	4.2	10.8	9.1
New Zealand							
1988	2.9	2.2	13.7	8.9	10.6	2.4	15.7
1993	1.8	1.5	7.3	5.6	5.7	6.2	10.4
1996	1.7	1.2	6.4	5.2	5.1	8.3	15.5
Mexico							
1998	10.6	3.4	11.8	14.0	11.0	0.0	7.0
1993	12.2	12.2	13.5	15.2	12.9	0.0	5.2
1996	14.7	14.7	19.9	43.6	18.0	0.7	13.7

a Calculations are based on each country's own value-added.
b International Standard of Industrial Classification
c Domestic tariff "spikes" are defined as those tariff rates exceeding three times the overall simple average most favoured nation rate.
Source: OECD Economic Outlook June 1999
* The "tariffication" of certain quantitative border measures in the mid-1990s has meant a rise in the production-weighted tariff rate, especially in the United States, Canada, Norway and Mexico

Average tariffs in developing countries[11] remain considerably higher at around 17%.

The import penetration rate and the intensity of exposure to foreign competition are also important indicators of the extent to which markets have become more open. As can be seen from Table 2, the import penetration rate for Australian manufacturing industries has doubled since 1970. While lower than Canada, Norway and Mexico, the import penetration rate for the Australian manufacturing sector is significantly higher than that applying in Japan, the EU, the US, and Korea.

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11 **The OECD's Development Assistance Committee (DAC) defines a 'developing country' as a country listed in Part I of the DAC List of Aid Recipients. The current list (see Annexure A), which is effective from 1 January 1997, classifies developing countries into 5 categories:**

- **Least-Developed Countries**
- **Other Low-Income Countries (per capita GNP<US$765 in 1995)**
- **Lower Middle-Income Countries and Territories (per capita GNP US$766 to US$3,035 in 1995)**
- **Upper Middle-Income Countries and Territories (per capita GNP US$3,036 to US$9,385 in 1995)**
- **High-Income Countries and Territories (per capita GNP > US$9,385 in 1995)**

The list is reviewed every three years. Countries above the World Bank High Income Country threshold for three consecutive years will normally progress to Part II of the DAC List relating to 'Countries and Territories in Transition'.

TABLE 2 IMPORT PENETRATION RATES FOR MANUFACTURING INDUSTRIES[a]
Per cent

	1970	1975	1980	1985	1990	1995	1996
United States	5.3	6.7	8.9	12.3	14.5	17.9	18.2
Japan	4	4.2	5.5	5.4	6.8	7.7	9.1
European Union[b]	7.2	8.9	10.3	11.3	10.7	12.7	12.9
Canada	25.2	28.1	30.6	35.7	37.3	49.7	49.4
Australia	16.2	17.9	21.5	26.4	24.2	31.9	31.4
Iceland	..	64.1	53.8	52.7	55.2	56.7	..
Korea	..	..	..	..	..	27	26.3
Mexico	..	..	..	..	15.7	39.1	40.2
New Zealand	32.4	32	35.5	37.8	36.2	39.9	..
Norway	39.8	39.6	38.7	42.6	43.4	43.8	45.8

a Import penetration is defined as the ratio of manufacturing imports to apparent consumption of manufactured goods (domestic production minus exports plus imports). A low penetration rate does not necessarily imply import barriers. It may reflect greater productivity or price competitiveness on the part of national firms.
b Net of intra-EU trade. Excludes Austria, Belgium, Ireland and Luxembourg.
Source: OECD, Economic Outlook June 1999

TABLE 3 EXPOSURE TO FOREIGN COMPETITION FOR MANUFACTURING INDUSTRIES[a] *Per cent*							
	1970	1975	1980	1985	1990	1995	1996
United States	10.6	14.2	17.5	18.9	24.2	29.2	29.7
Japan	12.1	15.1	16.7	19	18	19.4	21.2
European Union[b]	15.9	20.2	22	24.6	20.9	26.6	27.6
Canada	45.1	44.7	51.4	58.4	59.8	74.9	74.8
Australia	25.9	29	34.2	37.2	34.8	45.5	45.1
Iceland	..	78.4	77.4	75	77.7	81	..
Korea	..	..	..	..	..	48	46.1
Mexico	..	..	..	..	24.2	63.3	63.7
New Zealand	53.7	48.3	58.4	59.2	57.3	61.5	..
Norway	58.5	58.9	57.1	61.4	63.4	64	66.2

a The exposure to foreign competition indicator (E) is a synthetic measure which takes into account both the export orientation of an industry and its import penetration. The indicator is based on the notion that the share of output exported (export ratio) is fully exposed and that the exposure of the share sold on the domestic market is proportional to the import penetration rate on that market.
It is defined as E= X/Y + (1-X/Y)*M/D where Y is output, M imports, X exports and D domestic demand.
b Net of intra-EU trade. Excludes Austria, Belgium, Ireland and Luxembourg.
Source: OECD, Economic Outlook June 1999

Combating a Return to Protectionism

Given that Australia has unilaterally embarked on extensive reductions in barrier protection without eliciting reciprocal market access from our trading partners, Australia has nothing to gain and everything to lose from a reversion to protectionism in offshore markets.

The revival of protectionist pressures arising from recent economic and financial crises, the failure of APEC to act on the Early Voluntary Sectoral Liberalisation initiatives and the collapse of the WTO Ministerial Meeting in Seattle in November 1999 are evidence of growing opposition to trade liberalisation.

Reversing Australia's tariff cuts is not a viable proposition and is certainly not proposed by the Australian Industry Group. It is therefore essential that Australia's trade policy focuses on the imperative of achieving reciprocal access to the markets of our trading partners rather than the implementation of further unilateral tariff reductions.

Collapse of WTO Ministerial Meeting a Major Disappointment to Industry

Given the openness of the Australian economy, we have little bargaining coin in negotiations for improved market access. Multilateral trading arrangements are therefore a vital

mechanism by which Australia can achieve improved access to markets over which we have little direct influence. As a result of trade liberalisation implemented under GATT, the average level of tariffs in industrialised countries is now less than 4%. This is 10% of the corresponding figure in 1948[12]. **Despite these achievements in world liberalisation, considerable tariff peaks and non-tariff barriers remain to be addressed.** Annexure B details examples of barriers confronting Australian exporters.

It is a major disappointment to the Australian Industry Group that the WTO Ministerial Meeting held in Seattle in November 1999 concluded without a firm mandate to initiate a Millennium round of trade liberalisation. In addition to commitments to trade liberalisation which would be made in the course of a new trade round, the collapse of the WTO Ministerial meeting could put at risk the realisation of market access gains worth a potential $9 billion per annum which Australia is negotiating with countries currently seeking membership of the WTO. Currently 31 economies, including China, Taiwan, Vietnam, Russia and Saudi Arabia, are seeking WTO membership.

Results of the GATT Uruguay Round included[13]:

- commitments from industrialised countries to reduce bound tariffs for manufactures by almost 40% from an average of 6.3% to 3.8%.
- commitments from developing countries to reduce tariffs by 30% on average
- the percentage of developing countries' tariff lines which are bound against an increase, trebled from less than 25% to 72%
- the value of imported industrial products that receive duty-free treatment in developed countries will jump from 20% to 44%
- the proportion of **all imports** into developed countries from all sources facing tariff rates of more than 15% will decline from 7 to 5%. The proportion of **developing country exports** facing tariffs above 15% in industrial countries will fall from 9% to 5%.

Despite the achievements of the GATT Uruguay Round, the Secretary of the Department of Foreign Affairs and Trade, Dr Ashton Calvert, has publicly acknowledged that Australia was disappointed in "the outcomes on industrial tariffs which allowed our trading partners in South East Asia to continue with high levels of tariff protection"[14].

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12 **Michael Emmery 1999, "Australian Manufacturing: A Brief History of Industry Policy and Trade Liberalisation", Parliamentary Library**

13 **Department of Foreign Affairs and Trade discussion paper**

14 **Dr Ashton Calvert, 1999 "Multilateral Trade Negotiations: The Challenges and Potential Reward" Pelham Paper Number Six, Melbourne Business School**

There is continuing resistance in South East Asia to reductions in key industrial tariffs. For example, tariffs on motor vehicles and components remain extremely high - up to 200% in ASEAN countries[15].

Clearly, low average tariff rates can hide significant peaks. Tariff escalation produces an import bias against processed (higher value-added) production. When Uruguay Round commitments are fully implemented, average finished product tariffs will be eight times higher than those of raw materials, compared with about four times higher before the Uruguay Round. This can be seen from Table 4 which shows that rates of tariff applied to semi-manufactures and finished products is many times greater than the rate applied to raw materials.

[15] Ibid

TABLE 4: CHANGES IN TARIFF ESCALATION ON INDUSTRIAL PRODUCTS IMPORTED BY DEVELOPED COUNTRIES FROM DEVELOPING COUNTRIES (TRADE WEIGHTED AVERAGES)			
Stages	**Share of each processing stage**	**Pre - Uruguay Round Tariff**	**Post - Uruguay Round Tariff**
All Industrial Products			
Raw Materials	22	2.1	0.8
Semi-manufactures	21	5.4	2.8
Finished Products	57	9.1	6.2
All Tropical Industrial Products			
Raw Materials	35	0.1	0
Semi-manufactures	30	6.3	3.4
Finished Products	34	6.6	2.4
Natural Resource-based Products			
Raw Materials	44	3.1	2
Semi-manufactures	40	3.5	2
Finished Products	17	7.9	5.9
WTO November 1994 - Source *Department of Foreign Affairs and Trade* "Towards a Negotiating Agenda for Industrial Products: Lowering Costs to Business and the Consumer"			

Despite a significant reduction in tariff peaks, when Uruguay commitments are fully implemented:

- developed countries will still maintain tariff bindings above 15% on 15% of their tariff schedules - for example, 10% of tariffs in the EU, Canada, Japan and the US are above 10% *ad valorem*, with the majority of peaks being between 12% to 30%

- developing countries will maintain tariff bindings above 15% on three quarters of their tariff schedules, giving them considerable latitude to raise tariffs without notice; and

- transition economies will apply tariffs above the 15% level on 4% of their tariff schedules.

In addition, most WTO members continue to maintain uneconomic or nuisance tariffs (generally around 2% or lower) **where the cost of collecting duties outweighs the actual duties collected.** The Australian Industry Group has been working cooperatively with the Government over the last 2 years in its review of "nuisance tariffs" to ensure the removal of input costs to industry where there is no local manufacturing capability.

In Australia, 3% duty is levied on business inputs entered under the Tariff Concession System. This is an unwarranted impost on the competitiveness of Australian industry.

Another important issue is transparency. By their nature, ad valorem tariffs are more transparent than non ad-valorem tariffs, which can hide the real rate of protection afforded to industries. For example a tariff of $40 on shoes means that a $25 pair will cost the consumer $65, an increase of 160%. For shoes costing $250 the specific duty adds only 6% to the price to the consumer[16]. This example shows that the rate of protection afforded to the footwear industry is not immediately clear. In contrast, under an ad valorem tariff of say, 10%, the rate of protection afforded to the sector is 10% regardless of the value of the shoe.

It is critical that the Australian Government continues to strongly advocate the initiation of a comprehensive WTO millennium round, including industrials, to be completed within 3 years and with signatories required to make a single pledge to the whole package.

Development of a tariff-related negotiating package must include:

- agreement on a framework of principles for national tariff regimes, embodying objectives such as all tariff lines being bound and expressed as ad valorems, commitments to reduce tariff peaks, to eliminate nuisance tariffs and to unwind tariff escalation; and

- parameters for tariff negotiations, such as percentage targets for comprehensive tariff reductions within specified time frames.

APEC

The collapse of the WTO Ministerial meeting continues a disturbing trend by world economies to fail to reach agreement on further trade liberalisation.

As mentioned above, recent financial crises have revived threats of protectionist pressures. Economic recessions in newly industrialising economies in Asia and Latin America have generated calls for import-protection, for balance of payments reasons and as support for declining industries.

APEC Trade Ministers decided in late 1998 to refer the Early Voluntary Sectoral Liberalisation (EVSL) initiatives to the WTO because they were unable to reach agreement. These EVSL initiatives (renamed Accelerated Tariff Liberalisation initiatives) remain in limbo with no certainty that liberalisation will happen any time soon.

APEC is the predominant Asia Pacific regional forum for advancing Australia's trade liberalisation agenda. While the Australian Industry Group has been a strong supporter of APEC given its potential as a forum of Leaders to achieve trade liberalisation, this support has been seriously questioned following the failure by APEC economies in recent years to implement real trade liberalisation measures. The Australian Industry Group contends that

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substantial catch up is required by our trading partners if they are to match the unilateral liberalisation measures which Australia has already put in place.

The Australian Industry Group strongly supported the call in a report by the APEC Business Advisory Council (ABAC) issued in the lead up to the September 1999 APEC Leaders Meeting in Auckland, for all APEC economies to take concrete steps to achieve the goal of free and open trade and investment by 2010 for developed economies and 2020 for developing economies, through pursuit of collective and unilateral liberalisation.

The Australian Industry Group's past criticisms that Individual Action Plans (IAPs) submitted by APEC members do not go far enough in meeting Australia's market access interests are supported by ABAC which identified a need for "more serious and substantial commitments, especially by developed economies ". This lack of progress was publicly acknowledged in the Communique released by the Chair of the APEC Trade Ministers who met in Auckland on 29/30 June this year, which stated:

> *"Ministers, reflecting business concerns, agreed to further improve the credibility of their Individual Action Plans."*

While supporting the call by ABAC for APEC economies "to take comprehensive action to liberalise their economies and to include this in their Individual Action Plans", **the Australian Industry Group reiterated our long standing position that any further trade liberalisation by Australia must be contingent on the proportionate rate of trade liberalisation implemented by our trading partners.**

The Australian Industry Group has welcomed the Australian Government's commitment of up to $100,000 in technical assistance for developing countries in our region to improve the comprehensiveness, transparency and structure of their IAPs.

Further, the 10 year gap in the deadline for the achievement of free trade and investment by developed and developing countries bears no relationship to commercial reality for Australian companies operating in today's fiercely competitive global markets where access issues are immediate. The Australian Industry Group continues to advocate a compression of this 10 year divergence in time frames.

Clearly, Australia is a long way down the track to achieving the APEC goal for developed economies of free trade access by 2010. However, the same cannot be said for other APEC members. The systematic tariff reduction program unilaterally embarked upon by Australia some 15 years ago concluded on 1 July 1996 with tariffs at 5% or 3%. Table 5, which details reductions in tariffs in the APEC region over the period 1988 to 1998, shows that the rate of simple average applied tariff is significantly higher in the majority of APEC member economies than in Australia.

The Australian Industry Group has welcomed the recognition by APEC Leaders at their September 1999 meeting that progress towards the Bogor Goals of free and open trade and investment by 2010/2020 has been uneven and the Ai Group supports APEC's renewed commitment to achieve these goals through implementation of concrete actions. However it is urgent that real progress be implemented which matches the rhetoric. The Australian

Industry Group considers that Australia should be demanding a proportionate response from other economies before implementing any further tariff liberalisation.

TABLE 5: TARIFF REDUCTIONS IN THE APEC REGION

Simple Average Applied Tariff

	1988	1993	1996	1998
Australia (*)	15.6	7	6.1	5
Brunei	3.9	3.9	n.a	2.0^
Canada (*)	3.7	2.4	1.3	0.9
Chile	19.9	11	11	10
China	39.5	37.5	23	17
Hong Kong, China	0	0	0	0
Indonesia	18.1	17	13.1	9.5
Japan (*)	4.3	3.4	n.a	4.2
Korea	19.2	11.6	n.a	7.9
Malaysia	13.6	12.8	n.a	9.3
Mexico	10.5	12.6	n.a	13.3
New Zealand	14.9	8.5	5.7	4.2
PNG	n.a	n.a	32	23
Peru			16	13.5
Philippines	27.9	23.5	16	7.1
Russia (*)			n.a	15
Singapore	0.3	0.4	0	0
Chinese Taipei	12.6	8.9	8.6	8.2
Thailand	31.2	37.8	n.a	18.4
United States (*)	4.2	4.2	n.a	3.4^
Vietnam	n.a	n.a	16.2	13.4

Source: Manila Action Plan for APEC: Individual Action Plans, various (1998). This data is in the format provided by APEC economies (ie simple average or import weighted average). From Department of Foreign Affairs and Trade website.

Note: Does not include calculation of non-ad valorem tariffs.

* Indicates trade-weighted average.

^ 1996 data

NON-TARIFF BARRIERS

Tariff protection is only part of the story. Access for Australian exports to offshore markets is also severely restricted by non-tariff barriers (NTBs), which by their nature, are less transparent than tariffs. While research undertaken by the OECD indicates that up to 1996 the frequency of use of non-tariff barriers to trade has declined, their importance may have escalated recently following the financial turmoil in emerging market economies[17].

Table 6 shows that while the incidence of NTBs in developed countries has declined, the incidence in the US, European Union, Japan and Canada is significantly greater than that applying in Australia.

TABLE 6 PERVASIVENESS OF NON-TARIFF BARRIERS
Per cent

	Frequency ratio[a]			Import coverage ratio[b]		
	1988	1993	1996	1988	1993	1996
United States	25.5	22.9	16.8	16.7	17	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	10.4	5.7	4.5	4
Norway	26.6	23.7	4.3	13.8	11.1	3
Switzerland	12.9	13.5	7.6	13.2	13.2	9.8
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
Mexico	2	2	14.6	18.6	17.4	6.9

a The frequency ratio is the proportion of national tariff lines that are affected by a particular non-tariff barrier (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 specified group of NTBs.
Source: OECD Economic Outlook June 1999

Australia must continue to vigorously oppose any increased incidence of NTBs whether these be in relation to environment, labour or any other issues.

Use of "trade measures to enforce policy objectives for reasons of environmental protection or for labour standards would dilute trade liberalisation and open new excuses for protectionism. They should also be rejected on analytical grounds; firstly because trade policy is a second best instrument for dealing with externalities (market-failure), and secondly

17 **OECD, *OECD Economic Outlook*, June 1999**

because wage rates depend on productivity and wage costs are not the principal determinants of relative prices. In both cases economic instruments that act directly on the problem should be employed."[18]

The Australian Industry Group supports the statement in the WTO's Singapore Ministerial Declaration:

> "We renew our commitment to the observance of internationally recognised core labour standards. The International Labour Organisation (ILO) is the competent body to set and deal with these standards, and we affirm our support for its work in promoting them. We believe that economic growth and development fostered by increased trade and further trade liberalisation contribute to the promotion of these standards. We reject the use of labour standards for protectionist purposes, and agree that the comparative advantage of countries, particularly low-wage developing countries, must in no way be put into question. In this regard, we note that the WTO and ILO Secretariats will continue their existing collaboration."

The Australian Industry Group is aware of concerns in some quarters that the ILO receives insufficient support and would support a strengthening of the ILO to enable it to fully address these objectives.

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[18] **Professor David Robertson, "WTO Trade Round 2000" Pelham Paper Number Six, Melbourne Business School.**

Annexure A - DAC LIST OF AID RECEPIENTS

Part I: Developing Countries and Territories (Official Development Assistance)					Part II: Countries and Territories in Transition (Official Aid)	
Least- Developed Countries	**Other Low-Income Countries (per capita GNP < $765 in 1995)**	**Lower Middle-Income Countries & Territories (per capita GNP $766-$3,035 in 1995)**	**Upper Middle-Income Countries & Territories (per capita GNP $3,036-$9,385 in 1995)**	**High-Income Countries & Territories (per capita GNP > $9,385 in 1995)[1]**	**Central & Eastern European Countries & New Independent States of the former Soviet Union**	**More Advanced Developing Countries & Territories[2]**
Afganistan	*Albania	Algeria	Brazil	Aruba[1]	*Belarus	Bahamas
Angola	*Armenia	Belize	Chile	*French Polynesia[1]	*Bulgaria	*Bermuda*
Bangladesh	*Azerbaijan	Bolivia	Cook Islands	*Gibraltar[1]	*Czech Republic	Brunei
Benin	Bosnia and Herzegovina	Botswana	Croatia	Korea Rep of[1]	*Estonia	*Cayman Islands*
Bhutan	Cameroon	Colombia	Gabon	*Macao[1]	*Hungary	*Chinese Taipei*
Burkina Faso	China	Costa Rica	Malaysia	*Netherlands Antilles[1]	*Latvia	*Cyprus*
Burundi	Congo, Rep	Cuba	Mauritius	*New Caledonia[1]	*Lithuania	*Falkland Islands*
Cambodia	Cote d'Ivoire	Dominica	*Mayotte	Northern Marianas[1]	*Poland	*Hong Kong, China*
Cape Verde	*Georgia	Dominican Republic	Mexico	*Virgin Islands (UK)[1]	*Romania	*Israel*
Central African Republic	Ghana	Ecuador	Nauru		*Russia	Kuwait
Chad	Guyana	Egypt	South Africa		*Slovak Republic	Qatar
Comoros	Honduras	El Salvador	St Lucia		*Ukraine	Singapore
Congo, Dem Rep	India	Fiji	Trinidad and Tobago			United Arab Emirates
Djibouti	Kenya	Grenada	Uruguay			
Equatorial Guinea	*Kyrgyz Rep	Guatemala	.....			
Eritrea	Mongolia	Indonesia	Threshold for World Bank Loan Eligibility ($5 295 in 1995)			
Ethiopia	Nicaragua	Iran	.....			
Gambia	Nigeria	Iraq	*Anguilla			
Guinea	Pakistan	Jamaica	Antigua and Barbuda			
Guinea-Bissau	Senegal	Jordan	Argentina			
Haiti	Sri Lanka	*Kazakstan	Bahrain			
Kiribati	Tajikistan	Korea, Dem Rep	Barbados			
Laos	Vietnam	Lebanon	Libyu			
Lesotho	Zimbabwe	Macedonia (former Yugoslav Rep)	Malta			
Liberia		Marshall Islands	*Montserrat			
Madagascar		Micronesia, Federated States	Oman			
Malawi		*Moldova[3]	Saudi Arabia			
Maldives		Morocco	Seychelles			
Mali		Namibia	Slovenia			
Mauritania		Niue	*St Helena			
Mozambique			St Kitts and Nevis			
			*Turks and Caicos Islands			

* Central and Eastern Countries and New Independent States of the former Soviet Union (CEECs/NIS) *Territory

Under the policy adopted by the DAC in 1993, the DAC List of Aid Recipients is in two parts, with periodic reviews under established criteria which may result in the transfer of particular recipients from one part to another, notably from Part I to Part II *(see the Development Co-operation Report* 1997, p.A101). The List presented here is effective as of 1 January 1997. The following notes explain, *inter alia*, the differences between the 1995 and 1997 DAC Lists.

Notes:

1. These countries and territories will progress to Part II on 1 January 2000, unless an exception is agreed.
2. The recipients shown in italics in this column were in Part I of the DAC List up until the end of 1996. Aid to them up to and including 1996 is included in Official Development Assistance to High-Income Countries. They were transferred to PartII on 1 January 1997. The other recipients in this column transferred to Part II on 1 January 1996. Aid to them up to and including 1995 is included in Official Development Assistance to High-Income Countries.
3. Moldova transferred to Park I on 1 January 1997. Aid to Moldova up to and including 1996 is included in Official Aid. Source: OECD

TARIFF CONCESSION SYSTEM

The fundamental objective of the Tariff Concession System (TCS) was originally to assist the competitiveness of Australian industry. The decision by the Government to impose a 3% duty on business inputs entering the country under the TCS is totally at odds with the policy to remove unnecessary imposts on industry in the transition to an open and internationally competitive Australian economy and as such, is simply bad policy.

In imposing this impost on industry the Government's motivation was to generate the projected revenue detailed in Table 1.

TABLE 1: PROJECTED REVENUE FROM THE INTRODUCTION OF THE 3% DUTY ON BUSINESS INPUTS

	1996-97 $m	1997-98 $m	1998-99 $m	1999-00 $m
Tariff Concession System	338	358	393	413

Source: Department of Industry, Science and Tourism "Tariff Concession System to Continue" press release dated 8 May 1996

Table 2 shows a sharp reduction in duty foregone following the introduction of the 3% duty. Duty foregone fell by over 60% from $1,167.7m in 1995-96 to $454.6m in 96-97.

TABLE 2: TARIFF CONCESSION SYSTEM STATISTICS

Period	Application			Duty Forgone# ($m)
	Lodged	Approved	Not Approved	
1995-96	**3,350**	**2,373**	**1,114**	**1,167.7**
1996-97	**1,121**	**1,166**	**417**	**454.6**
1997-98	**2,053**	**1,490**	**520**	**390.6**
Sep Q	356	231	79	102.2
Dec Q	658	268	101	110.4
Mar Q	557	547	147	86.7
Jun Q	482	444	193	91.4
1998-99	**926**	**872**	**218**	**373.6**
Sept Q	303	312	69	99.9
Dec Q	247	223	56	102.1
Mar Q	194	195	36	89.0
Jun Q	182	142	57	82.5

In announcing its decision to retain the TCS and to impose a 3% duty, the Government stated that elimination of the TCS "would have unfairly penalised Australian manufacturers by imposing higher costs on business inputs while at the same time competing imports were to benefit from a reduction in the general tariff"[19]. And yet the result of the Government's decision was precisely to unfairly penalise Australian manufacturers.

As a direct result of the decision, industries which were previously able to access inputs without attracting duty where there was no local manufacture of substitutable product, have been hit with an additional 3% tax. The timing of the decision could not have been worse, coinciding as it did with a reduction in the rate of tariffs on imports competing with goods manufactured in Australia in accordance with the program of progressive reductions in tariffs. The Government effectively doubled the adjustment pressures on industry.

Further, where imported components are dutiable and the substantive rate of duty on completely built up units is zero, by dutying business inputs at 3% the Government is effectively penalising value added manufacture in Australia.

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19 Department of Industry, Science and Tourism "Tariff Concession System to Continue" press release dated 8 May 1996

ABB Transmission and Distribution has been seriously affected by the Government's decision to introduce a 3% duty on business inputs and the Government's response to the Information Technology Agreement.

ABB Transmission and Distribution is the only Australian manufacturer of high voltage capacitors and employs 50 workers. The Government announced in its December 1997 *Investing for Growth* Industry Statement the removal of tariffs on certain inputs to the manufacture of information industries equipment. In implementing this decision, a range of products clearly outside the information industries sector have unfortunately been caught up in the tariff elimination program, specifically high voltage capacitors which are imported with a range of other types of electrical capacitors under the following tariff classifications:

8532.10.00
8532.23.00
8532.24.00
8532.25.00
8532.29.00
8532.30.00

The elimination of duty applying to the above classifications has had a significantly adverse impact on ABB Transmission and Distribution Limited, and this situation is exacerbated by the imposition of the 3% duty on inputs to the manufacture of these products which are imported under the TCS.

In the last 12 months the company has lost significant orders by a very small margin, placing at risk the continued manufacture in Australia of these high voltage capacitors.

The Australian Industry Group holds the view that the objective of the tariff is to provide some form of assistance to manufacturers to compete with imports and Australian manufacturers must not be required to pay duty on imports where there exists no local industry to protect. The Australian Industry Group recommends the immediate abolition of the 3% duty imposed on business inputs under the TCS.

REVIEW OF TARIFFS ON BUSINESS INPUTS
NUISANCE TARIFFS

The Federal Government announced on 24 July 1998 that a review would be undertaken of tariffs in the 3-5% range with the objective of reducing business input costs.

While strongly supporting the Government's intention of reducing business input costs by eliminating tariffs on imported items for which there is no local Australian manufacturer, the Australian Industry Group welcomed the Minister's guarantee that where it could be demonstrated that there was local manufacture of any of the tariff items under review, that the 3% to 5% duty would not be removed.

The Australian Industry Group made a detailed submission to the Government opposing the elimination of duty on tariff items detailed in *Annexure A*. (This listing was developed following extensive consultation with Australian Industry Group member companies.)

Consistent with our long-standing policy, the Australian Industry Group also urged the Government, as part of this review, to eliminate the 3% impost on all business inputs entering Australia under the Tariff Concession System.

In September 1999, the Minister for Industry, Science and Resources, Senator Nick Minchin subsequently announced the Government's desire to remove almost 400 'nuisance tariffs'. The Australian Industry Group again undertook extensive consultation with member companies and submitted a list of items for which the removal of tariffs was opposed. This list is contained in *Annexure B*.

ANNEXURE A

Submission to the Review of Nuisance Tariffs Detailing Items on Which Tariff must be Retained

Tariff Item	Description
2007100019	Homogenised jams, fruit jellies, marmalades, fruit or nut puree and fruit or nut pastes, being cooked preparations, whether or not containing added sugar
2008400031	Pears, canned or bottled, prepared or preserved (excl. by vinegar, acetic acid, sugar, and canned)
2008500033	Apricots, canned or bottled, prepared or preserved (excl. by vinegar, acetic acid, sugar)
2008700028	Peaches, canned or bottled, prepared or preserved (excl. by vinegar, acetic acid, sugar)
2009500021	Tomato juice, unfermented and not containing added spirit, whether or not containing added sugar or other sweetening matter
2009700023	Apple juice in packs not exc 5L, unfermented and not containing added spirit, whether or not containing added sugar or other sweetening matter
2009900045	Mixtures of fruit vegetable juices (excl citrus) unfermented and not containing added spirit, whether
320810024	Paints and varnish (incl. enamels and lacquers) based on polyesters, dispersed or dissolved in a non-aqueous medium
390203000	Plates, sheets, films, foil and strip of polymers of styrene non-cellular (excl self adh)
3812300033	Lead stabilisers and lead stabiliser lubricant systems
3901100001	Linear low density polyethylene (LLDPE), having a specific gravity of less than 0.94 in primary forms

Tariff Item	Description
3903200027	Styrene-acrylonitrile (SAN) copolymers, in primary forms (excl. non-blended polymers, acrylic modified/heat resistant polymers and (SAN) copolymers
3917329053	Tubes, pipes and hoses not reinforced or otherwise combined with other materials, without fittings, of polymers of vinyl chloride etc
3917339040	Tubes, pipes and hoses not reinforced or otherwise combined with other materials, without fittings, of polymers of vinyl chloride etc
3917339041	Tubes, pipes and hoses not reinforced or otherwise combined with other materials, with fittings, of polymers of styrene
3917339042	Tubes, pipes and hoses not reinforced or otherwise combined with other materials, with fittings, of polymers of ethylene or of propylene
3917339043	Tubes, pipes and hoses not reinforced or otherwise combined with other materials, with fittings, of plastics
3917399047	Tubes, pipes and hoses of polymers of ethylene or of propylene (excl. rigid; of a kind used as replace, comp. in pmv; flex ones having a min burst)
3917399048	Tubes, pipes and hoses of polymers of vinyl chloride (excl. rigid; of a kind used as replace, comp. in pmv; flex ones having a min burst)
3918100024	Floor covering (excl. tiles) of polymers of vinyl chloride, in rolls not exc 1200 mm in width
3918100029	Unprinted floor coverings (excl. tiles) of polymers of vinyl chloride, in rolls exc 1200 mm in width, (excl of solid composition)
3918900001	Floor tiles of copolymers of vinyl chloride and vinyl acetate
39151000024	Low density polyethylene (incl. linear low density polyethylene) waste, parings and scrap

Tariff Item	Description
3918900002	Floor coverings (excl. tiles) of copolymers of vinyl chloride and vinyl acetate, in rolls not exc 1200 mm in width
3918900003	Floor coverings (excl. tiles) of copolymers of vinyl chloride and vinyl acetate, in rolls not exc 1200mm in width
3918900004	Floor coverings (excl. tiles) of copolymers of vinyl chloride and vinyl acetate, in rolls exc 1200 mm in width, of solid composition without a foam layer base
3918900007	Unprinted floor coverings (excl. tiles) of copolymers of vinyl chloride and vinyl acetate, in rolls exc 1200 mm in width (excl. of solid composition)
3919100049	Self-adhesive plates, sheets, film, foil, tape strip and other flat shapes of polyethylene, in rolls of a width not exc 20 cm and not exc 0.008 mm in thickness
3919100050	Self-adhesive plates, sheets, film, foil, tape, strip and other flat shapes of polyethylene, in rolls of a width no exc 20 cm and exc 0.008 mm in thickness
3919900062	Self-adhesive plates, sheets, film, foil, tape, strip and other flat shapes of low density polyethylene (excl. rolls of a width not exc 20 cm) and not exc 0.08 mm
3919900063	Self-adhesive plates, sheets, film, foil, tape, strip and other flat shapes of polyethylene (excl. low density and rolls of a width not exc 20 cm) and not exc 0.08 mm
3919900064	Self-adhesive plates, sheets, film, foil, tape, strip and other flat shapes of low density polyethylene (excl. rolls of a width not exc 20 cm) and exc 0.08 mm
3919900065	Self-adhesive plates, sheets, film, foil, tape, strip and other flat shapes of polyethylene (excl. low density and rolls of a width not exc 20 cm) and exc 0.08 mm
	Plates, sheets, film, foil and strip of polymers of ethylene (excl. polyethene), non-cellular not exc 0.008 mm in thickness (excl. self-adhesive)
3920200005	Strapping of polymers of propylene, non-cellular (excl. self-adhesive)

Tariff Item	Description
3920200006	Tape (excl. strapping) of polymers of propylene, non-cellular (excl. self-adhesive)
3920300008	Plates, sheets, film, foil and strip of polymers of styrene non-cellular (excl self adh)
3920620027	Polyester Strap
39219090008	Polypropylene Strap
3921190023	Cellular plates, sheets, film, foil and strip of polymers of ethylene (excl. low density polyethylene and those of 3919 and 3920)
3921190024	Cellular plates, sheets, film, foil and strip of polymers of propylene (excl. those of 3919 and 3920)
3921909007	Non cellular film of polymers of propylene, exc 0.008 mm in thickness
3921909009	Non cellular tape (excl. strapping) of polymers of propylene
3921909063	Plates, sheets, film, foil and strip of acrylic polymers
3921909066	Plates, sheets, foil and strip of polymers of propylene (excl tape)
3922100016	Baths, shower-baths and wash-basins of polymers of ethylene or of propylene
3922100017	Baths, shower-baths and wash basins of plastics (excl. polymers of ethylene or of propylene)
3922200020	Bidets lavatory pans, cisterns and similar sanitary ware (excl. baths, shower-baths, wash basins, lavatory seats and covers) of polymers of ethylene
3922200045	Lavatory seats and covers of polymers of styrene or of vinyl chloride
3922200046	Lavatory seats and covers of polymers of ethylene or of propylene
3922200047	Lavatory seats and covers of plastics (excl. polymers of ethylene, propylene, styrene or vinyl chloride)

Tariff Item	Description
3922900020	Bidets, lavatory pans, cisterns and similar sanitary ware (excl. baths, shower-baths, wash-basins, lavatory seats and covers) of polymers of ethylene
3922900021	Bidets, lavatory pans, cisterns and similar sanitary ware of plastics (excl. baths, shower-baths, wash-basins, lavatory seats and covers and polymers of ethylene
3923100056	Boxes, cases, crates and similar articles (excl. boxes (jewel cases) and trays for compact discs) of polymers of ethylene or of propylene
3923100057	Boxes, cases, crates and similar articles (excl. boxes (jewel cases) and trays for compact discs) of polymers of ethylene or of propylene
3923300051	Carboys, bottles, flasks and similar articles of polymers of styrene or of vinyl chloride
3923300052	Carboys, bottles, flasks and similar articles of polymers of ethylene or of propylene
3923400001	Spools, cops bobbins and similar supports of polymers of ethylene or of propylene
3923500058	Stoppers, lids, caps and other closures, of polymers of styrene or of vinyl chloride
3925100064	Reservoirs, tanks, vats and similar containers, of polymers of styrene or of vinyl chloride, of a capacity exc. 300L
3925100065	Reservoirs, tanks, vats and similar containers, of polymers of ethylene or of propylene, styrene or vinyl chloride) exc. 300L
3925100066	Reservoirs, tanks, vats and similar containers, of plastics (excl polymers of ethylene or of propylene, stryene or vinyl chloride)of a capacity exc 300L
3926100061	Office or school supplies of polymers of stryene
3926309077	Fittings for furniture, coachwork or the like of polymers of ethylene or of propylene (excl. of a kind used as replacement components in passenger motor vehicles

Tariff Item	Description
3926309078	Castor sub-assemblies, of plastics (excl. polymers of ethylene or of proplyene)
3926400026	Statuettes and other ornamental articles of polymers of ethylene or of propylene
3932400001	Spools, cops, bobbins and similar supports, of polymers of ethylene or of propylene
4002190007	Oil-extended stryene-butadiene rubber (excl. latex) in primary forms or in plates, sheets or strip
4002410013	Chloroprene rubber
4002510015	Acrylonitrile-butadiene rubber latex
4002910021	Synthetic rubber
4003000024	Reclaimed rubber in primary forms or in plates, sheets or strip
4008110069	Vulcanised cellular rubber in plates, sheets and strip, for use as footwear soling material (excl. hard rubber)
4010110035	Conveyor belts or belting, of vulcanised, rubber, reinforced only with metal, of a width not exceeding 200mm
4010110036	Conveyor belts or belting, of vulcanised rubber, reinforced only with metal, of a width exc 200mm but not exc 610mm
4010130043	Conveyor belts or belting, of vulcanised rubber, reinforced only with plastics
4202319017	Articles of a kind normally carried in the pocket or in the handbag, with outer surface of leather, composition leather or patent leather
4202911021	Golf bags, gun, revolver and pistol cases and covers, pen and pencils cases, with outer surface of leather, composition leather or patent leather
4418100008	Wooden windows, French-windows and their frames

Tariff Item	Description
7003120034	Cast glass and rolled glass, in non-wired sheets, coloured throughout the mass (body tinted), opacified, flashed or having an absorbent, reflecting or non-reflecting layer.
7003120035	Cast glass and rolled glass, in non-wired sheets, coloured throughout the mass (body tinted), opacified, flashed or having an absorbent, reflecting or non reflecting layer.
7003190009	Cast glass and rolled glass, in non-wired sheets, but not otherwise worked, havinb a nominal thickness not exc 4mm (excl. body tinted, opacified, flashed or having a non reflecting layer.
7003190010	Cast glass and rolled glass, in non-wired sheets, but not otherwise worked, having a nominal thickness exc 4mm (excl body tinted, opacified, flashed or having a non reflecting layer.
7003200011	Cast glass and rolled glass, in non-wired sheets, but not otherwise worked
7003300012	Cast glass and rolled glass in profiles but not otherwise worked
7005100037	Float glass and surface ground or polished glass, in sheets, non-wired, having an absorbent, reflecting or non-reflecting layer.
7005210021	Non wired bronze float glass, in sheets, having a nominal thickness not exc 5mm
7005210022	Non-wired bronze float glass, in sheets, having a nominal thickness exc 5mm but not exc 6 mm
7005210023	Non-wired bronze float glass, in sheets, having a nominal thickness exc 6mm
7005210025	Non-wired green float glass, in sheets, having a nominal thickness exc 4mm
7005210026	Non-wired green float glass, in sheets, having a nominal thickness not exc 3mm
7005210027	Non-wired green float glass, in sheets, having a nominal thickness exc 3mm but not exc 4mm
7005210028	Non-wired grey float glass, in sheets, having a nominal thickness exc 4mm but not exc 5mm

Tariff Item	Description
7005210029	Non-wired grey float glass, in sheets, having a nominal thickness exc 5mm but not exc 6mm
7005210030	Non-wired grey float glass, in sheets, having a nominal thickness exc 6mm
7005210031	Non-wired float glass, in sheets, coloured throughout the mass (body tinted), (excl bronze, green and grey float glass), opacified, flashed or merely surface ground
7005290001	Non-wired clear float glass, in sheets having a nominal thickness not exc 2.5mm
7005290005	Non-wired clear float glass, in sheets, having a nominal thickness exc 6mm but not exc 10mm
7005290006	Non-wired clear float glass, in sheets, having a nominal thickness exc 6mm but not exc
7007111940	Windscreens of toughened (tempered) safety glass (excl. of a kind used as a replacement components in passenger motor vehicles.
7007119012	Toughened (tempered) safety glass of size and shape suitable for incorporation in vehicles (excl. motor vehicles), aircraft, spacecraft or vessels
7007190013	Toughened (tempered) safety glass (excl. safety glass of size and shape suitable for incorporation in vehicles, aircraft, spacecraft or vessels), not exc 5mm in
7007190014	Toughened (tempered) safety glass (excl. safety glass of size and shape suitable for incorporation in vehicles, aircraft, spacecraft, or vessels), exc 5 mm in this
7007211944	Windscreens of laminated safety glass, (excl. of a kind used as replacement components in passenger motor vehicles.
7007211945	Laminated safety glass, (excl of a kind used as replacement components in passenger motor vehicles).
7007219017	Laminated safety glass of size and shape suitable for incorporation in vehicles (excl. motor vehicles), aircraft, spacecraft or vessels

Tariff Item	Description
7007290020	Laminated safety glass (excl. laminated safety glass of size and shape suitable for incorporation in vehicles, aircraft, spacecraft or vessels), exc 15 mm in thickness
7008000021	Multiple-walled insulating units of glass
7009109023	Glass rear-view mirrors used on vehicles (excl. motor vehicles used for the transport of people and goods)
7009910046	Unframed glass mirrors not exceeding 3mm in thickness (excl. motor vehicles used for the transport of people goods)
7009910048	Unframed glass mirrors exceeding 4mm in thickness (excl. rear view mirrors for vehicles).
7013320005	Glassware (excl. glass ceramics) of a kind used for cooking purposes having a linear coefficient of expansion not exc 5x10-6 per Kelvin within a temperature
7013320032	Glassware (excl. drinking glasses) used for table/kitchen purposes other than of glass ceramics having a linear coefficient of expansion not exc. 5x10-6 per Kelvin
7013390033	Glassware used for table or kitchen purposes (excl. glass ceramic, lead crystal, glass having a linear coefficient of exp not exc 5x10-6 kelvin within 0-300
7019901033	Glass wool and articles thereof (excl. glass slivers, rovings, yarn, chopped strands, woven fabrics, thin sheets (roches), webs, mats, mattresses, boards and sin
7020001026	Optical fibre performs, being goods of a kind used in the manufacture of optical fibres
7113200013	Articles of jewellery and parts thereof, of base metal clad with precious metal
7114110014	Articles of silversmiths' wares and parts thereof, of silver
7114190015	Articles of goldsmiths' wares and parts thereof, of precious metal (excl. silver)

Tariff Item	Description
7212300031	Flat-rolled products of iron or non-alloy steel, plated or coated with zinc (excl. electrolytically), of a width of less than 600mm, or a thickness of 1.5 mm
7212400042	Flat rolled products of iron or non-alloy steel, painted, of a width of 6mm or more but not exceeding 32mm
7217900047	Wire of iron or non-alloy steel, containing by weight 0.60% of carbon (excl. no plated or coated, plated or coated with zinc or other base metals)
7218910048	Semi-finished products of stainless steel, of rectangular (other than square) cross-section
7218990049	Semi-finished products of stainless steel (excl. of rectangular (other than square) cross-section
7301200002	Welded angles, shapes and sections, of iron or steel
7302300005	Iron or steel switch-blades, crossing frogs, point rods and other crossing pieces for railway or tramway track construction
7302400006	Iron and steel fish-plates and sole plates for railway or tramway track construction
7302900007	Railway or tramway track construction material of iron or steel (excl. rails, sleepers (cross-ties), switchblades, crossing frogs, point rods and other crossing
7303000008	Cast iron tubes, pipes and hollow profiles for the conveyance of gas or liquids under pressure
7303000009	Cast iron tubes, pipes and hollow profiles (excl those for the conveyance of gas or liquids under pressure)
7304100013	Seamless line pipe of a kind used for oil or gas pipelines, of iron (excl. cast iron) or non-alloy steel exceeding 406.6 mm external diameter
7304210035	Drill pipe, or iron or non-alloy steel, used in drilling for oil or gas, exceeding 165.1 mm but not exceeding 406.4 mm external diameter

Tariff Item	Description
7304290040	Casing and tubing, of iron or non-alloy steel, of a kind used in drilling for oil or gas, exceeding 165.1 mm but not exceeding 406.4 mm external diameter
7304290041	Casing and tubing, of iron or non-alloy steel, of a kind used in drilling for oil or gas, exceeding 406.4 mm external diameter (excluding drill pipe)
7304290042	Casing and tubing of steel (excl. non-alloy steel) of a kind used in drilling for oil or gas (excluding drill pipe)
7304310022	Tubes, pipes and hollow profiles, seamless (excl. casing, tubing, drill & line pipe used for oil or gas) of circular cross-section, or iron or non-alloy steel, cold
7304310023	Tubes, pipes and hollow profiles, seamless (excl. casing, tubing, drill & line pipe used for oil or gas) of circular cross-section, or iron or non-alloy steel, cold
7304390024	Tubes, pipes and hollow profiles, seamless (excl. casing, tubing, drill & line pipe used for oil or gas) of circular cross-section, or iron or non-alloy steel, not exceeding 88.9mm
7304390027	Tubes, pipes and hollow profiles, seamless (excl. casing, tubing, drill & line pipe used for oil or gas) of circular cross-section, or iron or non-alloy steel, cold
7304510030	Tubes, pipes and hollow profiles, seamless (excl. casing, tubing, drill & line pipe used for oil or gas) of circular cross-section of alloy steel
7305110001	Longitudinally submerged arc welded line pipe of a kind used for oil or gas pipelines, having internal and external circular cross-sections, etc
7305120003	Longitudinally welded line pipe (excl. submerged arc welded) of a kind used for oil or gas pipelines, having internal and external circular cross sections, etc
7305120004	Longitudinally welded line pipe (excl. submerged arc welded) of a kind used for oil or gas pipelines, having internal and external circular cross sections, etc

Tariff Item	Description
7305190005	Line pipe or a kind used for oil or gas pipelines (excl. seamless, longitudinally welded), having internal and external circular cross-sections, exc 406.4mm
7305190006	Line pipe or a kind used for oil or gas pipelines (excl. seamless, longitudinally welded), having internal and external circular cross-sections, exc 508mm
7305190007	Line pipe or a kind used for oil or gas pipelines (excl. seamless, longitudinally welded), having internal and external circular cross-sections of steel
7305310011	Longitudinally welded tubes and pipes exc. 406.4mm but not exc 508 mm ex-diam or iron or non-alloy steel (excl. line pipe used for oil or gas pipelines etc
7305310012	Longitudinally welded tubes and pipes exc. 508mm external diameter of iron or non-alloy steel (excl. line pipe of a kind used for oil or gas pipelines etc
7305310013	Longitudinally welded tubes and pipes exc. 406.4mm external diameter of steel (excl. non-alloy steel, line pipe of a kind used for oil or gas pipelines etc
7305390014	Welded tubes and pipes (excl. longitudinally welded) exc. 406.4 mm but not exc. 508 mm ed. of iron or non-alloy steel (excl. line pipe of a kind used for oil or gas pipelines)
7305390015	Welded tubes and pipes (excl. longitudinally welded) exc. 508 mm external diameter of iron or non-alloy steel (excl. line pipe of a kind used for oil or gas pipelines)
7305390016	Welded tubes and pipes (excl. longitudinally welded) exc. 406.4 mm external diameter of steel (excl. non-alloy steel, line pipe of a kind used for oil or gas pipelines)
7305900017	Tubes and pipes of iron and steel (excl. those of cast iron, seamless, line pipe pf a kind used for oil or gas, casing or a kind used in the drilling for oil or gas

Tariff Item	Description
7306100030	Welded line pipe of a kind used for oil or gas pipelines (excl. seamless) or iron or non-alloy steel, not exc 88.9 mm external diameter
7306100031	Welded line pipe of a kind used for oil or gas pipelines (excl. seamless) or iron or non-alloy steel, exc. 88.9 mm but not exc. 165.1 mm external diameter)
7306200022	Welded casing and tubing of a kind used in the drilling for oil or gas (excl. seamless) or iron or non-alloy steel, not exc. 88.9 mm external diameter
7306200024	Welded casing and tubing of a kind used in the drilling for oil or gas (excl. seamless) or iron or non-alloy steel, not exc. 165.1 mm external diameter
7306200025	Casing and tubing of a kind used in the drilling for oil or gas, not welded (excl. seamless), of steel (excl. non-alloy steel)
7306300029	Welded tubes, pipes and hollow profiles nes. of circular cross-section, exc. 165.1 mm external diameter
7306300030	Welded tubes, pipes and hollow profiles nes. of circular cross-section, not exceeding 21 mm external diameter, or iron or non allow steel
7306300031	Welded tubes, pipes and hollow profiles nes. of circular cross-section, exc. 21 mm but not exceeding 60.3 mm, or iron or non alloy steel with a wall thickness etc
7306300033	Welded tubes, pipes and hollow profiles nes. of circular cross-section, exc. 21 mm but not exceeding 60.3 mm, or iron or non alloy steel with a wall thickness etc
7306300034	Welded tubes, pipes and hollow profiles nes. of circular cross-section, exc. 60.3mm but not exceeding 114.3mm external diameter, or iron or non alloy steel with a wall thickness etc
7306300035	Welded tubes, pipes and hollow profiles nes. of circular cross-section, exc. 60.3mm but not exceeding 114.3mm external diameter, or iron or non alloy steel with a wall thickness etc

Tariff Item	Description
7306300036	Welded tubes, pipes and hollow profiles nes. of circular cross-section, exc. 60.3mm but not exceeding 114.3mm external diameter, or iron or non alloy steel with a wall thickness etc
7306300037	Welded tubes, pipes and hollow profiles nes. of circular cross-section, exc. 114.3mm but not exceeding 165.1mm external diameter, or iron or non alloy steel with a wall thickness etc
7306500003	Welded tubes, pipes and hollow profiles nes. of circular cross-section, of alloy steel (escl. non-alloy and stainless) not exceeding 88.9mm external diameter
7306500004	Welded tubes, pipes and hollow profiles nes. of circular cross-section, of alloy steel (escl. non-alloy and stainless) exceeding 88.9mm but not exceeding 165.1mm external diameter
7306500005	Welded tubes, pipes and hollow profiles nes. of circular cross-section, of alloy steel (escl. non-alloy and stainless) exceeding 165.1mm external diameter
7306600006	Welded tubes, pipes and hollow profiles nes, of non-circular cross section, or iron or non-alloy steel, not exc 279.4mm perimeter with a wall thickness etc
7306600009	Welded tubes, pipes and hollow profiles nes, of non-circular cross section, or iron or non-alloy steel, exc 1277.3mm but not exc 1596.6 mm perimeter
7306600010	Welded tubes, pipes and hollow profiles nes, of non-circular cross section, or iron or non-alloy steel, exc 1596.6 mm perimeter
7306900012	Tubes, pipes and hollow profiles or iron or steel nes
7307110013	Cast fittings of non-malleable cast iron
7307190015	Cast bends, elbows and flanges of steel
7307190035	Cast couplings for pneumatic hose of malleable cast iron

Tariff Item	Description
7307190037	Cast couplings for pneumatic hose of steel
7307190038	Cast fittings for flexible tubes and pipes of steel
7307190039	Cast tube or pipe fittings of steel (excl. couplings of pneumatic hose and fittings for flexible tubes and pipes and bends, elbows and flanges)
7307220018	Threaded bends of stainless steel; threaded elbows of stainless steel
7307220019	Threaded sleeves of stainless steel
7307290021	Bends (excl. threaded bends) of stainless steel; elbows (excl. threaded elbows) of stainless steel)
7307290031	Threaded sleeves of steel (excl. stainless steel)
7307290032	Threaded sleeves of iron (excl.cast iron)
7307990027	Bends (excl. threaded bends) or iron or steel (excl. cast and stainless steel); elbows (excl. threaded elbows) of iron or steel (excl. cast and stainless steel)
7310100008	Tanks, casks, drums, cans, boxes and similar containers, for any material (excl. compressed or liquefied gas), of iron or steel, of a capacity of 50L or more
7311000013	Seamless containers for compressed or liquefied gas, of iron, or steel, not exc 15kg water capacity
731600013	Anchors, grapnels and parts thereof of iron and steel
7318210004	Spring washers and other lock washers of iron or steel
7321110039	Non portable, 2 burners or more, non-electric domestic cooking appliances & plate warmers
7321120005	Non-electric domestic cooking appliances and plate warmers for liquid fuel, of iron or steel

Tariff Item	Description
7321820007	Non-electric domestic appliances (excl. cooking appliances and plate warmers) for gas fuel or both gas and other fuels, of iron or steel
7321820008	Non-electric domestic appliances (excl. cooking appliances and plate warmers) for liquid fuel, of iron or steel
7323100014	Iron or steel wool; pot scourers and scouring or polishing pads, gloves and the like, of stell (excl cast iron)
7324210021	Cast Iron baths
7325100024	Parts or fittings suitable for use solely or principally in ships, boats or other vessels, of non-malleable cast iron
7325990027	Parts or fittings suitable for use solely or principally in ships, boats or other vessels, of iron or steel
7403210008	Unwrought copper-zinc base alloys (brass)
7403220009	Unwrought copper-tin base alloys (bronze)
7407100016	Bars, rods and profiles of refined copper
7407210017	Bars, rods and profiles of copper-zinc base alloys (brass)
7407220018	Bars, rods and profiles of copper-nickel base alloys (cupro-nickel) or copper-nickel-zinc base alloys (nickel silver)
7407290019	Bars, rods and profiles of copper alloys (excl. copper-zinc, copper-nickel and copper-nickel-zinc base alloys
7408110020	Refined copper wire with a maximum cross-sectional dimension exc 6 mm
7408190021	Refined copper wire with a maximum cross-sectional dimension not exc 6 mm
7408210022	Wire of copper zinc base alloys (brass)
7408220023	Wire of copper-nickel base alloys (cupro-nickel) or copper-nickel-zinc base alloys (nickel silver)

Tariff Item	Description
7408290024	Wire of copper alloys (excl copper-zinc, copper-nickel and copper-nickel-zinc base alloys)
7409190026	Refined copper plates, sheets and strip. of a thickness exc 0.15mm, not in coils
7409210027	Plates, sheets and strip of copper-zinc base alloys (brass), exc 0.15mm but not esc 0.3mm in thickness, in coils
7409210030	Plates, sheets and strip of copper-zinc base alloys (brass), of a thickness exc 0.15mm not in coils
7409310001	Plates, sheets and strip of copper-tin base alloys (bronze), of a thickness exc 0.15mm in coils
7410220010	Foil of copper alloys, of a thickness (excl. any backing) not exc 0.15mm, backed
7411290014	Tubes and pipes of copper alloys (excl. copper-zinc, copper nickel and copper-nickel-zinc base alloys)
7412100015	Tube or pipe fittings (eg couplings, elbows, sleeves) of refined copper
7417000027	Cooking or heating apparatus of a kind used for domestic purposes, non-electric, and parts thereof, of copper
7604210007	Aluminium alloy hollow angles and other shapes and sections
7610100012	Aluminium doors, windows and their frames and thresholds for doors
8201200002	Forks
8201300003	Mattocks, Picks, Hoes and Rakes
8201400004	Axes, Bill Hooks, similar Hewing Tools
8205100001	Drilling, threading or tapping tools
8205700040	Engineers' vices (excl parts)
8205700041	Woodworkers Vices

Tariff Item	Description
8205700042	Vices (excl engineers' and woodworkers') exc. parts
8205700043	C or G Clamps (excl parts)
8205700045	Parts of vices, clamps and the like
8207400030	High speed steel interchangeable taps
8207400031	Interchangeable Taps not HSS
8207500001	Interchangeable Masonry Drills
8207500002	Interchangeable twist drills, straight shank, in sets (excl. rock drills)
8207900008	Interchangeable holesaws
8208401031	Knives and cutting blades designed for use with wood chipping machines
8302490017	Mountings, fittings and similar articles of base metal designed for coachwork
8401100001	Nuclear reactors
8402120006	Watertube boilers with a steam production not exc 45 t per hour
8402190007	Vapour generating boilers (incl. hybrid boilers but excl. watertube boilers and central heating hot water boilers capable also of producing low pressure steam)
8402200008	Super-heated water boilers
8402900009	Parts for steam or other vapour generating boilers (excl. central heating hot water boilers capable also of producing low pressure steam); parts for super-heated water boilers
8404100012	Auxiliary plant for use with boilers of 8402 or 8403 (eg economisers, super-heaters, soot removers, gas recoverers)

Tariff Item	Description
8404200013	Condensers for steam or other vapour power units
8404900014	Parts for auxiliary plant for use with boilers of 8402 or 8403 (eg parts for economisers, super-heaters, soot removers, gas recoverers); parts for condensers for steam or other vapour power units
8413509008	Water storage reciprocating positive displacement pumps for use in hydro-electric installations
8413609012	Water storage rotary positive displacement pumps for use in hydro--electric installations
8413701014	Other centrifugal pumps specially designed for use in the mining or metallurgical industries (excl. pulp pumps for use in conjunction with ore dressing
8413709015	Centrifugal water storage pumps for use in hydro-electric installations
8413811017	Other pumps (excl. other recip posit displace pumps, other rotary pos displacement pumps, other centrifugal pumps) specially designed for use in the min
8413811018	Other water storage pumps for use in hydro-electric installations (excl. other recip positive displacement pumps, other rotary positive displacement pumps
8413819018	Other water storage pumps for use in hydro-electric installers
8413919036	Parts of water storage pumps for use in hydro-electric installations
8416100025	Furnace burners for liquid fuel
8416900028	Parts for furnace burners for liquid fuel, for pulverised solid fuel or for gas; parts for mechanical stokers, including their mechanical grates, mechanical ash dischargers and similar appliances
841710000	Furnaces and ovens for the roasting, melting or other heat treatment of ores, pyrites or of metals

Tariff Item	Description
841800008	Combined refrigerator-freezers, fitted with separate external doors (excl. compression type, absorption-type)
8418100001	Compression-type combined refrigerator-freezers, fitted with separate external doors, less than 200L gross internal capacity
8418100002	Compression-type combined refrigerator-freezers, fitted with separate external doors, 200L and over but less than 300L gross internal capacity
8418100005	Compression-type combined refrigerator-freezers, fitted with separate external doors, 500L and over gross internal capacity
8418210010	Compression-type, household type refrigerators 200L and over but less than 300L gross internal capacity
8418210011	Compression-type, household type refrigerators 300L and over but less than 400L gross internal capacity
8418290015	Household type refrigerators (excl. compression-type, and electrical absorption-type)
8418300016	Freezers of the chest type, less than 300L gross internal capacity
8418300017	Freezers of the chest type, 300L and over but not exc 800L gross internal capacity
8418400018	Freezers of the upright type, less than 200L gross internal capacity
8418400019	Freezers of the upright type, 200L and over but not exc 900L gross internal capacity
8418690026	Other air conditioning equipment (excl. compression type units whose condensers are heat exchangers)
8419190010	Solar water heaters
8419310012	Dryers for agricultural products

Tariff Item	Description
8419320013	Dryers for wood, paper pulp, paper or paperboard
8420910002	Cylinders for calendering or other rolling machines (excl. for metals or glass)
8421120005	Clothes-dryers
8428500018	Mine wagon pushers, locomotive or wagon traversers, wagon tippers and similar railway wagon handling equipment
8433909008	Parts for root or tuber harvesting machines and forage harvesters
8438300030	Machinery for sugar manufacture
8441801016	Rewinder machines for paper
8443901003	Parts for hot stamping machines
8450110001	Fully-automatic washing machines, top loading, up to 3.5kg dry weight capacity
8450110002	Fully-automatic washing machines, top loading, exc 3.5 kg but not exc 4.5kg dry weight capacity
8450190007	Washing machines, each of a dry line capacity not exc 10kg (excl fully automatic, twin tub and those with built-in centrifugal drier)
8451210013	Drying machines (excl household type), of a dry linen capacity not exc 10kg
8462299029	Bending, folding, straightening or flattening machines (incl. presses but excl. numerically controlled and power operated) for working metal
8462399002	Shearing machines, incl. presses (excl. combined punching and shearing machines, power operated numerically controlled) for working metal
8462499005	Punching or notching machines

Tariff Item	Description
84682090018	Gas-operated surface tempering machines and appliances (excl. hand held blow pipes and gas-operated machinery and apparatus for working metal, incorporating a computer control)
8468800019	Machinery and apparatus for soldering, brazing or welding (excl. hand held blow pipes, gas-operated machinery and apparatus and machinery and apparatus of 8515)
8479600036	Evaporative air coolers
8481809041	Diaphragm valves nes, for pipes, boiler shells, tanks, vats or the like
8502110032	AC generating sets with compression-ignition internal combustion piston engines (diesel or semi-diesel engines) of an output not exc 5kVA
8502139005	Generating sets with compression-ignition internal combustion piston engines (diesel or semi-diesel engines) of an output exc 375 kVA but not exc 500 KVA
8502200034	AC generating sets with spark-ignition internal combustion piston engines of an output not exc 5kVA
8502399034	Generating sets not elsewhere specified in Chapter heading 8502
853521006	Automatic circuit breakers
8504210014	Liquid dielectric transformers, instrument type, having a primary SHV not exc 600 V and a power handling capacity not exc 650KVA
8504210015	Liquid dielectric transformers, instrument type, having a primary SHV exc 600 V but not exc 36 000 V and a power handling capacity not exc 650 KVA
8504210017	Liquid dielectric transformers, (excl. instrument type), having a primary SHV not exc 600 V and power handling capacity not exc 650kVA

Tariff Item	Description
8504210018	Liquid dielectric transformers, (excl. instrument type), having a primary SHV exc 600 V but not exec 36 000 V and a power handling capacity not exc 650 kv
8504210019	Liquid dielectric transformers, (excl. instrument type), having a primary SHV exc 36 000 V but not exc 145 000 V and a power handling capacity not exc 650 kVA
8504210020	Liquid dielectric transformers, (excl. instrument type), having a primary SHV exc 145 000 V and a power handling capacity not exc 650 kVA
8504220021	Liquid dielectric transformers having a primary SHV not exc 600 and a power handling capacity exc 650 k VA but not exc 10 000kVA
8504220022	Liquid dielectric transformers having a primary SHV not exc 600 V but not exc 36 000 V and a power handling capacity exc 650 kVA but not exc 10 000 kVA
8504220023	Liquid dielectric transformers having a primary SHV exc not exc 600 V and a power handling capacity exc 10 000 kVA
8504230024	Liquid dielectric transformers having a primary SHV not exc 600 V and a power handling capacity exc 10 000 kVA
8504230026	Liquid dielectric transformers having a primary SHV exc 36 000 V and a power handling capacity exc 10 000 kVA
8504340001	Transformers (excl. liquid dielectric transformers), having a power handling capacity exc 500 kVA and a primary SHV exec 600 V
8504340002	Transformers (excl. liquid dielectric transformers), having a power handling capacity exc 500 kVA and a primary SHV exc 600 V but not exc 36 000 V
8504340003	Transformers (excl. liquid dielectric transformers), having a power handling capacity exc 500 kVA and a primary SHV exc 36 000 V
8504909073	*Parts for electric transformers 8504.31.00*

Tariff Item	Description
8507200079	Lead acid electric accumulators (including separators therefor) for traction purposes (excluding those with anodes of lithium or a lithium compound)
8515199013	Brazing or soldering machines and apparatus (excl. soldering irons and guns, electric or laser operated brazing or laser operated brazing or soldering machines and apparatus used for working metal and incorporating a computer control
8515219015	Fully or partly automatic machines and apparatus for resistance welding of metal (excl. electric or laser operated, incorporating a computer control)
8515290016	Machines and apparatus for resistance welding of metal (excl. those fully or partly automatic)
8516330028	Electro-thermiic hand drying apparatus
8516600052	Non-portable, fixed wired electric combined gas-electric ranges for domestic use only, total rating of 2.4 Kw or greater
8516600053	Non-portable, fixed wired electric and combined gas-electric cookers, cooking plates, boiling rings, grillers and roasters (excl, cooking tops, ovens, ranges)
8516800031	Electric heating resistors for space heaters, soil heaters, hair dryers, smoothing irons, toasters and kettles
8516900011	Parts for ovens (excl. microwave ovens), stoves and ranges, cookers, cooking plates, boiling rings, grillers and roasters
8516900012	Parts for spaceheaters, soilheaters, hairdryers, smoothing irons, toasters and kettles
8530900028	Parts for use with electrical track control equipment for railways or tramways
8530900029	Parts for use with electrical signalling, safety or traffic control equipment for railways, tramways, roads, inland, waterways, parking facilities, port installations
8532100039	Power capacitors
8532250044	Paper or plastic dielectric capacitors

Tariff Item	Description
8532290046	Fixed electric capacitors
8539310039	Straight type (incl. halophosphate and triphosphor) fluorescent, not cathode discharge lamps of 600 mm nominal length (excl. ultra-violet lamps)
8539310041	Straight type (incl. halophosphate and triphosphor) fluroescent, not cathode discharge lamps of 1500 mm nominal length (excl. ultra-violet lamps)
8539490048	Electric lamps (excl. Infra-red lamps)
8543900040	Parts for electrical power line filters
8544200012	Insulated co-axial cable and co-axial electric conductors fitted with connectors for telecommunication and instrumentation application
8544499027	Insulated electric conductors not fitted with connectors, for instrumentation application (excl. compensation or extension leads for thermocouples)
8544499029	Insulated wires for electronic equipment not fitted with connectors (incl. radio and TV hook up wires but excl. compensation or extension leads etc
8544510001	Electric conductors fitted with connectors, insulated with rubber or other elastomeric materials, for a voltage exceeding 80 V but not exceeding 1000 V
8544510002	Electric conductors, fitted with connectors, insulated with cross-linked polyethylene (XLPE) materials, for a voltage exceeding 80 V but not exceeding 1000 V
8544700022	Optical fibre cables, made up of individually sheathed fibres, whether or not assembled with electric conductors, fitted with connectors
8547900004	Insulating fittings for elect mach, appl or equip, being fittings wholly of insulating mat apart from minor metal comp incorporated during moulding

Tariff Item	Description
8602900004	Rail locomotives (excl. diesel electric, powered by electric accumulators or by an external source of electricity); locomotive tenders
8605000008	Non self-propelled railway or tramway
8606990014	Non self-propelled railway or tramway goods vans and wagons, nes
8607110015	Driving bogies and bissel-bogies for railway or tramway locomotives or rolling stock
8607290019	Brakes (excl. air brakes) and parts thereof for railway or tramway locomotives or rolling stock
8607300020	Hooks and other coupling devices, buffers, and parts thereof for railway or tramway locomotives or rolling stock
8608000024	Electro-mechanical signalling, safety or traffic control equipment for roads, inland waterways, parking facilities, port installations or airfields and parts there
8608000027	Electro-mechanical track control equipment and parts thereof
8608000028	Railway or tramway track fixtures & fittings, mechanical (excl. electro-mechanical) signalling, safety or traffic control equipment for railways, tramways
87089110	Radiators for Tractors
8901101001	Cruise ships, excursion boats and similar vessels principally designed for the transport of persons (incl. ferry boats of all kinds), not exc 150 gross construction
8901901007	Other vessels for the transport of goods or persons and goods (excl. ferry boats, tankers and refrigerated vessels) not exc 150 gross construction tons
8902001009	Fishing vessels; factory ships and other vessels for processing or preserving fishery products not exc 150 gross construction tons

Tariff Item	Description
8903991018	Vessels for pleasure or sports (incl. rowing boats, canoes and outboard motorboats but excl. sailboats and motorboats), not exc 150 gross construction tons
8905101022	Dredgers, not exc 150 gross construction tons
8905901026	Vessels, the navigability of which is subsidiary to their main function (incl. floating docks but excl. dredgers and drilling or production platforms)
8906001028	Other vessels (incl. warships and lifeboats but excl. rowing boats) not exc 150 gross construction tons
8907100030	Inflatable rafts
8907900031	Other floating structures (incl. tanks, coffer-dams, landing-stages, buoys and beacons but excl. inflatable rafts)
9001100002	Optical fibre bundles and cables (excl. those made up of individually sheathed fibres)
9028300017	Electricity meters single phase
9028300018	Electricity meters (excl. single phase)
9031201015	Electrical test benches for internal combustion engines
9032801919	Automatic regulating or controlling instruments and apparatus (excl. hydraulic or pneumatic, automatic voltage regulators of a kind commonly used
9403700031	Plastic traymobiles, tea trolleys and similar plastic furniture
9405100036	Industrial lighting, incl. fluorescent (excl. hazardous location, indoor high intensity discharge (HD), lighting used for public open spaces or thoroughfares
9405100037	Emergency lighting (incl. exit signs, incandescent and Fluorescent)

Tariff Item	Description
9405100042	Electric ceiling or wall lighting fittings, incl. outdoor greater than 500W (excl. industrial, emergency and indoor lighting, lighting used for public open space)

SUBMISSION ON THE 400 'NUISANCE TARIFF' ITEMS TARGETED FOR REMOVAL OF DUTY:

LIST OF 'NUISANCE TARIFFS' UNDER REVIEW FOR WHICH TARIFFS MUST BE RETAINED

Tariff Number	Description
48045900	Uncoated kraft paper and paperboard (excl sack kraft paper and that of 4802 or 4803) not weighing 225 gsm or more, in rolls or sheets
48091000	Carbon or similar copying papers, in rolls of a width exc 36cm or in rectangular sheets with at least one side exc 36cm in unfolded state
48161000	Carbon or similar copying papers (excl those of 4809)
72151010	Bars and rods of free-cutting steel, not further worked than cold-formed or cold-finished, Flattened Circles and Modified Rectangles as defined in Note 1 (m) to Chapter 72
72151090	Bars and rods of free-cutting steel not further worked than cold formed or cold finished, (exl Flattened circles and modified rectangles as defined in Note 1(m) to Chapter 72
72155010	Bars and rods of iron or non-alloy steel, not further worked than cold formed or cold finished, excl those of free-cutting steel, Flattened circles and modified rectangles as defined in Note 1(m) to chapter 72
72155090	Bars and rods of iron or non-alloy steel, not further worked than cold formed or cold finished, (excl those of free-cutting steel and flattened circles and modified rectangles as defined in Note 1(m) to Chapter 72
72181000	Stainless Steel Ingots or other primary forms
82059000	Sets of articles of two or more of the following: drilling and similar tools; hammers; planes, chisels and similar wood working tools; screwdrivers: household tools: vices, clamps: anvils. Portable forges. Manual grinding wheels
83081000	Hooks, Eyes, Eyelets of base metal
84109000	Parts (incl regulators) for hydraulic turbines, water wheels

84743200	Machines for mixing mineral substances with bitumen
85246000	Cards incorporating a magnetic strip
87054000	Assembled Concrete Mixer Lorries having a gross vehicle weight of 10.16t or more Assembled Concrete-mixer lorries having a gross vehicle weght of less than 10.16t Unassembled concrete-mixer lorries
93062100	Loaded Shotgun Cartridges, Shotgun Cartridges (exl loaded)

THE STRATEGIC IMPORTANCE OF AUSTRALIAN MANUFACTURING

"Industry is a fundamental component of our national security. The leading role in the development and manufacturing of many of the technologies associated with the knowledge edge is being taken by commercial developments." – ***Bronwyn Bishop, Minister for Defence Industry, Science and Personnel, 1998***

"An effective partnership between the Defence Organisation and Australian industry is essential to Australia's defence." – ***1994 Defence White Paper***

Introduction

A post-2000 abolition of the last, remaining five per cent general tariff rate would impact on all sectors of the Australian manufacturing industry. When calculating the costs and benefits of such a reduction, it is essential to consider the strategic implications for Australia of a possible diminution in our manufacturing base, not just the economic impact. Specifically, Australia's policy of defence self-reliance depends critically on a dynamic and growing base of Australian manufacturers, and any change in that base potentially has significant implications for the nation's security.

Background

Since 1976, the defence policies of successive Coalition and Labor Governments have been based on the concept of self-reliance, and this remains the case today. Under the self-reliance concept, Australia must maintain the military capabilities to defend our country without depending on help from other countries= combat forces.@[20]

The Australian manufacturing industry is integral to the Government's policy of defence self-reliance. In particular, a healthy industry is essential to:

- Provide Australia with a measure of defence self-sufficiency in an increasingly uncertain strategic environment.

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20 *Defending Australia*, Defence White Paper 1994, pg 13.

- Help satisfy the demands placed on Australia's military systems by our unique physical environment.

- Support Australia's defence forces in conflict by repairing, maintaining and adapting our military systems, often at very high rates of effort.

Defence Manufacturing in Australia

Each year Australia spends about $11 billion on defence. Of this, some $6 billion is devoted to the purchase of goods and services ranging from catering to advanced flight simulators, with Australian industry capturing some $4.5 billion worth of defence contracts every year. The remainder is spent primarily on personnel costs such as salaries and allowances.[21]

In the area of manufacturing, Defence demand is spread unevenly over a large number of industry sectors. Traditionally, demand has been highest in the areas of:

- Information technology, electronics and communication (including systems integration and simulation)

- Ship construction and repair

- Vehicles

- Aerospace

- Munitions

The industry in Australia has witnessed significant structural adjustment in recent years and is now 'organised' in three broad tiers. The first comprises between 5-10 large companies capable of working as prime contractors for the integration of major defence systems. The second tier comprises about 15 moderately sized Australian-based companies with annual turnover of up to $250 million that are capable of playing a major sub-contracting role. The third tier comprises a large number of innovative small and medium-sized enterprises.

Within these tiers, Australia's defence contractors possess technologies, infrastructure and trained personnel that are vital to the nation's defence effort in areas ranging from electronic warfare to fighter aircraft avionics. These capabilities have been built up through a concerted process of investment by government and industry over the past 15 years.

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[21] *Trends in Australian Defence – A Resources Survey*, Allan Shephard, Australian Defence Studies Centre, 1999.

Australia's Uncertain Strategic Environment

Most strategic analysts agree that the level of uncertainty in Australia's strategic environment is increasing. At its simplest, instability is characterised by significant volatility in the relationships between India and Pakistan, North and South Korea, China and Taiwan, and Indonesia and East Timor.

While Australia maintains a strong network of friends and allies, we cannot assume that others would commit substantial resources to defending the nation's interests. Our alliance with the United States *obliges* us to provide for our own defence, regional cooperation will not evolve into a collective defence arrangement in the foreseeable future, and we would not expect the United Nations to defend Australia.

Noting the growing uncertainty in our strategic environment as we enter the 2000s, and the necessity of being able to defend our own interests notwithstanding our network of bilateral relationships, self-reliance in defence is becoming even more important for Australia.

> *"The end of the Cold War has made our regional strategic circumstances more complex, uncertain and demanding ... If we are to remain confident that we could defeat any credible attack against Australia, our capabilities need to grow." – **Report of the Defence Efficiency Review, March 1997, pgs 5-6.***

A degree of self-sufficiency for logistics support is an integral component of Australia's defence policy of self reliance. By drawing on local industry, Defence lowers significantly the risk and impact of supply routes from overseas being interrupted during conflict. Moreover, it avoids depending on the decisions of other Governments during times of tension about whether or not to support Australia. As Sweden's decision not to supply ammunition for Australia's Karl Gustav artillery during the Vietnam War has demonstrated, dependence on overseas sources for key forms of support can have serious operational ramifications.

Some self-sufficiency in support is also essential to protect our national security interests in areas such as intelligence and surveillance. Here, Australia will often wish to limit the extent to which other countries understand the operations of our capabilities by adopting unique technologies and designs.

Clearly, as Australia pursues self-reliance in an environment of strategic uncertainty, the Australian manufacturing industry is a key player in our efforts to divorce Australia from dependence on overseas support in critical areas.

Unique Defence Capabilities to Satisfy Unique Defence Demands

Australia's defence capabilities must be capable of operating in a unique physical environment.

The nation's area of direct defence interest covers over 10% of the earth=s surface yet our national population base is relatively small. The north of the continent includes vast tracts of inhospitable terrain and a widely dispersed population and natural resource base, while the south-east houses the majority of our population and industrial strength and is characterised

by vast ocean surrounds. Australia's northern sea and air approaches, which provide the focus for our defence effort, feature high temperatures and humidity year round and unique ionospheric conditions, and often contain large areas of shallow, turbid water.

To operate successfully in this challenging environment, Australia's defence capabilities must be highly mobile and able to operate across a range of very demanding physical conditions. Our forces must also depend on the application of advanced technology rather than large numbers of people to obtain any advantage in conflict.

In many cases, military systems designed overseas are not able to operate effectively in the Australian environment. Much of the equipment produced overseas is designed for more temperate to extremely cold climates and vastly different geographic conditions. For example, while traditionally communications systems designed to serve with NATO forces have been capable of operating in temperatures well below zero degrees Centigrade, they have not been able to operate above 30 degrees Centigrade. Often, therefore, Australia requires unique defence systems to operate effectively in our physical environment, and these systems are not available overseas.

A strong, high-technology manufacturing industry in Australia is essential to provide unique systems, or to adapt systems provided by other countries so that they can operate effectively in our environment.

Australian Industry's Role in Conflict

During conflict, our defence assets would operate under more demanding conditions and, at times, much higher rates of effort than in peacetime. Our ability to repair and maintain these systems and thus to operate them in the field at the required rates of effort and with maximum availability for the duration of conflict would be critical to a successful outcome.

During military operations, some defence platforms and systems may not be able to operate at their optimum. An adversary may modify platforms to counter our strengths. This was the experience during recent peacekeeping operations in Cambodia, where new countermeasures were designed quickly to enable blackhawk helicopters to operate safely in a hostile environment. Modifications to equipment would often involve rapid changes unique to our needs, and would require supporting test and evaluation. For these reasons, a capacity to modify our assets quickly, and thereby react to changed circumstances, is of a very high priority.

Australian manufacturers would play a vital role in supporting defence operations by repairing and maintaining key high-technology systems, and by adapting those systems to enable them to operate safely in hostile environments.

The Defence Manufacturing Industry's Contribution to Australia

Defence will continue to acquire and operate a significant number of overseas-sourced systems and equipment for which there is not the level of demand, the technological base or industrial infrastructure to make indigenous support affordable. Nevertheless, it is clear that

substantial support from a dynamic and competitive manufacturing base in Australia is a central element of the nation's defence efforts in both peace and war.

The capacity of local sources to design, develop and produce defence equipment is of highest priority in cases where:

1. Local production represents the most cost-effective means of developing and sustaining the skills and capacity for subsequent repair, maintenance and adaptation for through-life-support;

2. We have unique needs arising from our natural strategic environment;

3. There are significant constraints on supply from overseas sources; and/or

4. We wish to limit the contribution of other countries to our most sensitive military systems.

Beyond its direct contribution to the nation's security, Australia's defence manufacturing industry is also an important player in our wider economy.

Last year, the Australian Industry Group's Defence Council commissioned an independent consultant (Tasman Asia-Pacific) to conduct a study of the ANZAC Ship Project as a model for identifying the impact of major defence projects on Australian industry and the economy more broadly.[22]

The study demonstrates that for every additional $100 million spent on the Project, (noting that the New Zealand Government contributes $20 million of this, and that 30% of the Project's content is imported), Australia can expect to generate:

- $195 million in national output.

- 1022 Australian jobs per annum (see Appendix 1).

Moreover, the study shows that participation in the ANZAC Ship Project has contributed significantly to the international competitiveness and ongoing commercial viability of a wide range of companies. A number of these contractors have also acquired best practice business processes through supplying to the Project. By benchmarking the results against ABS survey data it can be shown that, in general, firms participating in the ANZAC Ship Project are more likely to export and invest in research and development than their (purely) civil counterparts.

Typical examples include Amiga Engineering, a small Victorian heavy and general engineering firm. Amiga invested in state-of-the-art computer aided design and computer

[22] The Council has almost 250 members and is lead by a National Executive comprising the Chief Executives of Australia's most prominent defence companies. A list of members of the National Executive is attached.

aided machinery technology (CAD/CAM) to enable it to work on the ANZAC Ship Project. The company believes that this new technology has subsequently improved its product quality and production flexibility, opening new markets in Australia and overseas. Similar examples are available from companies such as H.B. Fuller Company Australia (a supplier of sealants), R Edmonds and Sons Pty Ltd (a supplier of water heaters and hydrophores), and Sweetman Fasteners.

In other words, defence manufacturing business is good business for the Australian economy.

Conclusion

A strong, competitive and growing manufacturing industry is a vital component in Australia's defence. Any change in that base due to a post-2000 reduction in the general tariff would, potentially, have significant implications for the nation's security.

As Australia pursues self-reliance in an environment characterised by strategic uncertainty, the Australian manufacturing industry is a key player in our efforts to divorce Australia from dependence on overseas support. A strong, high-technology manufacturing industry in Australia is also essential to provide unique systems, or adapt those systems provided by other countries so that they can operate effectively in our physical environment.

Beyond its strategic role in peacetime, Australian manufacturers would play a vital role in supporting defence operations by repairing and maintaining key high-technology systems, and by adapting those systems to enable them to operate safely in hostile environments.

Finally, as work by the Australian Industry Group's Defence Council has demonstrated, work undertaken by defence manufacturers in Australia yields significant spin-off benefits for the wider economy.

Terms of reference

I, ROD KEMP, Assistant Treasurer, pursuant to Parts 2 and 3 of the Productivity Commission Act 1998, hereby:

1. refer the scope for a post-2000 reduction in the general tariff (covering only rates of 5 per cent or less, and excluding the PMV and TCF sectors) for inquiry and report within 9 months of receipt of this reference;
2. request that the Commission consider the Government's desire to:
   (a) improve the overall efficiency of the Australian economy;
   (b) encourage the development of sustainable, prosperous and internationally competitive industries in Australia;
   (c) promote the provision of high quality, competitively priced goods and services to Australian businesses and consumers;
   (d) abide by Australia's international commitments, including the commitment under APEC to review its post-2000 general tariff arrangements by 2000; and
   (e) participate in a new round of multilateral trade negotiations in which bound tariff reductions will be considered by Australia and other WTO members;
3. request that the Commission report on the costs and benefits to Australian consumers, industries and their employees, and the general community, of a reduction of all general tariff rates under reference;
4. specify that the Commission's report includes options, including a preferred option, and implementation strategies for any recommended changes to general tariff arrangements that take into account:
   (a) the impact of microeconomic reform and pace of structural adjustment on Australian industry;
   (b) recent and prospective progress in regional and international trade liberalisation of interest to Australia;
   (c) other international economic and trade developments;
   (d) the impact of the floating exchange rate on the competitiveness of Australian industry;
   (e) implications for trade negotiation strategies, including how the timing of any reductions in general tariffs would best assist Australia's negotiating position at the forthcoming WTO round;
   (f) interaction with the various tariff concession arrangements including the *Manufacture in Bond* and the *TRADEX* schemes;
   (g) budgetary implications, including the effects of any changes in domestic economic activity flowing from tariff reductions;

employment objectives, of Australian governments;

(i) existing preferential trade arrangements;

(j) the Government's commitment to the APEC goal of free and open trade and investment in the Asia Pacific by 2010 for industrialised economies and 2020 for developing economies; and

(k) the schedule for tariff reform in the PMV and TCF industries;

5. specify that the Commission, as part of its review:

(a) report on all matters identified in 4(a) to (g) above;

(b) identify and report on the costs and benefits of removing tariffs on tariff lines at the 8-digit level for which there is no significant Australian production; and

(c) consider the appropriateness of the Tariff Concession System and Project By-Law arrangements; and

6. specify that the Commission take account of any recent substantive studies relevant to th above issues.

ROD KEMP

21 October 1999