Review of Australia's General Tariff Arrangements

Productivity Commission Inquiry Submission

Murray Goulburn Cooperative Co. Ltd

Executive Summary

In taking into account the Government's terms of reference to the Commission for this inquiry, in this submission Murray Goulburn Cooperative Co. Ltd provides its viewpoint on those issues it considers relevant to its activities and submits that the Commission, in responding to the needs of Australian industry, should, in its report:

- Recommend to Government that the Tariff Concession Order Scheme be retained;

- Recommend to Government that it remove the 3% impost on business inputs that was introduced in mid-1996 and applied to the process technology, capital plant & equipment (unobtainable from Australian manufacture) that is required by Murray Goulburn Cooperative Co. Ltd to produce goods it exports;

- Recommend to Government that the Project By-law & Policy By-law Schemes be retained;

- Recommend to Government that following upon consultation with industry and industry representatives the Department of Industry, Science and Resources who, through their AusIndustry component, administer both of the above schemes, undertake an immediate review of their administrative guidelines for the operation of the Project By-law Scheme, so that those administrative arrangements more accurately reflect the needs of Australian industry and the overall intent of Government policy; and

- Recommend to Government that, in order to deliver the substantial cost savings to both Government and industry that are readily achievable by the Department of Industry, Science and Resources, administrative arrangements for operation of the Project Bylaw Scheme be brought into line with *World's Best Practice*.

Introduction

The Murray Goulburn Cooperative Co. Ltd, which is better known to the public through its leading brand name, *Devondale*, is Australia's largest single manufacturer and exporter within the *processed foods industry sector*, as well as being the largest exporter of containerised cargo via the Port of Melbourne.

- In the 1998-99 financial year, the total sales of Murray Goulburn Cooperative Co. Ltd mounted to $1.319 million.

- Despite international prices for dairy commodities having deteriorated to a 10-year low, Murray Goulburn Cooperative Co. Ltd, through its production of high value added dairy products, nonetheless lifted its total export sales in the 1998-99 financial year by 32 % to **$807 million**.

- Major projects undertaken during the 1998-99 financial year included the commissioning at Cobram of Australia's largest cheese factory, currently $50 million is being expended to build a new manufacturing facility at Rochester in Victoria's northern dairying district. Both projects being aimed at improved process technologies and production flexibility, it has been Murray Goulburn Cooperative Co. Ltd's on-going commitment to acquire advanced process technologies that has permitted our products to attract premium prices in world markets.

- As a result of Murray Goulburn Cooperative Co. Ltd's preparedness to reinvest its returns from milk production and to embrace leading edge process technologies, the value added products that it exports now account for <u>6% of the total world trade in dairy products</u>.

- The employment opportunities that come from Murray Goulburn Cooperative Co. Ltd's factories being decentralised throughout the countryside substantially contributes to alleviating the unemployment problem Government is currently encountering in depressed rural areas.

- Through reinvesting its returns from milk production, *a "sustainable resource"*, to acquire from overseas advanced process engineering, capital plant and equipment to thereby value-add to the products it produces, the Australian dairy industry, overall, in the 1998-99 financial year contributed from export sales **in excess of $2 billion** to the Australian economy.

Murray Goulburn Co-op Co. Ltd Viewpoint

It is Murray Goulburn Cooperative Co. Ltd's viewpoint that so long as import tariffs of any kind remain, there is need for the Tariff Concession Order Scheme, and accordingly the Productivity Commission should recommend that the scheme be retained.

As earlier outlined to the Commission, Murray Goulburn Cooperative Co. Ltd's success in securing for Australia a growing share of the world export market for dairy products, and its track record of providing to its milk producers higher milk prices, has come from its reinvestment of its returns from milk production in capital plant & equipment, which represents the latest and most advanced process technologies available world wide.

Whilst Murray Goulburn Cooperative Co. Ltd favors the supply of equipment from Australian manufacturers, more often than not the advanced process technologies required to maximise value adding can only be acquired from overseas.

When the process equipment that it requires to produce the high value added products that it exports is unavailable from Australian manufacture and when the investment being made in that equipment is less that $10 million, the Tariff Concession Order Scheme is the only means by which Murray Goulburn Cooperative Co. Ltd can achieve a lowering of the import tariffs that apply and hence the cost to acquire the equipment it needs.

The Tariff Concession Order Scheme accordingly assists Murray Goulburn Cooperative Co. Ltd, as it does all Australian manufacturers, to reduce the cost to acquire the best technology available.

As such, so long as import tariffs of any kind remain, the Tariff Concession Order Scheme contributes to achieving the objectives of Government as outlined in the Commission's terms of reference through promoting sustainable, prosperous and internationally competitive industries within Australia; industries capable of providing high quality, competitively priced goods to Australian consumers and business.

Murray Goulburn Co-op Co. Ltd Viewpoint

It is Murray Goulburn Cooperative Co. Ltd's viewpoint that the 3% impost that was applied to business inputs in mid-1996 significantly disadvantages Australian manufacturers seeking to acquire the latest process technology, capital plant & equipment, such as that required by Murray Goulburn Cooperative Co. Ltd to produce the goods it exports, and that, accordingly, the Commission should recommend that the impost be removed.

Prior to 1996, when Australia's manufacturing industries could not find a local source for the equipment and materials they required, these could be imported without attracting the general tariff, which is currently 5%. With effect from mid-1996, however, all inputs into manufacture which had been established as being unavailable from Australian sources, were imposted by the application of a 3% revenue raising tax.

This 3% impost was only applied to business inputs. Whilst consumer goods not produced in Australia, including many luxury items such as VCRs, video cameras, CD players, were not, as would perhaps have been equitable, similarly imposted with this tax and today consumer goods continue to remain duty free.

Whilst the 3% impost acted to increase Australian manufacturing industry's costs, as would have provided Government even greater revenue flows, no similar impost was applied or added to the general tariff level and thus, fully imported, finished goods against which the Australian manufacturers must compete were provided with a 3% price advantage.

Accordingly, since its introduction in mid-1996, the current 3% impost on business inputs has, contra to the Government's stated objectives, acted to reduce Australian manufacturing industry's ability to provide competitively priced goods to Australian consumers and has increased the cost of Australian-made goods in export markets and by so doing, the 3% impost has acted to reduce the international competitiveness of the Australian industry.

The Commission, in giving consideration to this issue will, through their own researches, no doubt also find that Australia is the only country that applies an import tax to the detriment of its own manufacturing industries.

Murray Goulburn Co-op Co. Ltd Viewpoint

It is Murray Goulburn Cooperative Co. Ltd's viewpoint that so long as import tariffs of any kind remain, there is need for the Project and Policy By-laws Schemes and accordingly, the Productivity Commission should recommend that those schemes be retained.

Capital plant and equipment coming within the scope of the Government's Project and Policy By-laws Schemes does not carry the 3% impost that is currently applied to all other inputs into manufacturing industry that have been demonstrated to be available from Australian manufacture.

The Government's policy objectives for the Project By-law Scheme provides for the maximisation of those equipment inputs as may be available from local manufacture.

Access to the Project By-laws Scheme, however, is restricted only to projects involving an expenditure in capital equipment of in excess of $10 million.

This $10 million bench mark acts to exclude from this industry assistance measure many important multi-million dollar projects within the *processed foods industry sector*, major projects which will derive for the nation substantial export returns as well as providing significant job opportunities in otherwise depressed rural areas.

Additionally, through the involvement of the ISO, a practicable and merits-based assessment is capable of being made to the items of capital equipment under consideration.

Murray Goulburn Co-op Co. Ltd Viewpoint

It is Murray Goulburn Cooperative Co. Ltd's viewpoint that substantial cost savings would flow to both Government and industry if the AusIndustry component of the Department of Industry, Science and Resources, following consultation with industry and industry representatives, were to review the administrative procedures it inherited from the Australian Customs Service; the object of that review being to bring World's Best Practice to its administration of the Project By-laws Scheme, whilst at the same time making its delivery of that program more responsive to the needs of industry and the overall intent of Government policy.

Murray Goulburn Cooperative Co. Ltd, as Australia's largest exporter of value-added dairy products and thus, possibly the largest single stake holder within the *process food industry sector* and to which Government directs the measure of industry assistance that is provided by the Project By-laws Scheme, has from the several multi-million dollar projects it has undertaken since the implementation of that scheme, substantial reason for concern as to the inefficiencies within the delivery of that industry program and the unnecessary costs to both Government and industry that attach to same.

Whilst on a *cost versus benefit* basis the Government's cost in administering the Project By-laws Scheme is not significant, particularly in light of the substantial benefits this scheme provides:

- To local manufacturers in terms of maximising opportunities for them to participate in the projects' supply chain, and thus to perhaps also acquire technology spin-offs.
- To the project proponent within the food processing sector themselves through facilitating a reduction in their costs to acquire and further develop advanced process technologies.

It is clear that the Project B-law Scheme, relative to this inquiry's Terms of Reference, acts to *increase international competitiveness of Australian industry*.

However, from our extensive experience with the administration of those schemes, both industry's costs and Government's costs in the administration of those schemes could be dramatically reduced by bringing AusIndustry's current administrative arrangements in to line with *World's Best Practice*.

Furthermore, through integrating into their administrative *arrangements World's Best Practice* in those facets of project & supply chain management as applies to construction of multi-million dollar manufacturing facilities, AusIndustry could also substantially improve the delivery of this program and deliver further cost reductions to Government through providing for all compliance costs to be fully funded by industry.

Murray Goulburn Co-op Co. Ltd Viewpoint

It is Murray Goulburn Cooperative Co. Ltd's viewpoint that under the Project By-law Scheme, in assessing a project against the Government's $10 million bench mark, that as current administrative arrangements seek to exclude significant expenditure on equipment that is typically found throughout a modern manufacturing facility in the dairy industry, that Government should give consideration to permitting the total investment being made to be that measured against the $10 million bench mark, or alternatively that the $10 million benchmark itself be reduced to $5 million or less.

Currently, the only multi-million dollar projects to be facilitated by the Project By-laws Scheme are those undertaken within the *"Agricultural, Food Processing and Food Packaging Industries"*, and *"The Mining and Resource Processing Industries"*. The legislation that gives effect to those policy initiatives is, respectively, items 46 & 45, to the fourth schedule of the Customs Tariff Act.

Item 45, to the fourth schedule of the Act, covers:

> *"Capital equipment for use in the mining and resource processing industries as prescribed by by-law".*

Item 46, to the fourth schedule of the Act, covers:

> *"Capital equipment for use in the agricultural, food processing and packaging industries, as prescribed by by-law".*

The term *"capital equipment"* has a readily accepted meaning. Current administrative arrangements for the Project By-laws Scheme seeks to vary, however, the normal meaning of the term "capital equipment" by applying a narrow definition of that term partly based upon, but narrower still, than that set out in the Custom Act and for the administration of the Tariff Concession Order System. Such being the case, this acts to exclude from assessment against the $10 million bench mark expenditure on equipment normally regarded as *"capital equipment"*.

This acts to unfairly disadvantage the dairy industry when the full investment being made in capital equipment for a multi-million dollar project is measured against the Government's bench mark requirement that the project represent a significant investment in "capital equipment" exceeding $10 million.

If it was, indeed, Parliament's intention that for the purposes of the Project By-Laws Scheme the term *"capital equipment"* should have some special meaning which Parliament at the time failed to define in its passing of the legislation, as cited above, to restrict the normal meaning of the term *"capital equipment"* to the special meaning that is given under the administrative arrangements attaching to the Project By-laws Scheme, then to redress the inequity the Government should give consideration to reducing that bench mark from $10 million to $5 million, or to changing the special meaning that is given in the administrative guidelines for the Project By-laws Scheme, so that the dairy industry is not disadvantaged.