Binzel Pty Ltd

Submission to

Productivity Commission

in its Inquiry into

Review of Australia's General Tariff Arrangements

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The need to weld and cut metals and alike materials forms the basis today of most fabricating and manufacturing processes and it was for the purposes of servicing the needs of Australian manufacturers, sheet metal fabricators and general engineering workshops, as well as local manufacturers of automated & robotised welding machines, that in 1984 Binzel Pty Ltd was founded.

A trans-global company employing more than 650 people world wide, the Binzel range of both air and liquid-cooled MIG, MAG, TIG and Plasma Arch welding and cutting torches, has placed us in the forefront of the world's leading companies in welding and cutting technologies. Close contact with manufacturers, universities and research centres, including participation in many specialised industry working groups and alike activities, together with our own ongoing technological research & development, has ensured that our products are at the leading edge of welding and cutting technologies, whilst delivering both the product quality and reliability industry requires.

Given our activities, Binzel Pty Ltd has, in terms of the Commission's inquiry, a beneficial interest in the continued viability of Australia's manufacturing industries, as would also include both large and small specialised & general engineering works, metal fabricating businesses, etc. In addition, not being produced in Australia, our need to acquire from overseas advanced technology welding and cutting torches makes us a stakeholder in the outcomes that will flow from this present Productivity Commission Inquiry into Australia's General Tariff arrangements.

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As will be dealt with at greater length within the body of this submission when we enlarge further upon the two key issues of concern to both Binzel Pty Ltd and the customers that we service, it is our view that in order to:

- *"Encourage the development of sustainable, prosperous and internationally competitive industries within Australia";*
- *"Promote the production of high quality competitively priced goods and services to Australian business and consumers,"*

the Productivity Commission should, in its report to Government, recommend:

- That the on-going viability of our customers within Australia's manufacturing industries be fully supported and that there be no further regressive changes to the general level of tariffs;
- That the Tariff Concession Order Scheme be maintained so long as import tariffs of any kind remain in place;
- That through the removal of the 3% impost on business inputs, Australian manufacturing industry no longer be disadvantaged when seeking to employ advanced technologies & equipment that are unobtainable from local sources.

KEY ISSUES

KEY ISSUE
- ONE -

The Tariff Concession Order system is currently the only mechanism in terms of import tariffs by which the cost to our customers within the nation's manufacturing industries can be minimised when they seek to acquire welding and cutting equipment that is not produced locally, but which is nonetheless required by them to produce and on-sell their products into both domestic and overseas markets.

EXAMPLE

Australia is noted for having a world-beating aluminium ship building industry and the advanced technologies that are to be found within Binzel's push-pull air & liquid cooled welding torches are essential to carry out the manufacturing process of that industry. Whilst our push-pull torches have become the industry standard in ship building, they are also used extensively within the motor vehicle industry and in the manufacture of such diverse items of equipment as railroad cars and rolling stock, as well as in storage tank and vat manufacture, etc.

The Tariff Commission Order Scheme, therefore, assists Australian manufacturers & producers to contain the cost involved to *make & sell* their products.

Such being the case, the Tariff Concession order Scheme contributes in part to the Government's objective of promoting sustainable, prosperous and internationally competitive industries in Australia, whilst promoting also the provision of high quality, competitively priced goods to Australian business and consumers.

It is therefore Binzel Pty Ltd's view that so long as any import tariffs of any kind remain, there is need for the Tariff Concession Order Scheme and that, accordingly the Productivity Commission should recommend to Government that the scheme be retained.

Furthermore and notwithstanding that as a result of the 3% impost that is applied to the equipment input needs of Australia's manufacturing industries, the Tariff Concession Order system currently provides for only a 2% reduction from the General Tariff level; the benefit that this provides to Australia's manufacturing industries is still significant.

The Tariff Concession Order Scheme is administered by the Australian Customs Service. Currently, within the Australian Customs Service, less than a handful of staff are devoted to the administration of that scheme. Additionally, whether the applicable rate be the General Tariff level of 5% or the 3% that is presently delivered by the Tariff Concession Order Scheme, the Australian Customs Service compliance costs are no different.

In context of the aforegoing, Binzel Pty Ltd submits that even though the benefit to Australian manufacturing industries is presently limited on a *cost v benefit basis*, the cost to Government to administer the Tariff Concession Order Scheme is **insignificant** and compliance costs for goods dealt with under the scheme have currently a **zero** differential.

In any event, by far the greater proportion of compliance costs within the Australian Customs Service [as distinct from industry assistance schemes such as the Tariff Concession Order system] are directed today towards community protection measures.

KEY ISSUE
- TWO -

Prior to 1996, when Australia's manufacturing industries were unable to source locally items of equipment [including wear parts and consumables therefor] required to manufacture the goods they sold into both domestic and export markets, they could import that equipment, without that equipment attracting the General Tariff, currently 5%.

With effect from mid-1996, however, all equipment inputs into their manufacture, as 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 such consumer goods continue to remain duty free.

Whilst the 3% impost acted to increase Australian manufacturing industry's costs, as would have provided Government with 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 find it relevant to note that Australia is the only member of the World Trade Organisation that applies a business inputs tax to the detriment of its own manufacturing industries; a tax on inputs into manufacture which disadvantages local manufacturing industries producing goods which must compete against imports which carry no such similar cost burden.

This inequitable and clear disadvantage at which Australian manufacturers are put by the application of a 3% impost upon their equipment inputs will be further magnified on the 1st July, 2000, on implementation of the GST, for ***tax on tax***, that 3% impost on all equipment & materials that are unavailable locally is required, under GST legislation, to be added to those goods' *taxable value*, upon which the 10% GST is calculated.

The disadvantage at which Australian industry is put by the application since mid-1996 to all inputs into their manufacture, as are unavailable locally, of the current 3% impost, can be readily demonstrated:

EXAMPLE

Stainless steel, as is used extensively throughout such growth areas of the economy as the food processing industry, the wine industry, the dairy industry, and much of the plant & equipment utilised in those industries is also manufactured for that material, given BHP's decision to abandon production in Australia of stainless steel, most imports of that material are now the subject of various tariff concession orders, all of which carry the 3% impost on business inputs.

Likewise, the cutting and welding torches [including wear parts & consumables therefor] needed to fabricate and/or to manufacture goods from that stainless steel and which are similarly unobtainable from local manufacture, are also the subject of various Tariff Concession Orders, all of which carry the 3% impost that is applied to business inputs.

Accordingly, Australia's stainless steel fabricators and local manufacturers who produce goods from stainless steel must, therefore, carry an additional 3% cost burden not only on their material costs, but also an additional 3% cost burden on the equipment required to produce goods from that steel, and upon the consumables utilised in the process as well!!

Contracts for the supply of plant and equipment fabricated from stainless steel can be won and lost on a fraction of one percent movement in price.

Millions of dollars worth of stainless steel fabrication and the manufacture of equipment from stainless steel, much of which is capable of being undertaken here in Australia, is now being undertaken in New Zealand, notwithstanding that New Zealand has itself no stainless steel manufacturing industry, nor in local industry producing cutting and welding torches or consumables therefor.

New Zealand-based stainless steel fabricators and manufacturers can source their stainless steel material requirements from Japan, Korea, etc., without the impost of a 3% increase in material prices and can likewise source from overseas the cutting & welding torches and all consumables therefor without the 3% impost that Australian manufacturers currently must carry. By the addition of New Zealand content, in the form of labor and perhaps other materials, the plant and equipment produced then conforms with the preference requirements of ANZCERA and thereby may be imported into Australia duty free, to the detriment of the Australian manufacturing industry, who have lost the supply contract due to having to up lift both their materials, equipment and consumables supply cost by 3%.