

**P.W. Hannah & Associates
[International] Pty Ltd**

Submission to the

Productivity Commission

in its Inquiry into

**Review of Australia's
General Tariff
Arrangements**

INTRODUCTION & EXECUTIVE SUMMARY

For over two decades the customs consulting/legal support services component of PW Hannah & Associates [International] Pty Ltd has been involved in assisting its clients in all aspects attaching to customs law, tariffs and in accessing the various industry assistance programs that are provided by the Federal Government.

Over the years, extensive experience in acting for those sectors of Australian industry to whom Government directs industry assistance programs, such as the Project By-law Scheme, has provided PW Hannah & Associates [International] Pty Ltd with a valuable insight into the operation of those programs and as is relevant to this inquiry, substantial experience with both the effectiveness and of the efficiencies or otherwise to be found within the delivery of those such industry programs.

The role which this firm is called upon to play has permitted us to engage with such diverse industry sectors as forestry and agriculture, wine production, the food processing and packaging sectors, as is related to this sector, process technology plant & equipment manufacturers, and as is also associated with the foregoing, the materials handling and process control electronics industries.

In representing the views of its clients, PW Hannah & Associates [International] Pty Ltd is therefore a stakeholder in the outcomes that will flow from the Productivity Commission's inquiry and report to Government in its *Review of Australia's General Tariff Arrangements*.

Recognising the general direction of Government policy will never give rise to any increase in the general tariff level, the observation is nonetheless made that in this firm's experience, the significant decline in recent years that has been noted in Australia's manufacturing & general engineering industries can be timed from the general level of tariff's last phased reduction from 15% to 5%.

Furthermore, having taken on board the comments of our client companies, we believe it to be a commonly held view that Australia should not have reduced its general tariff levels faster than and to a lower level than our principal trading partners.

Export sales of the commodities which Australia produces should not attempt to be bought by the sacrifice of Australia's manufacturing industries and it is noted that those industry sectors who are currently achieving significant returns to the Australian economy by way of their manufacture and export of value-added products, have achieved this through efficient resource production and value-adding to that resource by the adoption of advanced process technologies.

In terms of Australia's post-2000 general tariff, in framing its recommendations to Government, the Productivity Commission was requested to consider the Government's desire to:

- encourage the development of sustainable, prosperous and internationally competitive industries in Australia;
- promote the provision of high quality, competitively priced goods and services to Australian business and consumers.

It is PW Hannah & Associates [International] Pty Ltd's view that to achieve those objectives, the Productivity Commission should recommend to Government:

- That the Tariff Concession Order Scheme be maintained;
- That Government should remove the 3% impost on business inputs introduced in mid-1996 and applied to all items of capital

plant & equipment and material inputs [unobtainable from Australian manufacture] and required by the nation's manufacturing industries to produce both the goods that they export, as well as the goods they sell into domestic markets which must compete with fully imported goods advantaged by no similar 3% impost;

- That the operation of the Project and Policy By-law Schemes be maintained, but that following upon consultation with industry representatives, having experience in both
 - Government's fiscal responsibilities in terms of its administration of the Project By-law Scheme, and with
 - project & supply chain management as it applies to multi million dollar projects,

that in order to improve the delivery of that industry program and return also to both industry and Government significant cost savings, that the administrative guidelines of the operation of the Project By-law Scheme be substantially revamped in order that those guidelines be more closely aligned with:

- the overall intent of Government policy for the industry sectors to which that program is directed;
 - the manner in which multi million dollar projects are brought into being.
- That the current general tariff level of 5% not be further reduced.

THE ISSUES

The following issues underscore our viewpoint that the Tariff Concession Order Scheme be maintained:

The only justification for Government to disband the Tariff Concession Order Scheme would be the application of a general tariff level of zero;

In the absence of any decision by the Government to reduce Australia's general tariff rate to zero, the Tariff Concession Order Scheme is the only mechanism for equipment purchases under \$10M by which acquisition costs, in terms of import tariffs, can be minimised when no local alternative is available.

The efficacy of the Tariff Concession Order system in reducing manufacturing industry's input costs is substantially eroded by the application of the 3% impost on business inputs.

Notwithstanding that as a result of the 3% impost on business inputs, the Tariff Concession Order system delivers only a 2% reduction in tariff levels, there is nonetheless with major items of capital, plant & equipment, still a measurable benefit derived by manufacturing industry.

The Australian Customs Service currently employs only a handful of staff to administer the Tariff Concession Order system, therefore on a *cost v benefit* basis, the cost to Government to administer that scheme is insignificant.

The cost to the Australian Customs Service and thus to Government to achieve compliance does not vary according to the rate of duty, therefore the compliance costs attaching to the Tariff Concession Order Scheme has, compared to goods dealt with at the general tariff level, a zero differential.

THE ISSUES

The following issues underscore our viewpoint that the Government should remove the 3% impost on business inputs introduced in mid-1996 and applied to all items of plant and capital equipment; materials etc required by industry but which have been found to be unavailable from local manufacture:

The significant commercial and inequitable disadvantage at which Australian manufacturers are clearly placed from the 3% impost applied to their equipment inputs, will be further increased upon implementation of the GST on 1 July 2000, resultant from the 3% impost being required to be added to the taxable value of imported goods.

The present 3% impost applied to business inputs since mid-1996 significantly disadvantages manufacturing industry, as the fully imported goods, against which Australian manufactured goods compete, were in mid-1996, as perhaps would have been more equitable, not imposed with a similar increase in the applicable tariff level.

It is somewhat incongruous that all consumer goods not produced in Australia, including many luxury items such as VCRs, CD players, video cameras, hi fi equipment, etc, remained duty free yet each and every input into manufacture in Australia, whether that input be in the form of manufacturing equipment or materials or a semi-manufacture, was imposed by the 3% tariff applied by to T.C.O. goods that are business inputs.

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.

It follows from the foregoing that, 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 acted to increase the cost of Australian-made goods in export markets and by so doing, the 3% impost has reduced the international competitiveness of the Australian industry.

Finally, it is of note to PW Hannah and Associates [International] Pty Ltd that Australia is the only member of the World Trade Organisation that is known to positively encourage imports by disadvantaging the local manufacturing industries who produce goods against which those imports compete.

THE ISSUES

The following issues underscore our viewpoint that the Government should retain the Project and Policy By-law Schemes:

Capital plant and equipment coming within the scope of the Government's Project and Policy By-law Schemes does not carry the 3% impost that is currently applied to all other inputs into manufacturing industry that have been demonstrated to be unavailable from Australian manufacture. Access to the Project By-law Scheme, however, is restricted to projects involving expenditure in capital equipment in excess of \$10 million.

The Project By-law Scheme delivers substantial benefits to the economy through:

- maximising opportunities for local manufacturers to participate in the project's supply chain and to thereby on occasion also acquire technology spin-offs;
- assisting the project proponent building the new manufacturing facility to reduce their costs to acquire and further develop the advanced process technologies they require to produce high quality, value-added products for export.

Such being the case, the Project By-law Scheme therefore, relative to the Productivity Commission's terms of reference, clearly acts to *increase the international competitiveness of Australian industry* whilst also promoting *the provision of high quality and competitively priced goods to Australian business and consumers.*

Additionally, through the involvement of the Government-funded import replacement agency, the Industrial Supplies Office (ISO), within the project and supply chain management systems of those employed to construct the manufacturing facility in question, a practicable and merits-based assessment is thus capable of being made as to the items of equipment under consideration. An example of this is provided within the Commercial in Confidence section of this submission.