



**THE CHAMBER OF MINERALS AND ENERGY  
OF WESTERN AUSTRALIA INC**



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22 June 2000

Mr John Cosgrove  
Presiding Commissioner  
Productivity Commission  
PO Box 80  
BELCONNEN ACT 2616

Dear Mr Cosgrove

**PRODUCTIVITY COMMISSION REPORT INTO TARIFFS**

On behalf of the Western Australian minerals and energy industry, the Chamber of Minerals and Energy of Western Australia is pleased to make the following submission to the Productivity Commission following release of the draft report into Australia's general tariff arrangements.

The Chamber has taken a close interest in the tariff issue for some time. In 1902, the then Chamber President, Richard Hamilton, commented on the introduction of tariffs on manufactured goods in these terms "a high protective tariff will be inimical to the interests of those States of the Union whose prosperity almost entirely depends upon the exploitation and development of their mineral resources."

The Chamber's philosophical position remains consistent with that of 1902.

**General**

The Western Australian minerals and energy sector is a world competitive and dynamic part of the State's economy, with production worth around \$17 billion per year, accounting for close to a quarter of WA's economy. Virtually all of this product is exported and WA's producers are generally price takers, meaning that costs must be below world prices for the State's minerals and energy industry to remain viable.

These points are extremely significant in determining the industry's perspective on tariffs. As an efficient and unprotected exporting industry we receive no benefit from tariffs. As an exporter into price competitive markets, tariffs in fact are a drag on the industry as the costs of tariff protection elsewhere in the economy are ultimately borne by our industry and other efficient sectors of the economy. The same applies to the WA economy as a whole: it derives virtually no benefit from the national tariff regime and its efficient industry is impeded by the cost imposition.

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A recent Chamber study (a copy of which is enclosed for information) looked into the cost of tariffs to the State and found that, in 1995/96, tariffs cost the State some \$500 million annually or approximately \$1,000 per family per year. Conversely, removal of tariffs was shown to add 1.3% per annum to the State's growth rate or \$500 million annually to the State's economy. While Western Australia, with a significantly higher than national average export exposure benefits disproportionately from tariff removal, it should be noted that Australia as a whole enjoys increased growth of 0.4% or \$1.5 billion.

This report adds to the considerable weight of evidence that all tariffs should be removed in the shortest possible time, allowing the efficient sectors of the economy to maximise their economic potential. This applies both to the general tariffs which are the subject of the inquiry and to textiles, clothing and footwear and motor vehicles, both of which the Chamber acknowledges are excluded from the review.

## **Content of Draft Report**

The Chamber is in general agreement with the thrust of the report. In particular it endorses the report's findings that even low tariffs act as a drag on international competitiveness, and that removal would lead to net benefits.

### ***Key Findings***

The Chamber concurs with the key findings of the report. It wishes to make the following comments on two in particular.

#### **Cost of Tariffs**

Some submissions argued that tariff levels are so low that the effort required to abolish them is not justified by the allegedly small scale of benefits on offer. The Chamber does not accept this argument. While it is the case that the benefits from minor reductions will be less than those from large changes, it is still the case that tariff removal leads to a more efficient allocation of resources, increasing overall economic welfare.

As noted above, the minerals and energy industry is highly competitive and Australian producers must meet the challenge of competing on prices set in world markets. In this context the pressure is on every cost input to be at the lowest possible price and even seemingly small increases may be significant.

#### **Multilateral Negotiations**

The Chamber notes the report's finding that removal of tariffs would enhance Australia's efforts to reduce foreign trade barriers and the argument in some submissions that this is a prime argument for tariff reform. While the Chamber acknowledges the logic in this argument, it is concerned that this may reinforce the common misconception that tariff reduction is only worth doing on a multilateral basis. It is true that the greatest benefits would result from all parties lowering trade barriers, however, even if Australia is the only party to remove tariffs, this will still deliver a net benefit as tariff free import prices fall. Tariff reductions should not be held hostage to progress in trade negotiations if this will delay them unduly.

### ***Protective Impact of Tariffs***

According to the report, very few submissions argued in favour of continued tariffs for those goods not produced in Australia. This is logical as the argument for protection obviously does not apply. The Chamber notes that, even where goods are produced in Australia, the case for protection fails for a number of reasons:

- The decline in economic efficiency caused by higher domestic prices;
- The complexity of these arrangements; and
- Even if protection of inefficient industries is identified as a worthwhile goal, a 5% tariff almost certainly will not deliver this outcome on a sustainable basis.

### ***Recommendations***

The Commission poses several options for consideration, including early removal (1 July 2001) or removal over some longer period (through to 2005). The Chamber strongly endorses the Commission's draft recommendation that "General tariff rates on goods under reference be reduced to Free sooner rather than later, preferably on 1 July 2001."

The Chamber also concurs with the second draft recommendation that "concessional elements related to the goods under reference be abolished on 1 July 2001."

Implementation of these recommendations will enhance the competitiveness of efficient Western Australian industry and the Chamber can see no reason why the State's access to these economic benefits should be deferred.

I trust these comments help clarify the views of the WA minerals and energy industry on tariff reform. Please contact Charles Crouch, Executive Officer, Economic Affairs if any further information is required.

Yours sincerely



**Ian Satchwell**  
Chief Executive Officer

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