



Draft Copy
Submission on the Draft Report on the Review of Australia's General Tariff Arrangements.

Productivity Commission.
 Belconnen ACT
 Attention Jill Irvine.

I.N.C. Corporation Pty Ltd is a family owned business, established in 1977, employing 45 people in a technology related manufacturing business. By any measure we are a successful manufacturing business with a strong commitment to innovation. Our success has been despite the lack of cohesive industry and tariff policy in this country over this period. We will elaborate on this within the context of this submission. Although we agree with the basic sentiment expressed in the media release, we believe there is a fundamental flaw that deserves closer scrutiny.

Why protect only motor vehicles and TCF industries?

It is generally agreed that Australia has a strong automotive sector that is cost competitive. Yet it is seen reasonable (and we support this) to apply tariffs to allow the industry to compete on a global basis. The TCF industries however continue to struggle against low cost nations, and suffer regular setbacks.

Is it reasonable that protection be limited to these two large industries?

As an example, Australia also has a very competitive truck manufacturing industry. Our OECD trading partners, in Germany, Sweden, France, Italy, USA, UK etc offer 22-25% protection for the same industry. We allow their vehicles into Australia with only 5% tariff.

How sensible is it to reduce this to zero? This industry sector has had to reduce costs at a much faster rate than the passenger vehicle market.

Truck manufacturing represents almost 15% of our total sales, along with our largest single customer. We now sell at prices equal to those we charged in the 1980s! This has been achieved through the high capital expenditure, high technology manufacturing and productivity improvements. We are pleased with this result but are rapidly reaching limited further improvement opportunity.

This proposal will transfer the profits from efficient Australian manufacturers to inefficient, protected, foreign manufacturers. These manufacturers have the additional advantage of large domestic markets that we certainly do not enjoy here. Nor does



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Head Office:

22 Cleeland Road, Oakleigh South
 Vic. 3167 Australia

Tel: 613 9543 2800, Fax: 613 9543 8108

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Australia have tariff free access to these markets for exports of Australian-made trucks to increase our production volumes.
Where is the quid pro quo?

By leading the way, all we do is render our markets open to be decimated long before the benefits of reduced tariffs can be realised, if they ever are.

95% of our business is supply to original equipment manufacturers. We rely on manufacturing for our future. As an importer of raw materials, we might not like to pay the tariffs, but we cannot afford to lose our customer base.

Since 1977, our domestic market potential has been reduced by at least 75% due to loss of manufacturing industry from this country.

How small can we be and achieve world competitiveness? Australia has to build businesses that are big enough to stand tall on the world stage. This is not easy when our domestic markets keep shrinking.

Concessional import duty arrangements add to business costs?

We import. We arrange tariff concessions ourselves. The cost is not high. It is simply tedious.

A greater cost to business is the minimum 3% tariff added to all tariff free imports as a budget measure by the government. This affected all Australians, reducing opportunity and profits, thereby reducing taxes. This short sighted tariff policy was not matched by an industry policy that would encourage business growth. These tariffs have increased our business cost significantly.

Will we ultimately see a proposal to re-introduce tariffs to replace taxation revenues lost by the loss of manufacturing industry? Someone has to pay at some stage.

Reduction of tariffs...."will strengthen Australia's position in international trade negotiations"?

All OECD countries protect their vital and traditional industries! Protection can be blatant (as in tariffs on trucks), but is more often subtle. The rest of the world simply does not care about Australia. We are insignificant.

I.N.C. Corporation, through it's subsidiary Aerotex Australia, has developed an innovative combat rain-wear fabric for the Australian Defence Forces. It is half the price of our US competitor, with equal performance. Earlier this year, we displayed this fabric at Techtextil in Atlanta, only to find that US defence purchasing policy does not allow ANY imported components, right down to the fibre in the fabric. In Australia we are made to compete against the rest of the world for Defence business.



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22 Cleeland Road, Oakleigh South
Vic. 3167 Australia

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Why use the “substantial improvement in competitiveness brought about by the decline in Australia’s exchange rate” as an excuse to offset the costs of adjustment to reduced tariffs?

Our low exchange rate increases costs much more than tariffs. Just ask yourselves why our exchange rate is so low?

Currency markets have no respect for Australian industry policy. We have a boring, old economy. It is regarded as having little prospect for growth through technology. Foreign business colleagues ask why we want to lead the world in tariff reduction and destroy our traditional industries in the process. They wonder how we will build new industries. So do we.

Our currency also remains vulnerable because we suffer horrendous trade deficits. The more we import the lower our currency goes. The lower currency then increases import costs. Catch 22.

Australia must increase economic diversity and opportunity. In effect we are a third world country – an exporter of food and minerals, not dissimilar to Zimbabwe (without the problems). Regrettably primary industries just don’t employ the bulk of our population. Diversity has to be created and stimulated.

Our exchange rate should be used to our benefit to build our industries through competitive exports. It should not be used as an excuse for reduced domestic opportunity through further tariff reductions that stand aside from industry policy.

A further 0.5% unemployment?

This seems such a small number, yet successive Governments claim success for reducing unemployment by lesser amounts. These are people, not numbers.

Is it not fallacious to justify more unemployment because employment is rising? This could make sense if there was full employment, but we don’t have that.

A rising employment trend has never been sustained. As sure as the sun sets this trend will reverse.

The only hope we have for long-term high employment is to develop a diverse economy that can sustain a population with wide degrees of intellect, capability and interests. This requires sustaining unfashionable industries, such as manufacturing. We need to provide jobs that satisfy, not just simply employ.

The recent share market fiasco associated with so-called “high-tech” stocks demonstrates clearly that we need strong industries that generate real full-time jobs and real profits. Can we rely on the “new economy” to do that?



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Head Office:
22 Cleeland Road, Oakleigh South
Vic. 3167 Australia
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IN CONCLUSION.....do we remove tariffs "sooner rather than later", as proposed?

We think this is desirable, but it must not happen in isolation. I.N.C. Corporation supports policies that will enhance our competitiveness.

However the remaining limited Australian manufacturing base must not be jeopardised. We are exporters, but we need a strong domestic market to create a business that can sustain export opportunity. After 15 years of exporting we now know that critical mass has to be achieved domestically before exports are viable. Critical mass in diminishing markets is almost impossible to achieve.

Industry policy cannot simply be left to "the free market" because there is no such thing. Global business moves manufacturing to the lowest cost, best-protected countries.

Major countries protect their industries to ensure a quality of life and diverse opportunity. Consider the riots in Europe over proposals to remove protection for farmers. Australia has hardly had spectacular success in achieving reciprocal reductions to our own farm tariff reductions. The net effect is the so-called "crisis in the bush".

We believe that the whole thrust of the proposal for tariff reduction is too internally focussed on cost reduction, rather than on building a strong, profitable and diverse economy that can build businesses that are big enough to support export growth.

A strong domestic market is essential to create the economy of scale that can promote export competitiveness.

Reliance on our weak currency alone will not create a sustainable competitive advantage.

We have opened up our markets, and our trade deficit is out of control. Stronger domestic opportunities and increased exports will reverse the balance of payments. They can more than offset the increasing effect from increased imports created through tariff reduction.

The Productivity Commission must be more realistic. Australia must focus on policies that build domestic businesses and increase exports by demanding fair treatment from our trading partners.

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Head Office:
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Vic. 3167 Australia
Tel: 613 9543 2800, Fax: 613 9543 8108



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Tariff policy must be fully integrated with industry policy with the clear objective of a reduced trade deficit. If not, the policies are unsustainable and unrealistic.

We submit that reciprocal tariff rates are the most logical solution. These have the potential to increase exports by allowing exporters to take advantage of our currency and our competitiveness in markets that are now effectively closed, whilst allowing scope for cost reduction through zero or low tariffs, in areas in which Australian industry lacks competency.

The degree of protection afforded by this scheme would increase the share of the domestic market available to Australian business. At the same time Australian business will be kept honest by the competitive forces of the tariff free imports allowed from our trading partners that accept the reciprocal rates. The ACCC could ensure that consumers are not disadvantaged.

Our company has a strong commitment to Australian manufacturing industry. We trust that the Commission will take this submission seriously. Our ability to build a much stronger business, with more employment opportunities relies on the decision Commission will make. The Draft proposal will certainly put current jobs at risk.



Michael Coates
Managing Director
I.N.C. Corporation Pty. Ltd.



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