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June 23, 2000

General Tariff Review Inquiry
Productivity Commission
PO Box 80
BELCONNEN ACT 2616
Fax: 02 6240 3311

Dear Commissioners,

Re: Draft Report of "Review of Australia's General Tariff Arrangements"

We appreciate the opportunity of responding to the Productivity Commission's draft report into the above review. As we strongly demonstrated in our previous submission, the outcome of this review has the potential to severely impact on the pulp and paper industry in Australia. The Commission's draft recommendations realise our fears by recommending the abolition of tariffs by 1 July 2001.

Whilst we do not profess to be economists, our reading of the draft report does not convince us that removing tariffs will be of benefit to the overall community. In fact it does show that our industry will be affected, causing a flow on negative effect to the regions and thus to the community.

We do not agree with the assumption of the model used, which concludes that *Little significant effect on labour in any industry or region is likely*" (p116) and that job loss will be *"equivalent to less than one year of recent employment growth or loss"* (p110). Table 7.1 shows that five significant manufacturing industries and nine regional centres will be adversely effected by the removal of tariffs. Tables 3.2 and 3.3 (p 38-40) show that the effects on our industry and regions are very long lasting. One would hope that this alone would be reason enough for any government to not accept the recommendations put by the Commission, particularly considering the high unemployment found in most regional areas of Australia.

The Commission is reminded of the high unemployment in the three regions where the fine paper mills are located:

Region	Unemployment Rate
Gippsland, Victoria	11.9% (ABS, May 00)
Mersey-Lyall, Tasmania	11.2% (ABS, Oct 99) ¹
Illawarra, New South Wales	9.7% (ABS, Aug 99)

We attach two articles that confirm the unemployment rate for Gippsland as the second worst in Australia. The article dated May 19, is evidence that any adjustment in employment will not be equivalent to one year of employment loss – *“a decade after restructuring of the electricity industry began devastating the region, only half of all adults in Gippsland had a job”*. Finding work in other industries is almost impossible and relocation is not possible for all. Indeed, mass relocation brings with it its own devastating economic and infrastructure problems.

The article dated June 14, states, *“Morwell and Moe² remain Victoria’s worst black spots for unemployment, with one in six workers still without a job almost nine years after the official end of the recession...”* and *“Unemployment in Morwell was 17.3 per cent in the first three months of this year, while in Moe it was 16.4 per cent”* and *The Department of Employment, Workplace Relations and Small Business estimates imply that little of Victoria’s job growth has been in the areas of highest unemployment.”*

Our members take umbrage at the Commission’s suggestion that the social security safety net programs *“automatically assists those adversely affected by change”* (p111). We most strongly assert that we do not want social security assistance, we want to remain working for a wage in a viable and growing industry. If removing tariffs means even one-person ends up on the “dole scrap heap”³ then the price of removal is too high.

The draft report goes on to say in the next paragraph, that *“In the event that larger adjustment problems emerged unexpectedly, specific additional assistance would need to be considered”*. In our view, this is highly probable and could end up costing the government dearly.

We appreciate the Commission’s suggestion *“that all industries are subject to continuing competitive and adjustment pressures from a number of sources, of which tariff reductions are just one”* (p110). As referenced in our previous submission, our industry has dealt with and continues to fight these pressures, to not just remain viable but as a means to future investment and expansion. As stated previously, we are confident of “riding the storms”, however we still believe that removing tariffs could very well tip the balance resulting in the abandonment of an Australian fine paper industry. As a “best” scenario, we are still of the firm view that in the absence of any tariff protection, Australian

¹ This is an original figure. It is not a trend or seasonally adjusted figure

² Morwell is where the Maryvale pulp and paper mill is located and Moe is the next town west

³ We do not mean any offence to those forced into the social security system

Paper would further rationalise its products, causing many job losses, and we repeat this cost is too high a price too pay.

The Commission is reminded that our industry is one that is fiercely competitive and while on page 109 a 3% price effect (if in fact it is only 3%) may sound ineffectual, it is significant when competition is tight and increases in significance when you consider we are forced to compete with “dumped” imports.

The draft report talks about the removal of tariffs benefiting the community, but clarify that the benefits will be small. We are of the opinion that in totality, there are no benefits to the community. Consumers may buy products at a lower price in the beginning, but there is no guarantee that if the domestic competitor is pushed out of the market, the overseas producer will not raise the price. In addition, all profits would go offshore; not to mention the costs illustrated above. Indeed, the draft report talks about increases in imports and “*a slight deterioration in the terms of trade...*” (p 37).

Tariffs provide income to the government, some \$1.2 - \$3 billion per annum. This is a significant sum and much more than adequately covers the administration and compliance costs (including the \$7 million cost for administration and compliance of tariff concessions). Government costs to administer tariffs are not high when compared to the benefits they provide to Australian industry⁴ and regional jobs.

The report states that, “*Tariffs are also a source of revenue for government and their removal requires an increase in other taxes (or a reduction in government expenditure), if fiscal balance is to be maintained*” (p 23). If this is the case, how then does the average consumer benefit? It would appear that the government would need to “rob Peter to pay Paul”.

The draft report mentions on a number of occasions, Australia’s commitments under APEC to move to “*free and open trade and investment in the Asia Pacific by 2010*”, and the Commission interprets the removal of Australia’s remaining general tariffs as commitment to this. We would respectively suggest that Australia has already shown considerable commitment to the Agreement when you consider that the Bogor Declaration was signed in 1994 and Australia significantly reduced (unilaterally) their tariffs in 1996. Australia has ten years to reduce their tariffs from 5% to zero (excluding TCF and PMV) under this Agreement.

Also mentioned more than once in the draft report is the Commission’s opinion that “*Australia would be likely to receive ‘credit’ for early tariff reductions in forthcoming multilateral trade negotiations ...*” (p xiv). There is no guarantee that this would be the case. We would argue that it would not influence

⁴ The report states that manufacturing industry account for 10% of GDP

Australia's position, for the same reasons the Commission outlines on page 74, *"While Australia's trade intensity has increased, the nation is still a small player by international standards. It accounts for only 1 per cent of world trade and 6 per cent of APEC trade"*. We also concur with Minister Vail's assessment that if there is any possibility to influence (even marginally), then the remaining tariffs are necessary to use as a "bargaining lever" (see attached article).

If a credit were at all possible, then Australia could still receive it for its commitment to unilateral liberalisation thus far. The Commission is reminded that in the case of paper, the bound tariff rate under the WTO agreement is 12%. We reached an applied rate of 5%, 7 percentage points below our binding, and three years early. This unilateral decision is why the Commission can state, *"At 5 per cent or less, Australia's general tariffs, which assist many areas or manufacturing, are low..."* (p xiv). On page 107, the Commission further discusses the scope for "trade-offs" in negotiations, claiming the bigger the gap between applied and bound rates the more scope we have, in this regard we are of the opinion that 7 percentage points is significant, particularly considering the speed at which we reached it.

NAFPIC is not opposed to the intent of the "nuisance tariff" inquiry, provided importers cannot "slip through the net" by substituting grades under tariff item numbers. The Commission expresses concern as to the administrative cost in assessing the items, perhaps industry could be asked to assist in this task, if not all the required information was gathered during the aforementioned inquiry.

The draft report states, *"Where there is no local production of a particular consumption good or of its substitutes, a tariff merely serves as a tax on consumption – the tariff has no effect on the nature and extent of local production"* (p 85). We agree with this statement and its inference that the removal of tariffs will have an adverse impact on local production.

We are still of the firm view that there are no compelling reasons why the tariffs should be removed. Just in the four regions where the fine paper mills are situated, some 9000 (direct and indirect) jobs are at risk. As mentioned previously, our industry has a lot to offer in economic, social and environmental terms.

On page xvi the draft report states that *"The central question in this inquiry is what rate or rates of general tariff should apply for goods under reference on and from 1 January 2001. This question is considered in terms of the possible benefits and costs to Australian consumers, industries and their employees, and the general community"*. The Commission claims, on the next page, that their *"overriding concern is to improve the wellbeing of the community as a whole"* and that the *"Commission has regard to the social, regional and environmental interests of the community"* and that *"Of particular importance to the consideration of options are the likely adjustment consequences overall, as well*

as for particular industries and their employees, and regions” – our number one concern.

If the Commission is true to their word, then surely we have demonstrated both through this submission and our previous one, that the recommendation should be for no removal of the existing 5% tariff. In fact, the Commission’s draft report outlines “*adverse consequences*” and “*small benefits*” from removing the tariff.

The Commission, admits that, “*some adverse consequences for regional Australia were considered likely to accompany further tariff reductions*” (p 109). Considering the much-needed political focus on improving the “*wellbeing*” of regional Australia, the above statement is a commanding reason on its own for the recommendations to favour the retention of tariffs.

We look forward to meeting with you at the public hearings.

Yours sincerely,

A handwritten signature in black ink, appearing to read 'P. Spinks', with a horizontal line extending to the right.

Peter Spinks
President

Gippsland's 12% jobless rate close to the nation's worst

By **TIM COLEBATCH**
ECONOMICS EDITOR
CANNBERRA

Gippsland's unemployment rate is now five times the level of unemployment in the northern suburbs of Sydney, new figures show, as the divide between Australia's job-rich and job-poor areas grows more intense.

Australian Bureau of Statistics figures released yesterday show 12 per

cent of Gippsland's workforce were unemployed in April, the highest level in Australia outside the Gympie area.

A decade after restructuring of the electricity industry began devastating the region, only half of all adults in Gippsland had a job.

By contrast, on Sydney's north shore — home to many of the Reserve Bank's directors and senior officials, and represented in parliament by Prime Minister John

Howard and Employment Services Minister Tony Abbott — unemployment has fallen to just 2.4 per cent, as close as any country can come to full employment.

The bureau estimates there are almost as many people unemployed among the 90,000 workers of Gippsland as there are among the 490,000 workers living on Sydney's north shore.

Overall, unemployment was 4.6 per cent in Sydney, 5.2 per cent in

Canberra, but 8.1 per cent in the rest of Australia, the bureau figures show.

In the year to April almost 40 per cent of all growth in full-time jobs was in Sydney and Canberra, and 75 per cent was in the five mainland state capitals and Canberra.

The highest jobless rates are in the Gympie-Bundaberg area (12.1 per cent), Gippsland, the Ipswich-Kingaroy region (11.9), outback South Australia (11.0), the Byron Bay area (10.6), the suburbs around

Broadmeadows (10.4) and north-west Tasmania (10.3).

Melbourne had an unemployment rate of 6.5 per cent, down steeply from 7.7 per cent a year ago. The lowest unemployment was in the southern bayside suburbs (3.1 per cent), whereas the Broadmeadows corridor (from Coburg to Sunbury) had the highest concentration of unemployment of any suburban area in Australia.

Regional Victoria averaged unem-

ployment of 8 per cent, down from 8.4 per cent a year earlier. However, the figures confirm a long-overdue upsurge in regional jobs growth, with regional Victoria gaining 21,600 jobs in the year to April after hardly any rise in the previous three years.

Most of regional Australia also shared in the growth, although the Northern Territory went backwards and job growth was sparse in regional Queensland, regional Western Australia and all of Tasmania.

Sydney (4.6), Canberra (5.2) and Melbourne (6.5) had the lowest jobless rates among the cities. Unemployment was 6.8 per cent in Perth, 7.4 in Brisbane, 8.2 in Adelaide, 8.3 in Newcastle and 9.2 in Hobart.

The figures also showed the recent fall in long-term unemployment has halted, with the bureau's trend estimate flat in recent months at around 184,000, down 30,000 from a year earlier.

Job black holes in Moe, Morwell

Little job growth has occurred where unemployment is high.

By **TIM COLEBATCH**
ECONOMICS EDITOR
CANNBERRA

Morwell and Moe remain Victoria's worst black spots for unemployment, with one in six workers still without a job almost nine years after the official end of the recession, a Federal Government department has estimated.

Unemployment in Morwell was 17.3 per cent in the first three

months of this year, while in Moe it was 16.4 per cent — rates approaching problem areas in Europe such as eastern Germany and southern Italy.

By contrast, outer Melbourne suburbs like Eltham and Diamond Creek, and rural areas in Victoria's north-east and far west have close to full employment, with unemployment as low as 2.5 per cent in Eltham and 2.4 per cent around Benalla.

The Department of Employment, Workplace Relations and Small Business estimates imply that little of Victoria's job growth has been in the areas of highest unemployment.

A year ago, unemployment was 17.1 per cent in Moe and 17.2 per cent in Morwell.

Including Traralgon (9.4 per cent) and the rural fringe, unemployment in the La Trobe Valley only edged down from 14 to 13.7 per cent over the year.

Other areas of Gippsland were also badly hit, with unemployment at 11 per cent along the Bass Coast, and 10.7 per cent in East Gippsland.

Another black hole for unemployment was the old goldfields area between Ballarat and Bendigo. The department estimated unemployment at 13.2 per cent in Eaglehawk, 13.8 per cent in Castlemaine, 14.1 per cent in Maryborough, and 15 per cent in the rural area surrounding it.

In Melbourne, the northern and

western suburbs were the black spot. In Broadmeadows, 15.1 per cent of the workforce entered this year unemployed, as did 14.8 per cent of workers in Footscray, 14.5 in Brunswick and 13.2 per cent in Sunshine.

By contrast, unemployment was below 5 per cent in many eastern suburbs: along the Yarra Valley in Eltham (2.5), Diamond Creek (2.6) and Warrandyte (3.5), in Berwick (3.3) and the Dandenongs (3.0), and in affluent inner suburbs like South Melbourne (4.0), Toorak (3.5), Balwyn (3.5) and Sandringham (4.0).

In rural Victoria, unemployment was lowest in the north-east.

Victoria's unemployment black spots

Unemployment	March qtr %
Country	
Morwell	17.3
Moe	16.4
Central Goldfields - rural	15.0
Maryborough	14.1
Castlemaine	13.8
Melbourne	
Broadmeadows	15.1
Footscray	14.8
Brunswick	14.5
Sunshine	13.2
Glenroy	12.4

Source: Department of Employment, Workplace Relations and Small Business.

Vaile's tariff trump card

By DAVID MCKENZIE,
Canberra

FEDERAL trade minister Mark Vaile has raised the prospect of using Australia's remaining tariff barriers as a bargaining lever in world trade talks.

Signalling a possible turnaround in Australia's "lead-from-the-front" free trade strategy, Mr Vaile last week said it was helpful to have a "few extra trumps in your hand" in getting other countries to agree to reducing trade barriers.

His comments put him at odds with the Howard Government's Productivity Commission, which recently called for the scrapping of the 5 per cent tariff that still protects much Australian industry.

They also came on the eve of a crucial meeting this week of the Asia Pacific Economic Cooperation countries in Darwin, where Australia will urge the 20 APEC countries to add their voice to a call for a new round of global trade liberalisation talks.

"If you've got a few extra trumps in your hand, they're always valuable," Mr Vaile said when asked about the commission's recommendations.



Mark Vaile

"It doesn't matter whether it's the ace or the two, it's still a trump, it's still a card you can play... I'm quickly learning this in terms of international trade negotiations."

It is the first time Mr Vaile has voiced these views since becoming Trade Minister last year.

He first raised them, along with general concerns about Australia leading the way with tariff cuts, in an interview with *The Weekly Times* late in 1998.

The comments, which mirror the views of business and manufacturing groups opposed to further tariff cuts, generated a sharp response from farm groups.

NFF director of trade Lyall Howard said the comments sent the "wrong message" to the rest of the world about Australia's free trade credentials — and to Australian farmers.

"Tariffs are basically a tax on exports, because they raise the cost of inputs used by farmers and other exporters," Mr Howard said.

"The NFF supports the conclusions of the Productivity Commission," he said. "We shouldn't forego our reputation as one of the world's leading proponents of freer world trade."

The Federal Government will consider the commission's recommendations in developing a final policy response. Treasurer Peter Costello is expected to lead a strong push to have them implemented.

Australia's industrial tariffs were reduced to 5 per cent by the mid-1990s as part of Labor's trade liberalisation strategy.

Only cars and textiles and clothing enjoy higher rates of tariff protection, but the dismantling of these tariffs has been put on ice until 2005 by the Howard Government.