GENERAL TARIFF REVIEW

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1. EXECUTIVE SUMMARY

ABL conducted a survey of its members on the General Tariff Review to specifically consider those industries which were directly affected should the tariff be removed.

From a combination of the findings of the survey and an acknowledgement of the ongoing difficulties with removing the tariff, the following recommendations are made:

- Any recommendation to abolish the general tariff in Australia, should only be considered in conjunction with the progress made in tariff reform by our major trading partners. Evidence of reciprocal trade liberalisation will be needed.
- The general tariff should be considered as a "bargaining chip" in future trade negotiations.
- Australia needs to consider bilateral trade agreements as well as multilateral trade agreements.
- Tariff concession schemes such as Tradex and Duty Drawback must be accompanied by a full educational program which informs industry of the concessions available.

2. BACKGROUND

Tariffs and trade have received much attention and scrutiny since before Australia was declared a Federation. In the early part of the 20th century, protectionism in the form of tariffs, was a response to maintaining both a reasonable wage level and a high level of employment. (Brigden et al 1929). Brigden maintained that although tariffs reduced per capita income, it increased the number of workers on a given wage. John Quiggin identifies this as the primary reason for the maintenance of tariffs in the period leading up to the Great Depression, and then, during the Depression the further raising of tariffs was a policy substitute for devaluation.

As Quiggin goes on to explain in his book ***Great Expectations***,* Tariffs were seen as a necessary form of protection for industry in the period following WWII, when the pressure to support a minimum standard of living was coupled with the related need to provide jobs to migrants who were in large measure, unskilled. Also the post war period saw Australia's dependence upon the United Kingdom wane with the fall of Singapore in 1942. Sentiments which

* Quiggin, John, *Great Expectations: Microeconomic Reform and Australia,* Allen & Unwin, 1996.

prevailed in the Cold War period and which were held both publicly and at the political level, meant Australia needed to rapidly increase its population and become industrially self sufficient. Quiggin maintains that reform of the manufacturing sector has merely been accelerated with the lowering of tariffs. The new technologies would have created the need for change anyway, albeit a little more slowly.

In many respects, the services sector has filled the void left by the manufacturing sector, in meeting the employment needs of those who are less skilled. Nonetheless there have been many regional jobs lost in the process, which indicates the adjustment programs have been less than adequate to meet the pace of tariff reform. Had the whole process taken a bit longer, there may have been more opportunity for industry to adapt to the change and move towards utilising the new technologies by becoming more competitive. And more importantly, there may have been more survivors.

Although tariff reform has dominated economic thinking since the early 1980s, twenty years later, Australia has tariffs which are at 5% for all commodities excepting textiles, clothing and footwear and motor vehicles. The current Review is to consider whether those tariffs, which remain, should be eliminated altogether.

3. INDUSTRY COMMISSION

The Terms of Reference governing the tariff review for the automotive industry and the textiles clothing and footwear industry identified that

The Commission have regard to the Government's desire to encourage the development of sustainable, prosperous and internationally competitive TCF/automotive manufacturing activities in Australia; to improve the overall economic performance of the Australian TCF/automotive industry; and to provide good quality, competitively priced TCF products/vehicles to the Australian consumer; and its commitment to abide by Australia's international obligations and commitments.

And in the General Tariff Review the Productivity Commission has identified the following:

The Commission consider the Government's desire to

(a) improve the overall efficiency of the Australian economy;
(b) encourage the development of sustainable, prosperous and internationally competitive industries in Australia;
(c) promote the provision of high quality, competitively priced goods and services to Australian businesses and consumers;
(d) abide by Australia's international commitments, including the commitment under APEC to review its post-2000 general tariff arrangements by 2000; and

(e) *participate in a new round of multilateral trade negotiations in which bound tariff reductions will be considered by Australia and other WTO countries.*

This last item is a new addition to the criteria governing the two previous inquiries into tariffs but is closely integrated into the restructure of Australian industry through the process of tariff reform and the quest to become more competitive. Trade is a very important element of the whole discussion and it is important that at the end of the reform process there are still some industries which can effectively export their products overseas.

4. MULTILATERAL TRADE NEGOTIATIONS

On 6/4/00 the Australian Financial Review reported that the Prime Minister was reviewing the multilateral approach Australia had previously adopted in relation to trade after disappointing results for the two main bodies governing multilateral trade: the failure of WTO talks in Seattle last year and the Asia-Pacific Economic Co-operation forum which the PM thinks needs "a jab". The Prime Minister is now interested in considering free-trade arrangements with a country or region.

This particular policy direction was the basis of a recommendation contained in ABL's submission to the Industry Commission on the TCF Industry requesting Government to investigate the relative benefits of entering into a trade agreement with major regional trade blocs (NAFTA or AFTA) thus facilitating entry to major regional export markets.

This recommendation also acknowledged the power of other trading blocs such as the European Union (EU). The EU seeks to promote products in its own region as well as reduce the national barriers of member countries with significant policies such as a common agricultural policy, common labour policies and even a common currency. The EU has posed many challenges to the World Trade Organisation in regard to free trade.

5. PREVIOUS POSITIONS ON TARIFFS AND TRADE BY ABL

Throughout the past decade, ABL has been actively involved in various debates and has produced a number of submissions on the subject of tariffs and related issues. The more significant ones are summarised here.

5.1 Mortimer

In the Mortimer submission ABL acknowledged that

world trading practices are marked by barriers to entry (tariff and non-tariff), managed trade and rapidly growing intra-industry trade where trade flows have *little regard to pre-determined factor endowments. The growth of complex alliances and co-operative arrangements across countries and sectors have made traditional economic models of trade of dubious relevance. Many international transactions cross borders via satellites and telecommunications networks. Companies are operating globally while governments and their institutions continue to think within national boundaries.*

This is an increasingly important aspect of the policy discussion governing tariffs.

The reliance on comparative advantage leads to a consequent excessive concentration on cost factors. Hence the main policy prescriptions arising from such analyses involve governments fixing/removing micro-economic impediments. ABL believes that micro-economic reforms are necessary but not sufficient for the establishment of an internationally competitive manufacturing sector.

The proponents of the "minimalist" industry policy position would argue that price is the prime determinant of competitiveness because Governments need only deal with the business environment or micro-economic reform issues.

However, these issues are but one element, the first half, of competitiveness. That is, the price or cost element. Non-price competitiveness – quality, innovation, timeliness customer responsiveness, management/marketing competence – is the essential second half of competitiveness. And this is especially the case as our industries move up the value-added curve as they must to maintain Australia's relative living standards.

There is a growing body of economic literature which suggest that comparative and competitive advantage is neither static nor natural endowment-based and may be created by specific policies or industry initiatives.

The Mortimer submission also recognised the increasing influence of Paul Krugman. Kugman's new "theories" on international trade were developed in 1980s which challenged the assumption of the perfect market. This was replaced by recognition of the imperfect nature of markets and the role played by a few large dominant firms in the marketplace.

Individual companies cannot be competitive solely on the basis of price. Companies will need to encourage the development of specific characteristics in firms which will deliver national employment and income goals.

A competitive industry policy will support the competitiveness of firms through the enhancement of productivity and non-price characteristics such as:

- quality management and customer service
- achieving international best practice
- skills enhancement and workplace change
- innovation
- export orientation

- value adding

5.2 Automotive Vehicles

In relation to the tariff reduction program as it would affect the car industry, there was ample evidence to indicate that tariff cuts would adversely affect national employment levels in the industry. If only one in five displaced car workers were unable to find jobs elsewhere, the estimated net national gain from cutting the car tariff from 15 to 5 percent of $20 to $30 million would be converted to a net national loss.
The automotive industry was also identified as a regional industry and so any reductions in tariffs would adversely affect employment opportunities in regional Australia. ABL argued that in order to support further tariff reductions for the automotive industry beyond 2000, there was a need to:

- consider employment implications;
- tie tariff policy to other reforms including tax reform;
- include tariff reform as part of an integrated, whole of government national industry policy; and;
- relate progress in reductions in Australian trade barriers to those posed by our trading partners.

Moreover, any decision on future automotive tariff levels should not be based in any significant way on econometric modelling of costs of assistance.

Australia should especially, not give away its remaining "negotiating coin", until others have demonstrably and substantially reduced their tariff and non-tariff trade barriers.

ABL supported the view that the program of reductions should continue to the year 2000 with that rate maintained until 2005. In the lead up to 2005, the Government could make a judgement based on reforms achieved elsewhere in the Australian economy and in regard to Australia's access to overseas markets.

Market access issues should be reconsidered given the stated objectives in the Trade Outcomes and Objectives Statement.

5.3 Textiles, clothing and footwear

The arguments advanced by ABL in its submission on textiles, clothing and footwear were very similar to the arguments put forward on the automotive industry. The industry would be affected by large employment losses if the tariff reduction program were to be accelerated, and these areas of employment loss would profoundly affect regional Australia.

Consequently it was argued that further tariff reductions should be considered in relation to:

- the context of their impact on employment
- improved delivery of micro-economic, labour and tax reform
- the formulation of an integrated, whole of government national industry policy; and,
- the progress in reductions of trade barriers by our trading partners.

Tariff Rates for the Australian TCF industry it was maintained, should not be reduced without reciprocity by major trading partners. In other words, Australia's leadership in reducing its own trade barriers needs to be matched by the same willingness to reduce tariffs by its trading partners.

Moreover the cost of unemployment as a result of the tariff reduction program needed to be taken into account. In particular, regional unemployment had already grown as a result of the government's support for a policy of tariff reduction in this industry sector and the economic and human cost of further structural change should be properly assessed.

The main recommendations included:

- Substantial delivery on micro economic and labour market reforms must occur before post-2000 TCF assistance levels can be reduced.

- Overhaul the taxation system in the longer term to remove business input taxes by introducing a broad based consumption tax.

- Introduce in the short term payroll tax relief for employment in the TCF industry. This should form part of a Commonwealth initiative for an industry adjustment package and the Commonwealth Government should fund it.

- Maintain Industry Adjustment Programs namely:

  * Create a manufacturers' concession targeting 'achievement' based on extent of domestic added value and/or extent of investment.

  * Extend Overseas Assembly Provisions until 2010 based on recommendations of the TCFDA-commissioned Deloitte Report in 1995.

- Investigate the relative benefits of entering into a trade agreement with major regional trade blocs thus facilitating entry to major regional export markets.

- Decisions about future support for the TCF sector should recognise the extensive government intervention by other countries in their TCF manufacturing and trade.

5.4 *Review of Australia's General Tariff Arrangements*

The current review of Australia's General Tariff Arrangements comes at a time when the majority of tariffs are already very low in relation to our trading partners and are levied at 5%.

In order to establish the effect upon Australian industry should the general tariff to be abolished completely, ABL conducted a survey of its membership. The survey was a random sample of 1,000 members.

5.5 *About the survey*

A letter was sent out to all randomly selected respondents who were then telephoned and invited to submit their answers. 360 responded to the questionnaire.

5.6 *The main findings of the survey*

The major findings in the survey are that :

- As a proportion of the manufacturing industry, a very small percentage of industries use imported inputs in their production phase (21.4% of sample);
- Of those industries who do use imported inputs, most use less than 20% in their inputs (45.3% of the 21.4% who said they used imported inputs);
- Most companies who use imported inputs are paying the full 5% general tariff (63%);
- The tariff does not create a competitive disadvantage (64.9%);
- Most companies are unaware of schemes which minimise their tariff duty (58.7%);
- Most companies involved in domestic production are unaware of any competition coming from fully imported products (71%);
- Most companies are either paying the full 5% of the general tariff or are unaware of the level of tariff they are paying (Q.8);
- Little or no advantage created by the existence of the tariff for the very small number or companies who are affected;
- Removal of either tariff (5% or 3%) would have no effect on business;
- Exchange rate movements do not eliminate the protection offered by a tariff;

The detailed results of each question are as follows.

6. TABLES

Q 1. DO YOU USE IMPORTED INPUTS TO YOUR PRODUCTION?

	Number of Employees					Industry Type									
	Total	Less than 5	5-19	20-99	100 or more	Mining	Agriculture	Manufacturing – Textiles	Manufacturing – Automotive	Manufacturing – Other	Construction	Retail/Wholesale – Trade	Business, Property, Finance Services	Other Services	Don't Know
Respondents	359	87	148	85	38	8	6	12	8	58	19	29	37	159	23
	100%	100%	100%	100%	100%	100%	100%	100%	100%	100%	100%	100%	100%	100%	100%
Do you use imported inputs to your production?															
Yes	76	11	33	23	9	5	4	8	7	36		5	2	8	1
	21%	13%	22%	27%	24%	63%	67%	67%	88%	62%		17%	5%	5%	4%
No	283	76	115	62	29	3	2	4	1	22	19	24	35	151	22
	79%	87%	78%	73%	76%	38%	33%	33%	13%	38%	100%	83%	95%	95%	96%

The first question which respondents were asked was did they use imported inputs in their production. 21.4% of the sample said that they did.

Q 2. WHAT PERCENTAGE OF THE COST OF YOUR FINAL PRODUCT IS MADE UP OF THESE IMPORTED INPUTS?

(FILTERS: Q1 Do you use imported inputs to your production? [Yes])

	Number of Employees					Industry Type								
	Total	Less than 5	5-19	20-99	100 or more	Mining	Agriculture	Manufacturing – Textiles	Manufacturing – Automotive	Manufacturing – Other	Retail/Wholesale – Trade	Business, Property, Finance Services	Other Services	Don't Know
Respondents	76	11	33	23	9	5	4	8	7	36	5	2	8	1
	100%	100%	100%	100%	100%	100%	100%	100%	100%	100%	100%	100%	100%	100%
What percentage of the cost of your final product is made up of these imported inputs?														
Less than 20%	34	5	13	12	4	3	3	4	3	14	2	1	4	
	45%	45%	39%	52%	44%	60%	75%	50%	43%	39%	40%	50%	50%	
21 – 40%	18	3	10	3	2	1		2	4	10			1	
	24%	27%	30%	13%	22%	20%		25%	57%	28%			13%	
41 – 60%	9		4	2	3			1		6	1	1		
	12%		12%	9%	33%			13%		17%	20%	50%		
61 – 80%	6	3	2	1		1	1			2	1		1	
	8%	27%	6%	4%		20%	25%			6%	20%		13%	
Over 80%	7		4	3				1		3	1		1	1
	9%		12%	13%				13%		8%	20%		13%	100%
Not established	2			2						1			1	
	3%			9%						3%			13%	

Respondents were asked to indicate what percentage of the final cost of the product was made up of imported inputs. From the 21.4% who responded to the first question, the majority (45.3%) indicated that input costs made up less than 20%. Those respondents who indicated that the final cost of the product was 61% or more, made up 17.3% of the total sample.

Q 3. AVERAGE PERCENTAGE OF TARIFF ATTRACTED BY IMPORTED COMPONENTS?

(FILTERS: Q1 Do you use imported inputs to your production? [Yes])

		Number of Employees				Industry Type								
	Total	Less than 5	5-19	20-99	100 or more	Mining	Agriculture	Manufacturing – Textiles	Manufacturing – Automotive	Manufacturing – Other	Retail/Wholesale – Trade	Business, Property, Finance Services	Other Services	Don't Know
Respondents	76	11	33	23	9	5	4	8	7	36	5	2	8	1
	100%	100%	100%	100%	100%	100%	100%	100%	100%	100%	100%	100%	100%	100%
Average Percentage of TARIFF Attracted by Imported Components?														
No TARIFF	19.0	14.5	9.2	28.0	43.3	19.0	73.0	12.5	26.4	16.2	12.0		14.3	
3% Concessional	14.4	1.8	18.3	10.7	24.6	5.0	2.0		20.7	19.7	18.0		17.9	
5% General	66.7	83.6	72.8	61.3	32.1	76.0	25.0	87.5	54.3	64.1	70.0	100.0	67.9	100.0

This question was aimed at establishing the level of tariff which was being paid on inputs. Of the 21.4% who said they used imported inputs in their production, 17% said they paid no tariff, 20% said they paid the 3% concessional, and 63% paid the 5% general tariff.

These findings reinforce a continuing theme throughout the survey results, that companies do not make use of the concession programs available to them.

Q 4. DOES THE TARIFF ON YOUR INPUTS PUT YOU AT A COMPETITIVE DISADVANTAGE WITH FULLY IMPORTED PRODUCTS?

(FILTERS: Q1 Do you use imported inputs to your production? [Yes])

	Number of Employees					Industry Type								
	Total	Less than 5	5-19	20-99	100 or more	Mining	Agriculture	Manufacturing – Textiles	Manufacturing – Automotive	Manufacturing – Other	Retail/Wholesale – Trade	Business, Property, Finance Services	Other Services	Don't Know
Respondents	76	11	33	23	9	5	4	8	7	36	5	2	8	1
	100%	100%	100%	100%	100%	100%	100%	100%	100%	100%	100%	100%	100%	100%
Does the TARIFF on Your Inputs Put You at a Competitive Disadvantage with Fully Imported Products?														
A Substantial Disadvantage	7		4	3		1	1	3				1	1	
	9%		12%	13%		20%	25%	38%				50%	13%	
A Moderate Disadvantage	11	3	6	1	1				4	4	2		1	
	14%	27%	18%	4%	11%				57%	11%	40%		13%	
Little or No Disadvantage	48	5	21	14	8	4	3	4	3	25	2	1	5	1
	63%	45%	64%	61%	89%	80%	75%	50%	43%	69%	40%	50%	63%	100%
N / A	7	3	2	2				1		6				
	9%	27%	6%	9%				13%		17%				
Not Established	3			3						1	1		1	
	4%			13%						3%	20%		13%	

This question asked the level of disadvantage which the tariff created against fully imported products. Forty eight respondents or 64.9% of those who answered this question, said that the tariff created little or no disadvantage.

Q 5.1 AWARE OF TARIFF CONCESSION ORDER?

(FILTERS: Q1 Do you use imported inputs to your production? [Yes])

	Number of Employees					Industry Type								
	Total	Less than 5	5-19	20-99	100 or more	Mining	Agriculture	Manufacturing – Textiles	Manufacturing – Automotive	Manufacturing – Other	Retail/Wholesale – Trade	Business, Property, Finance Services	Other Services	Don't Know
Respondents	76	11	33	23	9	5	4	8	7	36	5	2	8	1
	100%	100%	100%	100%	100%	100%	100%	100%	100%	100%	100%	100%	100%	100%
Aware of TARIFF Concession Order?														
Aware of and Used	5		4		1				2	3				
	7%		12%		11%				29%	8%				
Aware of But Not Applicable	12		4	6	2	2	1	2		3	1		2	1
	16%		12%	26%	22%	40%	25%	25%		8%	20%		25%	100%
Not Aware of	56	11	24	15	6	3	3	6	5	29	3	2	5	
	74%	100%	73%	65%	67%	60%	75%	75%	71%	81%	60%	100%	63%	
Not Established	3		1	2						1	1		1	
	4%		3%	9%						3%	20%		13%	

Q 5.2 AWARE OF TEXCO SCHEME?

(FILTERS: Q1 Do you use imported inputs to your production? [Yes])

	Number of Employees					Industry Type								
	Total	Less than 5	5-19	20-99	100 or more	Mining	Agriculture	Manufacturing – Textiles	Manufacturing – Automotive	Manufacturing – Other	Retail/Wholesale – Trade	Business, Property, Finance Services	Other Services	Don't Know
Respondents	76	11	33	23	9	5	4	8	7	36	5	2	8	1
	100%	100%	100%	100%	100%	100%	100%	100%	100%	100%	100%	100%	100%	100%
Aware of TEXCO Scheme?														
Aware of and Used	2			1	1	1				1				
	3%			4%	11%	20%				3%				
Aware of But Not Applicable	9		4	3	2	1		1		4	1		1	1
	12%		12%	13%	22%	20%		13%		11%	20%		13%	100%
Not Aware of	61	11	28	16	6	3	4	6	7	30	3	2	6	
	80%	100%	85%	70%	67%	60%	100%	75%	100%	83%	60%	100%	75%	
Not Established	4		1	3				1		1	1		1	
	5%		3%	13%				13%		3%	20%		13%	

Q 5.3 AWARE OF DUTY DRAWBACK SCHEME?

(FILTERS: Q1 Do you use imported inputs to your production? [Yes])

	Number of Employees					Industry Type								
	Total	Less than 5	5-19	20-99	100 or more	Mining	Agriculture	Manufacturing – Textiles	Manufacturing – Automotive	Manufacturing – Other	Retail/Wholesale – Trade	Business, Property, Finance Services	Other Services	Don't Know
Respondents	76	11	33	23	9	5	4	8	7	36	5	2	8	1
	100%	100%	100%	100%	100%	100%	100%	100%	100%	100%	100%	100%	100%	100%
Aware of Duty Drawback Scheme?														
Aware of and Used	15	1	3	7	4	2		3	1	7	1		1	
	20%	9%	9%	30%	44%	40%		38%	14%	19%	20%		13%	
Aware of But Not Applicable	16		10	5	1		1	1	1	7	3		2	1
	21%		30%	22%	11%		25%	13%	14%	19%	60%		25%	100%
Not Aware of	43	10	20	9	4	3	3	4	5	21	1	2	4	
	57%	91%	61%	39%	44%	60%	75%	50%	71%	58%	20%	100%	50%	
Not Established	2			2						1			1	
	3%			9%						3%			13%	

In the majority of cases, respondents were not aware of concession schemes available to them by way of Duty Drawback, Texco or the tariff concession. Of those three schemes, the Duty Drawback demonstrated the greatest level of awareness with 20% of respondents answering this question indicating they used the scheme. Nevertheless, 58.7% of respondents were still unaware of it.

Q 6. *ARE THERE IMPORTED PRODUCTS THAT COMPETE WITH YOUR PRODUCT?*

	Number of Employees					Industry Type									
	Total	Less than 5	5-19	20-99	100 or more	Mining	Agricul ture	Manufacturi ng – Textiles	Manufacturi ng – Automotive	Manufac turing – Other	Constr uction	Retail/ Whole sale – Trade	Business, Property, Finance Services	Other Services	Don't Know
Respondents	359	87	148	85	38	8	6	12	8	58	19	29	37	159	23
	100%	100%	100%	100%	100%	100%	100%	100%	100%	100%	100%	100%	100%	100%	100%
Are There Imported Products That Compete With Your Product?															
Yes	92	14	35	31	12	6	5	8	6	38	1	6	2	19	1
	26%	16%	24%	36%	32%	75%	83%	67%	75%	66%	5%	21%	5%	12%	4%
No	256	72	109	48	26	2	1	3	1	19	18	23	35	133	21
	71%	83%	74%	56%	68%	25%	17%	25%	13%	33%	95%	79%	95%	84%	91%
Not Established	11	1	4	6				1	1	1				7	1
	3%	1%	3%	7%				8%	13%	2%				4%	4%

This question targetted those companies who were competing against fully imported goods with their domestically produced product. 71% of respondents however, said that they did not know of imported products which were competing with their product, whilst 26% said they did experience such competition.

Q 7. DO THESE PRODUCTS ATTRACT A TARIFF?

(FILTERS: Q1 Do you use imported inputs to your production? [Yes])

	Number of Employees					Industry Type									
	Total	Less than 5	5-19	20-99	100 or more	Mining	Agriculture	Manufacturing – Textiles	Manufacturing – Automotive	Manufacturing – Other	Construction	Retail/ Wholesale – Trade	Business, Property, Finance Services	Other Services	Don't Know
Respondents	92	14	35	31	12	6	5	8	6	38	1	6	2	19	1
	100%	100%	100%	100%	100%	100%	100%	100%	100%	100%	100%	100%	100%	100%	100%
Do These Products Attract a Tariff?															
Yes	44	8	18	12	6	3	2	6	3	18		5	1	6	
	48%	57%	51%	39%	50%	50%	40%	75%	50%	47%		83%	50%	32%	
No	39	5	15	13	6	2	3	1	3	16	1	1	1	11	
	42%	36%	43%	42%	50%	33%	60%	13%	50%	42%	100%	17%	50%	58%	
Not Established	9	1	2	6		1		1		4				2	1
	10%	7%	6%	19%		17%		13%		11%				11%	100%

This which was designed to identify if those fully imported products attracted a tariff. Responses to the question revealed an even distribution of answers. 47.3% answered yes, whilst 41.9% said no.

Q 8. *TARIFF ATTRACTED BY PRODUCT*

(FILTERS: Q1 Do you use imported inputs to your production? [Yes])

	Number of Employees					Industry Type							
	Total	Less than 5	5-19	20-99	100 or more	Mining	Agriculture	Manufacturing – Textiles	Manufacturing – Automotive	Manufacturing – Other	Retail/Wholesale – Trade	Business, Property, Finance Services	Other Services
Respondents	46	8	19	13	6	3	2	7	4	18	5	1	6
	100%	100%	100%	100%	100%	100%	100%	100%	100%	100%	100%	100%	100%
Tariff Attracted by Product													
3%	5		2	3			1		1	1	2		
	11%		11%	23%			50%		25%	6%	40%		
5%	20	2	8	6	4	2	1	3	3	10			1
	43%	25%	42%	46%	67%	67%	50%	43%	75%	56%			17%
3% and 5%	3	1	1		1	1				2			
	7%	13%	5%		17%	33%				11%			
Do Not know	18	5	8	4	1			4		5	3	1	5
	39%	63%	42%	31%	17%			57%		28%	60%	100%	83%

The majority of respondents indicated that they did not know what level of tariff their product attracted (49%), although 41.2% said that their product attracted a tariff of 5%. This is consistent with the response to Question 3 where respondents were asked what percentage of tariff their imported components attracted. The majority of that sample indicated they paid a 5% tariff.

Q 9. DOES THE TARIFF ON IMPORTED COMPETITOR PRODUCTS GIVE YOU A COMPETITIVE ADVANTAGE?

(FILTERS: Q1 Do you use imported inputs to your production? [Yes])

	Number of Employees					Industry Type							
	Total	Less than 5	5-19	20-99	100 or more	Mining	Agriculture	Manufacturing – Textiles	Manufacturing – Automotive	Manufacturing – Other	Retail/Wholesale – Trade	Business, Property, Finance Services	Other Services
Respondents	46	8	19	13	6	3	2	7	4	18	5	1	6
	100%	100%	100%	100%	100%	100%	100%	100%	100%	100%	100%	100%	100%
Does the Tariff on Imported Competitor Products Give You a competitive advantage?													
A Substantial Advantage	5		2	2	1			2		3			
	11%		11%	15%	17%			29%		17%			
A Moderate Advantage	5	1	2	1	1	1		1					3
	11%	13%	11%	8%	17%	33%		14%					50%
Little or No Advantage	32	5	13	10	4	2	2	4	4	14	4		2
	70%	63%	68%	77%	67%	67%	100%	57%	100%	78%	80%		33%
Don't Know	3	1	2							1		1	1
	7%	13%	11%							6%		100%	17%
Not Established	1	1									1		
	2%	13%									20%		

Most respondents (64%) indicated little or no advantage was created by the existence of the tariff.

Q 10.1 *OVERALL EFFECT THE REMOVAL OF THE 5% GENERAL TARIFF WOULD HAVE ON MY BUSINESS*

	Number of Employees					Industry Type									
	Total	Less than 5	5-19	20-99	100 or more	Mining	Agriculture	Manufacturing – Textiles	Manufacturing – Automotive	Manufacturing – Other	Construction	Retail/ Wholesale – Trade	Business, Property, Finance Services	Other Services	Don't Know
Respondents	359	87	148	85	38	8	6	12	8	58	19	29	37	159	23
	100%	100%	100%	100%	100%	100%	100%	100%	100%	100%	100%	100%	100%	100%	100%
Overall Effect The Removal of the 5% General Tariff Would Have on My Business															
Make My Business More Competitive	34	5	16	9	4	3	2	2	2	13		5	2	5	
	9%	6%	11%	11%	11%	38%	33%	17%	25%	22%		17%	5%	3%	
Have No Effect On My Business	289	75	119	66	28	3	2	7	2	28	17	23	35	149	23
	81%	86%	80%	78%	74%	38%	33%	58%	25%	48%	89%	79%	95%	94%	100%
Make My Business Less Competitive	22	4	8	6	4	2		3	3	11	1			2	
	6%	5%	5%	7%	11%	25%		25%	38%	19%	5%			1%	
Not Answered	14	3	5	4	2		2		1	6	1	1		3	
	4%	3%	3%	5%	5%		33%		13%	10%	5%	3%		2%	

Q 10.2 OVERALL EFFECT THE REMOVAL OF THE 3% CONCESSIONAL TARIFF WOULD HAVE ON MY BUSINESS

	Number of Employees					Industry Type									
	Total	Less than 5	5-19	20-99	100 or more	Mining	Agriculture	Manufacturing – Textiles	Manufacturing – Automotive	Manufacturing – Other	Construction	Retail/ Wholesale – Trade	Business, Property, Finance Services	Other Services	Don't Know
Respondents	359	87	148	85	38	8	6	12	8	58	19	29	37	159	23
	100%	100%	100%	100%	100%	100%	100%	100%	100%	100%	100%	100%	100%	100%	100%
Overall Effect The Removal of the 3% Concessional Tariff Would Have on My Business															
Make My Business More Competitive	5		4		1				1	4					
	1%		3%		3%				13%	7%					
Have No Effect On My Business	4		1	2	1		1		1	1				1	
	1%		1%	2%	3%		17%		13%	2%				1%	
Make My Business Less Competitive	1			1			1								
	0%			1%			17%								
Not Answered	349	87	143	82	36	8	4	12	6	53	19	29	37	158	23
	97%	100%	97%	96%	95%	100%	67%	100%	75%	91%	100%	100%	100%	99%	100%

82.3% of respondents said removal of tariff would have no effect on their business. Only 6.8% said the tariff made them less competitive.

Q 11. DO EXCHANGE RATE MOVEMENTS ELIMINATE THE PROTECTION OF THE GENERAL TARIFF IN HELPING YOU TO COMPETE WITH IMPORTS?

	Number of Employees					Industry Type									
	Total	Less than 5	5-19	20-99	100 or more	Mining	Agriculture	Manufacturing – Textiles	Manufacturing – Automotive	Manufacturing – Other	Construction	Retail/ Wholesale – Trade	Business, Property, Finance Services	Other Services	Don't Know
Respondents	359	87	148	85	38	8	6	12	8	58	19	29	37	159	23
	100%	100%	100%	100%	100%	100%	100%	100%	100%	100%	100%	100%	100%	100%	100%
Do Exchange Rate Movements Eliminate The Protection of the General Tariff in Helping You to Compete with Imports?															
Yes	21	2	12	5	2	1	1		5	9	1	2		2	
	6%	2%	8%	6%	5%	13%	17%		63%	16%	5%	7%		1%	
No	250	61	105	57	27	5	4	7	2	36	11	24	32	113	16
	70%	70%	71%	67%	71%	63%	67%	58%	25%	62%	58%	83%	86%	71%	70%
Don't Know	72	19	25	20	8	1	1	4		10	7	2	3	38	6
	20%	22%	17%	24%	21%	13%	17%	33%		17%	37%	7%	8%	24%	26%
Not Established	16	5	6	3	1	1		1	1	3		1	2	6	1
	4%	6%	4%	4%	3%	13%		8%	13%	5%		3%	5%	4%	4%

The majority of respondents to this question, were of the opinion that exchange rate movements do not eliminate the protection of the general tariff in helping to compete with imports (73% or 251 respondents).

Q 12. WHAT INDUSTRY ARE YOUR MANUFACTURING ACTIVITIES RELATED TO?

	Number of Employees					Industry Type									
	Total	Less than 5	5-19	20-99	100 or more	Mining	Agriculture	Manufacturing – Textiles	Manufacturing – Automotive	Manufacturing – Other	Construction	Retail/ Wholesale – Trade	Business, Property, Finance Services	Other Services	Don't Know
Respondents	359	87	148	85	38	8	6	12	8	58	19	29	37	159	23
	100%	100%	100%	100%	100%	100%	100%	100%	100%	100%	100%	100%	100%	100%	100%
Mining	8	3	1	2	2	8									
	2%	3%	1%	2%	5%	100%									
Agriculture	6	1	1	4			6								
	2%	1%	1%	5%			100%								
Manufacturing TCFL	12	3	3	6				12							
	3%	3%	2%	7%				100%							
Manufacturing – Automotive Ind	8		7	1					8						
	2%		5%	1%					100%						
Manufacturing – Other	58	8	23	17	10					58					
	16%	9%	16%	20%	26%					100%					
Construction	19	4	12	2	1						19				
	5%	5%	8%	2%	3%						100%				
Retail/Wholesale Trade	29	4	18	6	1							29			
	8%	5%	12%	7%	3%							100%			
Business, Property Finance Services	37	12	13	6	6								37		
	10%	14%	9%	7%	16%								100%		
Other Services	159	47	59	36	16									159	
	44%	54%	40%	42%	42%									100%	
Don't Know	23	5	11	5	2										23
	6%	6%	7%	6%	5%										100%

Predictably the industries in which most companies are based were the manufacturing sector.

Q 13. NUMBER OF EMPLOYEES

	Number of Employees					Industry Type									
	Total	Less than 5	5-19	20-99	100 or more	Mining	Agriculture	Manufacturing – Textiles	Manufacturing – Automotive	Manufacturing – Other	Construction	Retail/ Wholesale – Trade	Business, Property, Finance Services	Other Services	Don't Know
Respondents	359	87	148	85	38	8	6	12	8	58	19	29	37	159	23
	100%	100%	100%	100%	100%	100%	100%	100%	100%	100%	100%	100%	100%	100%	100%
Number of Employees															
Less than 5	87	87				3	1	3		8	4	4	12	47	5
	24%	100%				38%	17%	25%		14%	21%	14%	32%	30%	22%
5 – 19	148		148			1	1	3	7	23	12	18	13	59	11
	41%		100%			13%	17%	25%	88%	40%	63%	62%	35%	37%	48%
20 – 99	85			85		2	4	6	1	17	2	6	6	36	5
	24%			100%		25%	67%	50%	13%	29%	11%	21%	16%	23%	22%
100 or More	38				38	2				10	1	1	6	16	2
	11%				100%	25%				17%	5%	3%	16%	10%	9%
Not Answered	1													1	
	0%													1%	

The majority of employees came from small to medium sized companies with the majority in the 5-19 employee category (41.5%).

7. DISCUSSION OF SURVEY RESULTS

The survey results indicate an increasing preparedness on the part of industry to embrace the changed circumstances brought about by the tariff reduction program. Nonetheless there is a hard core of firms which are finding the increased competition brought about by the tariff reduction program, both challenging and difficult. The industries which appear to suffer the most are drawn from the following industry sectors:

- Chemicals
- Furniture
- Steel
- Fabricated Steel
- Semi fabricated aluminium
- Paper
- Stainless steel

As with ABL's submissions on both the automotive industry and textile clothing and footwear, it would appear that some of these industry sectors are drawn from regional areas within Australia, which could translate into exposure to regional unemployment.

Of the firms which were surveyed for this submission, three have provided the following industry profiles should the general tariff be reduced to Free by 2001.

Profile 1
This company makes batteries. They point out that tariffs already substantially reduced and many companies are out of business as a consequence. The market in this product has 1.6 million imports. The market caters for a total of 3 million. Expects it to be "open slather" if 5% general tariff abolished. There will be few companies surviving after a proposed 5% tariff reduction. They hope they will be one of the survivors. Employs 7 people in regional NSW.

Profile 2
This company says they can't compete with the cheaper imports. Stainless steel and electrical business. Electrical business would close down if general tariff abolished. Five workers would go. Stainless steel business may survive but would be under pressure. Very little stainless steel manufacturing left in Australia. Stainless steel business employs four people (not counting the two principals of coy). Significant administrative and government compliance costs already take their toll. A regional NSW company.

Profile 3
This company employs 500 people. It is a regional employer. They make specialised steel products. They hope to survive any tariff reduction but expect a lot of competition from imports. This company said that presently they experience a lot of "dumped" product and the proposed tariff reduction would make it all that much more difficult for them.

These profiles emphasise the increased competition from overseas faced by manufacturers in selected industries such as chemicals and steel production.

The NSW Industrial Supplies Office (ISO) has consistently put the case for more manufacturing industries in Australia, not less. The ISO would like to see the manufacturing sector encouraged. Out of a total of $84.8 billion in exports in 1997, only 23% were Elaborately Transformed Manufactures (ETMs) and 10 percent Simply Transformed Manufactures (STMs) * . The balance of exports for 1997 were dominated by primary products (coal, wheat wool, iron ore, beef etc). ISO has also been conscious of a related issue, the shifting balance of Australian trade. In 1997 the balance of trade turned from a surplus of $1.4 billion to a deficit of $7.9 billion. This underpins the importance of export growth for Australia and the realisation that such growth needs to embrace more exports of ETMs.

The NSW ISO have an "economic multiplier" which they use to great effect to demonstrate the importance of Australian industry . For every additonal $1M of successful new or retained manufacturing business the following benefits accrue:

$328,105 worth of tax revenue generated;
$210,082 worth of welfare benefits saved;
$1,216,267 worth of value-added is generated;
22 full-time jobs are created (5.8 direct and 16.2 indirect).
$1 million reduction in the Trade Deficit.

Clearly the encouragement of Australian industry is paramount to achieving the benefits noted here coupled with the need to increase our export markets.

8. COMMENTS ON THE DRAFT REPORT

The primary concern ABL has consistently made in relation to further tariff reductions, is the desire for policy makers to keep some bargaining chips in hand for further negotiations towards free trade with our trading partners. This seems to be increasingly important now that some countries are indicating a reluctance to embrace the earlier commitment to the notion of free-trade. If the Prime Minister's statement, quoted above, and which was in response to the failed WTO talks in Seattle suggest more negotiating at a regional level, then the bargaining chips are becoming that much more important.

The Productivity Commission's Draft Report refers at length to the need to proceed to the removal of tariffs to:

enable Australia to receive 'credit' in forthcoming multilateral trade negotiations and enhance its efforts to bring about future trade liberalisation of benefit to Australian industries ...

Given the foregoing discussion, there is no certainty that Australia will be seeking to engage in trade negotiations exclusively via the multilateral route. It may be necessary for Australia to consider other options: engage in bi-lateral trade and deal with regions and nations on a case by case basis. Proceeding with a recommendation, which gives as the

- Burns, Paul, *Manufacturing Looks to Exports for Growth,* Steel inFocus, Winter 1999.

only negotiating position that of multilateral trade, may result in the closing off of some important policy options.

The Report also concedes that the benefits of further tariff reductions would be much less significant than those gained from earlier reduction programs. This leaves the commitment to free trade by 2010 as the only real imperative for the recommendation to reduce tariffs to Free by 1 July 2001. But adhering to this commitment, could jeopardise Australia's future bargaining position on reciprocal trade agreements and as has been emphasised throughout this discussion, namely, the importance of growing our export markets.

9. RECOMMENDATIONS

Any recommendation to abolish the general tariff in Australia, should be considered in conjunction with the progress made on tariff reform by our major trading partners. Evidence of reciprocal trade liberalisation will be needed.

The general tariff should be retained and considered as a "bargaining chip" in future trade negotiations.

Australia needs to consider bilateral trade agreements as well as multilateral trade agreements.

Tariff concession schemes such as Tradex and Duty Drawback must be accompanied by a full educational program which informs industry of the concessions available.

10. APPENDIX 1: COVERING LETTER AND QUESTIONNAIRE

18 February 2000

«SALUTATION» «FIRST» «SURNAME»
«TITLE»
«COMPANY»
«STREET1»
«STREET2»
«SUBURB» «STATE» «POSTCODE»

Reducing Tariffs - Have Your Say

«SALUTATION» «SURNAME»

The Commonwealth Government, through the Productivity Commission, is reviewing the costs and benefits of reducing the general tariff, currently at 5%. The general tariff review will not consider the tariffs governing the passenger motor vehicles and textiles, clothing and footwear industries, as these were considered by earlier inquiries in 1997.

This review does not commit the Government to the removal of the general tariff. The purpose of the review is to consider the case for and against tariff reform and to understand the progress made on trade liberalisation by other countries.

The review will take into account the impact of microeconomic reform and the pace of structural adjustment on Australian industry.

The review will also consider the implications of a reduction in the general tariff rate for a number of concession arrangements which are currently applicable, namely the TRADEX scheme, the manufacture in bond scheme and the tariff concession system.

Your co-operation in completing this questionnaire as accurately as possible is of significant importance for Australian Business to represent its members' views to the Government. Please take the time to complete this questionnaire and return by facsimile to **1300 655 277 by Tuesday 29th February 2000.**

Your response to this questionnaire will be treated as strictly confidential. The survey responses will be collated by us and presented in summary form. No information on individual organisations will be made available to the Government or any other person or organisation.

This is your opportunity to have a say on tariffs.

Please ring Susan Moxham on (02) 9927-7590 or email moxhams@australianbusiness.com.au if you need more information.

Yours sincerely

Paul Orton
Manager, Policy

AUSTRALIAN BUSINESS GENERAL TARIFF REVIEW QUESTIONNAIRE

Question 1

Do you use imported inputs to your production?

Yes ☐ No ☐ If you answered No, please to go to Question 6

Question 2

What percentage of the cost of your final product is made up of these imported inputs?

Less than 20% ☐ 61-80% ☐

21-40% ☐ Over 80% ☐

41-60% ☐

Question 3

If you import components, what percentage of these imported components attract

	%
No Tariff	______
3% Concessional	______
5% General	______
TOTAL	**100**

Question 4

Does the tariff on your inputs put you at a competitive disadvantage with fully imported products?

A substantial disadvantage ☐ A slight disadvantage ☐

A moderate disadvantage ☐ No disadvantage ☐

Question 5

Tariff Concession or refund Schemes are available for some products. Which of the following schemes have you been aware of and used in your business?

	Aware of and Used	Aware of but not applicable	Not Aware of
Tariff Concession Order	☐	☐	☐
Texco	☐	☐	☐
Duty Drawback	☐	☐	☐

Question 6

Are there imported products that compete with your product?

Yes ☐ No ☐ If you answered NO, please go to Question 10

Question 7

If you answered Yes to Question 6, do those products attract a tariff?

Yes ☐ No ☐ If you answered NO, please go to Question 10

Question 8

If they do, is it

3% ☐ 5% ☐

Question 9

Does the tariff on imported competitor products give you

A substantial advantage ☐ A slight advantage ☐

A moderate advantage ☐ No advantage ☐

Question 10
What overall effect would removal of tariffs have on your business? (Tick the relevant boxes)

	5% General Tariff	3% Concessional Tariff
Make my business more competitive	☐	☐
Have no effect on my business	☐	☐
Make my business less competitive	☐	☐

Question 11
Do exchange rate movements eliminate the protection of the general tariff in helping you to compete with imports?

Yes ☐ No ☐

Question 12
What industry are your manufacturing activities related to?

☐ Mining
☐ Agriculture
☐ Manufacturing - Textiles, Clothing, Footwear and Leather
☐ Manufacturing - Automotive Industry
☐ Manufacturing - Other
☐ Construction
☐ Retail/Wholesale Trade
☐ Business, Property, Finance Services
☐ Other Services

Question 13
How many people were employed in your company throughout 1999? (Where part-time, temporary or casual persons are employed, provide approximate employment in terms of full-time equivalents)

Total employment less than 5 ☐ 20-99 ☐
5-19 ☐ 100 or more ☐

THANK YOU for your co-operation. Your response to this survey will be of much assistance in our representations to the Productivity Commission and the Commonwealth Government.