WILSON TRANSFORMER COMPANY PTY. LTD.
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27th June, 2000

Mr Herb Plunkett
Assistant Commissioner
Productivity Commission
PO Box 80
BELCONNEN ACT 2616

Dear Mr Plunkett,

REVIEW OF AUSTRALIA'S GENERAL TARIFF ARRANGEMENTS – DRAFT REPORT

Wilson Transformer Company provided information to the Australian Industry Group and the Australian Electrical and Electronic Manufacturers Association in support of their earlier submissions to the Review of Australia's General Tariff Arrangements. We have reviewed the Draft Report of the Productivity Commission, and now wish to make the following submission on the Draft Report.

Wilson Transformer Company is the largest Australian owned manufacturer or power and distribution transformers, employing 280 Australians, with sales approaching $70 million. Our products and services are used in the electricity supply, mining, processing, industrial and commercial sectors.

We have two factories in Victoria, one in Glen Waverley making large power transformers, and the other in Wodonga making smaller distribution transformers. A distribution transformer Joint Venture commenced operations in Malaysia in 1994. Recently the Company developed the DRMCC (Dynamic Rating Monitoring Control and Communication) product in collaboration with a local electronics design house. This product is intended to be manufactured in Australia, primarily for export markets. We also have a growing service business.

Exports have typically comprised 20% - 30% of sales in the mid to late 1990's, primarily to South East Asia. More recently exports have been achieved to the United Kingdom.

1. What do Wilson Transformer Co. (WTC) recommend

(a) We vehemently disagree with the Productivity Commission's draft recommendations of :

"1. General tariff rates on goods under reference be reduced to Free sooner rather than later, preferably on 1 July 2001
2. Consistent with Draft Recommendation 1, concessional arrangements related to the goods under the reference be abolished on 1 July 2001."

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(b) Based on our commercial understanding and experience in international trade, WTC strongly recommends -

(i) The retention of the 5% General Tariff until at least 1 January 2005, in line with stability in the PMV and TCF industries where substantial restructuring and adjustment programs exist.

(ii) The removal of the "Preferential Tariff" for some Developing Countries, which have been substantially industrialised (with investments from Developed Countries), and where industries in many cases are more developed that in Australia, e.g. China, Thailand, Malaysia, Indonesia and India.

(iii) Any reductions in the 5% General Tariff post 1 January 2005 should be contingent on our trading partners –

- First, reaching this level of tariff
- Second, substantially eliminating non tariff barriers
- Third, occur only on the basis of reciprocal and proportionate adjustments.

(iv) The Tariff Concession System be reinstated without the 3% duty from 1 January 2001.

(v) Efforts to abolish 'nuisance tariffs' should continue vigorously where such tariffs serve only to increase business input costs and do not provide support to any local manufacturing capability.

2. Background and reasons for coming to the foregoing recommendations

(a) Tariff reforms and market access between 1988 and 1996

Australia has substantially reformed its assistance to industry such that tariffs are amongst the lowest in the world, and unlike other countries, Australia hardly has any non tariff barriers.

For electrical transformers, between 1988 and 1996 the General Tariff reduced from 25% to 5%, while the Preferential Tariff for Developing Countries reduced from 20% to 0%. Now is not the time for Australia to deliver the last step on General Tariff reductions when in most developed and more so in developing countries, tariffs and particularly non tariff barriers are higher than in Australia.

Where imports are being successful in Australia in our industry is from so called Developing Countries (with a 0% tariff) where Developed Countries have established low cost manufacturing operations.

Australian manufacturers find it particularly difficult to access most overseas markets, due to a range of tariff, non tariff barriers (NTBs) and support mechanisms in competing economies. Australia has substantially removed NTBs while other countries have retained them. Why should Australia then assist overseas manufacturers in defeating Australian manufacturers at home by eliminating the General Tariff?

Australia has more than met its commitments to trade liberalisation to date. It is time for other countries to catch up to Australia.

Trade Minister, The Hon Mark Vaile MP, also has publicly stated the tactical value of retaining the General Tariff while we negotiate reciprocal trade liberalisation with key trading partners.

(b) Tariff Concession System – 3% duty

Approximately 30% of the selling price of our products are materials which are not manufactured in Australia, and which are subject to the 3% duty imposed in 1996 under the Tariff Concession System. This new import duty imposed for revenue raising reasons adds approximately 1% to the cost of our products in our domestic market. Interestingly, products entering Australia at present from so called Developing Countries, incur no such import duty, which places them at an advantage against Australian manufacturers in Australia.

(c) Investment in efficient industry

If we want to maintain and develop efficient industry, the environment needs to encourage investment. The General Tariff system is about the only meaningful mechanism Australia has to encourage investment and provide some support for manufacturing.

Abolition of the General Tariff without many years to continue the adjustment process (and without any industry adjustment program) could spell the end for many manufacturers.

Investment in –

- Industries such as ours employ large numbers of Australians who would experience considerable difficulty finding alternative employment. This is both due to the specialised nature of their skills and the continually reducing scope for employment due to the general decline of manufacturing as a proportion of the economy.
- Although there is a strong desire to move to high technology industries, the reduced R & D Grant tax deductions, and the more restrictive legislation does not encourage these industries sufficiently.

(d) Competition policy and potential benefits of tariff reduction

Australian import and export competing industries are normally exposed to -

- Intense domestic competition from other domestic suppliers
- Significant overseas competition within Australia and in offshore markets.

Competition laws within Australia are amongst the strongest in the world, and are certainly implemented vigorously within Australia. In other countries, such strong competition laws either do not exist, or if they do exist may not be imposed with the same vigour as within Australia.

Australian competition laws ensure that there is no opportunity for price exploitation. Further, in our industry pricing for like product is very competitive by world standards, and hence the Productivity Commission's assumptions regarding price reductions with the removal of tariffs would not be achieved.

(e) Exchange rate uncertainty

With a floating exchange rate there is now extreme volatility in the Australian dollar. This places Australian manufacturers at significant commercial risk, and 5% duty can act as a significant buffer against this volatility.

(f) Defence benefits

For Australian society and business to function property we need a reliable and competitive supply of electricity. In recent years with the privatisation of the electricity system in Victoria, significant restructuring has occurred such that the skill, capability and knowledge base has been severely reduced in the electricity supply industry and we now face a potential shortage of power in Victoria.

In our business we have maintained our technical capability and expanded a number of our services to the ESI from our manufacturing base. Should this manufacturing base be lost to imports there would be a further reduction of industry capability which would place our electricity system at additional risk. Australia cannot rely upon many core products and services from overseas due to the supply chain logistic issues, particularly in a defence crisis environment.

(g) Compliance Costs and Tariff Application

We strongly <u>disagree</u> with the Productivity Commission's view that the interaction of the tariffs and concessional duty arrangements are complex or cause significant monitoring or compliance costs for business.

Further, we <u>disagree</u> that mistaken application of tariffs by the ACS is justification for the total removal of tariffs.

(h) Opportunities for our children in an industrialised economy

Manufacturing industry is a valuable resource for Australia, which -

- Contributes to addressing the trade imbalance with import replacement and export activities
- Provides direct employment and employment in the service and supply industries that support manufacturing
- Provides R & D and supports technical education and innovation
- Supports Government through corporate tax, payroll tax and personal income tax, which far exceeds any potential price reduction from a potential 5% General Tariff reduction.

Recognising the benefits of manufacturing industry to Australia, I find it very hard to reconcile the modelling conducted for the Productivity Commission which demonstrates potential gains from the abolition of the very low 5% General Tariff.

3. Conclusion

Whether we like to or not we live in a world where we are at war, not a military war, but a trade war, where countries and multinational businesses try to defeat each other.

To succeed, Australia needs to –

(a) Encourage investment in efficient industry, which is internationally competitive and outward oriented

(b) Not give up our few remaining bargaining chips before our trading competitors introduce meaningful change and catch up to Australia.

Yours sincerely,

Robert Wilson

ROBERT WILSON
MANAGING DIRECTOR