Trade Consultants

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30 June 2000

Review of General Tariff Arrangements
Productivity Commission
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Belconnen, ACT, 2616

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Dear Sir/Madam,

RESPONSE BY LAMINEX INDUSTRIES TO THE DRAFT REPORT PRODUCTIVITY COMMISSION CONCERNING THE REVIEW OF AUSTRALIA'S GENERAL TARIFF ARRANGEMENTS

We refer to our initial substantive submission and to the evidence given at the Public Hearing with our client Laminex Industries. We enclose herewith the response of Laminex Industries to the Options and Recommendations in the Draft Report.

The Draft Report

Chapter 7 "Options" opens with the following:

"Until relatively recently, Australia's tariffs have been high and disparate, resulting in considerable misallocation of resources. The Australian community has gained substantial net benefits from reductions of those tariffs, particularly since the late 1980s."

It is worthwhile to reflect upon the distance that has been travelled in trade policy and tariff reform:

- 1971, review of tariffs by the Tariff Board.
- 1973, tariffs reduced across the board by 25 per cent.
- 1982, CER established towards free trade between Australia and New Zealand at 1 July 1987
- 1988, four-year program of phased reductions for most imports excluding TCF and PMV sectors

- 1991continuation of the program of phased tariff reductions - general tariffs phased down to 5 per cent over four years to July 1996 and PMV tariffs phased down from 35 per cent in 1992 to 15 per cent in 2000. Tariffs on TCV phased down to a maximum rate of 25 per cent by 2000
- 1997, tariff phasing in the PMV and TCV sectors confirmed.

The result of these reforms is a low and relatively even general tariff rate with a residual but still high protection regime in place for TCV and PMV until 2005.

In evaluating the scope for further tariff reductions, the Draft Report considers a number a of factors:

Resource allocation

This section mentions:

"small gains for the community"; and
"some benefit" from removing a "not large" price distortion; and
"small benefits" relative to those from past tariff reductions; and
"a marginally positive effect" on community welfare from a "small policy change" and
"some reallocation of activity" among industries and regions".

The above reflects the truly marginal benefits to the general community welfare from the proposed reform.

Administrative and compliance costs of tariff concessions

This section considered tariff concession arrangements which allow reductions in tariff duties and points out that they would be rendered unnecessary in a zero tariff regime. The tariff concession system is described as "an area of complex regulation" and an "unwarranted nuisance". Its abolition would save the government costs in respect of administration, industry monitoring and compliance estimated at $7 million per annum for administration with savings in addition for importers.

Laminex Industries agrees with the thrust of these comments but points the equally obvious reverse case: that for so long as there is a 5% general tariff rate there is scope for concessional arrangements. Changes to the TCO system to address concerns about the complexity of the present legislation do not require, nor would they warrant, a major legislative reform program.

Abolition of the 3% tax on business inputs, a widely supported measure, would render modification to the TCO system a more relevant and effective exercise during the continuation of a general tariff rate of 5%. The administrative and legislative effort required to do so is not great, and should not be raised as a reason to throw the TCO system out with the 3% tax.

Laminex therefore agrees with the analysis in Clause 7.4 and the point that there is conceptual force in having a "Free" concessional rate in a 5% general tariff regime.

Reciprocity and trade negotiations

It is merely argumentative, and blatantly self serving at this advanced point in the history of Australia's trade liberalisation, to imply that a policy which was not in fact adopted or implemented, that is, a policy of delaying tariff reductions to 'win' additional 'concessions' from other countries would have come at a "high cost" in the "hope" of reciprocal concessions.

The fact of the matter is that Australia did not attempt to "leverage" reciprocal or multilateral concessions and it is idle to now claim that such an attempt would have been fanciful or unduly costly. Equally, we shall never know how the measure of "credit" accorded to our unilateral steps has been calculated by our trading partners and if that measure is inferior to the results of an alternative reciprocal approach.

It is misleading in this context to emphasise a case that does not really exist and then discredit reciprocal negotiations. Laminex does not argue for a "wait and see if they do it first approach". Rather, it suggests that, whatever the negotiating strategies adopted in the past, Australia should carefully leverage abolition of its remaining tariff barriers against like measures from its relevant trading partners. In short, in the end game of tariff reform, a measured and relational approach should be taken, rather than a unilateral one with its difficult to measure "moral credit" payoffs.

Microeconomic reform and structural adjustment

Laminex does not agree with the general and broad assumptions in this section.

In particular, Laminex, is a manufacturer facing intense import competition, and is a party "adversely effected" by the proposed particular reform with consequences in both volume and price effects on its sales and profitability. Laminex does not identify the offsetting benefits said to "more likely" flow to it from broad economic reform.

Are "small adjustments" in fact "easier to adapt to in an environment of ongoing growth and change than in a static environment"? Laminex can conjecture about that, like any other manufacturer, but looking at its recent experience, it is not the case that there has been a static environment on any economic front, nor is there likely to be in the near future. Laminex does not assess abolition of the 5% general tariff rate as a " small adjustment".

The Options

Four options are identified:

Option 1: Free in the near future — say, 1 July 2001

The advantages for this are said to be:

- the earliest practicable realisation of the benefits arising from tariff reductions
- there is a strong advantage in allowing the immediate removal of the TCO system with early administrative and compliance cost savings, and obviating any need to consider TCO reforms
- coinciding tariff reductions with changes to business tax arrangements such that the benefits from those changes could help to offset any adjustment costs for manufacturers arising from tariff change
- Australia's trade negotiation position in WTO rounds could be strengthened by unilateral reductions

Laminex comments:

- The "benefits" are minimal and this reduces the urgency for introduction
- The "strong" advantage referred to relates to a relatively small ($7million estimate) saving in government administration cost
- There are other offsets built into reduced company tax, particularly the trade off for accelerated depreciation. Laminex is in a capital-intensive business and has no benefit to offset against tariff abolition.
- WTO negotiations are a continuous process, with considerable inequities recently pointed out by Australia's representatives regarding the large/small country imbalance and the inequity in permitted subsidy levels between agricultural goods and manufactured goods.

Disadvantages were said to be:

- less time for industries and employees to deal with adjustment
- the revenue consequences for government would also be more immediate.

As to these, Laminex notes:

- this is a substantial and crucial disadvantage
- this is of less importance as it concerns the timing of largely known and inevitable revenue loss

Laminex considers that the stated disadvantage in adjustment time for affected industry and its employees far outweigh the claimed advantages.

Option 2: Free following a longer period of notice — say, 1 January 2003

The effect of this option is to delay introduction by eighteen months.

The adjustment consequences are now "small" in this option. They are not so described in Option 1 or generally so characterised elsewhere. Indeed there are both sectoral and individual factors affecting the consequences of the proposed reform, as the Draft Report elsewhere recognises.

Laminex does not consider the additional period is sufficient to make the necessary plans, or that there are only "small adjustment consequences" involved in that process. The revenue consequences for government, and removal of the TCO system are necessarily extended but these issues should not themselves be determinant of the timing of introduction of the reform.

Laminex considers this option is no more attractive than Option 1

Option 3: Phased down, with a reduction to 2.5 per cent on I July 2001 and set at Free on 1 January 2003

This is an admitted crossbreed. In fact, the benefit claimed for it, the earlier introduction of the "community-wide benefits" is a low level advantage as it confers only 50% of what is only a small or marginal resource allocation benefit.

As to easing adjustment, the reduction is too early to allow the effects of future planning to be thoroughly examined and the overall period to I January 2003 is too short.

Revenue and TCO system considerations should remain secondary.

Option 4: Free on 1 January 2005 to coincide with the scheduled reduction in PMV/TCF tariffs

Under this proposal, the advantages are noted as:

- there is an extended period for industry and its employees to plan for the adjustment consequences.
- avoid temporarily reduced assistance for producers reliant on inputs from the PMV and TCF sectors
- more time to plan for government revenue consequences

Against this the following disadvantages are listed

- overall community benefit delayed and administrative and compliance cost savings delayed for four years

- possible loss of benefits of early unilateral reductions in applied tariffs in the context of continuing WTO negotiations.

Laminex argued for this outcome in its submission and continues to favour it for the reasons there advanced.

The disadvantages listed are not compelling because:

- the community benefit is minor
- compliance costs for the TCO system would be more than offset by the continuance of revenue from the 5% tariff rate
- it is effectively impossible to factor the "loss" of moral suasion from early unilateral reductions in negotiations which are increasingly complex and unbalanced.

Laminex urges the adoption of Option 4 as the preferred option.

Concession Arrangements

There is considerable support for the abolition of the 3% input tax and Laminex continues to support its removal.

Laminex agrees with the Draft Report conclusion that there is a solid conceptual basis to reduce the concessional rate to Free while a 5% general tariff is retained.

Laminex considers that changes are desirable to the Tariff Concession system to render it a simpler and more effective instrument of policy, and to base it on a "market competitive" goods test rather than the more abstract "corresponding use" goods test. The changes could be made without undue delay or difficulty.

Laminex supports the assessment in the draft Report for an extension to the scope of the Policy By-laws by reducing the project threshold from $10 million to $5 million and restricting the scope to strictly unprotected local production to minimise the present requirement for detailed case by case analysis. Indeed, Laminex argued for these outcomes in its submission.

SUMMARY

Laminex notes the conclusion in the Draft Report that there is no single option clearly superior to other options. For the reasons set forth in this submission however, Laminex respectfully disagrees with Draft Recommendations 1 and 2 and submits that the following package of measures is appropriate for Australia until 2005.

1. Implement Option 4;
2. Continue with a TCO System with appropriate changes and;

3. Removal the 3% input tax.
4. Changes to the PBL system to remove sector bias and reduce the project threshold to $5million.

Laminex is grateful for the further opportunity to put its views to the Commission.

Yours faithfully

RUSSELL WILKINSON
DIRECTOR