# Review of Australia's General Tariff Arrangements

Tariffs 5% and less

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***SUBMISSION BY:***

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## NSW Minister for Small Business's Presentation to the Public Hearing on the Review of Australia's General Tariff Arrangements Draft Report: Sydney 29 June, 2000.

**Overview**

The Productivity Commission has released, for comment, the Draft Report on its Review of Australia's General Tariff Arrangements. The Report's key recommendation is that general tariffs of 5 per cent, or less, be reduced to zero from 1 July, 2000.

This is not a surprising outcome given the inquiry's relatively narrow terms of reference and the Commission's predisposition towards open market economics. It is, perhaps, this predicability that is the reason why there has been so little public debate regarding the Commission's conclusions.

Of particular concern has been the Commission's dismissive approach towards much of the argument put to the inquiry by interested parties. Dismissing many concerns as reflecting narrow self interest did little to enhance the Commission's case.

Furthermore, the points raised in my own submission reflecting many of the business community's concerns, also appear not to have been considered in any detail by the Commission.

As a result of these concerns, it is appropriate that the Commission, again, be made aware of many of the issues that concern a wide range of business interests across Australia.

I would also like to draw the Commission's attention to the recent National Trade Consultations Ministerial Meeting. This meeting resulted in a communique expressing reservations with the Draft Report's recommendations and endorsed a view that "any further tariff reductions only be undertaken within the framework of ongoing multilateral trade negotiations which provide improved market access".

In other words, this key meeting of Federal, State and Territory Ministers responsible for trade adopted a view that is contrary to the findings of the Commission.

## Position

As the largest and most diverse state economy, the NSW Government is keenly aware that the conclusions reached by the Productivity Commission will, if implemented, have the greatest impact on NSW.

While there have been significant economic benefits as a result of tariff reduction, it is necessary to again express to the Commission that there have been economic and social costs as well. These range from the adjustment costs for businesses facing increased competition from imports with the inevitable consequences for employment to, the elimination of certain activities altogether. At the core of these impacts is the fact that jobs can be lost.

It is true that the impact on employment from tariff reductions is uneven across the community. It is often assumed, however, that new jobs in competitive industries create replacement work for those retrenched in industries unable to compete with cheaper imports. This ignores the employment reality that the skills match between industries is imperfect. Retrenched labour will need retraining before being productively employed in competitive industries. It should also be noted that in rural and regional areas alternative employment opportunities are often limited making the exercise of re-employment more difficult.

With this in mind, the Commission has not demonstrated where and how the benefits and the social impact from the proposed 5% reduction in tariffs will fall and how they outweigh the costs of further reductions. The Commission did not demonstrate that the benefits outweigh the costs and that Australians would be better off.

### Issues with Further Tariff Reduction

Australia's manufacturing industries are now more diverse and generally more productive than in the past. This would be partly attributable to the program of tariff reductions since the 1970's. It is also acknowledged that a large number of new employment opportunities have been created which have been able to absorb many of the jobs lost through tariff reductions.

While this is the case, there are, however, a number of concerns that the Productivity Commission, should, in the interest of balance, have addressed in its examination of the tariff issue. As a result it is necessary to restate these points again.

- The Commission was asked to consider the issue of maintaining the remaining 5 per cent tariff on the basis that it provides Australia with some bargaining strength from which to negotiate for greater access to foreign markets.

In response, the Commission took the curious view that a further unilateral reduction in Australia's tariff protection could elevate Australia's role in WTO and APEC negotiations by setting an example, rather than undermining or diminishing Australia's negotiating position.

In reality, Australia's share of world trade is relatively small and our ability to influence global trade outcomes through a magnanimous gesture on tariff reduction would be improbable.

The use of the last 5% as a bargaining chip has received the support of all State and Territory Trade Ministers along with the public support of the Federal Trade Minister. I urge the Commission to reconsider its position and consider the strategic importance of the last 5% as agreed by all Trade Ministers.

- It appears that the Commission has failed to understand or acknowledge the reciprocity argument. The Commission was told that Australia has nothing to prove in respect of lowering its tariffs. It is generally accepted that Australia is already one of the most open and deregulated economies in the world. Over the last 30 years, the level of protection afforded to Australia's manufacturing industries, mainly via tariffs, has been progressively reduced from 35% to the present 5%.

  Moreover, Australia's significant trade liberalisation has largely been unilateral in character without seeking reciprocal obligations from other countries with which Australia trades.

  Therefore, it is timely and important that the Commission recognise that Australia's considerable achievements in the area of tariff reduction, must, in the spirit of free trade, be reciprocated by Australia's trading partners.

  Australia must ensure that the lowering of its tariffs is matched by our trading partners. Doing otherwise is unacceptable and in conflict with the expectations of the general community.

  Australian Governments frequently talk of the need to increase the level of value adding to our raw materials. There is a general community expectation that this should occur. However, in many cases, countries impose tariffs on value added goods and have no tariffs on those goods in their raw material form. These policies are keeping Australia in the raw material business, while other countries enjoy the economic benefits afforded by value adding.

  Discouraging the emergence of value adding activities in Australia is to the detriment of Australian industry and the community in general. This adversely affects economic prospects for present and future Australians.

- There were two timing issues that the Submission brought to the Commission's attention.

  The first explored the question of "if tariffs should be lowered, when should they be reduced?"

  The Commission was asked to consider the appropriateness of the timing for the removal of Australia's general tariffs if the economy is moving into a downward, albeit managed, cycle where business opportunities, contract and alternative employment options, are reduced.

  The Commission must consider if it is appropriate for the Commonwealth to impose structural adjustment costs on industries during a period where increased economic uncertainty may to be emerging.

  The Commission recommended that tariffs be eliminated "sooner rather than later" suggesting this point also received inadequate consideration.

- The second timing issue related to the need for the Commission to consider, in a more strategic context, whether Australia has achieved its goals with respect to its economic objectives and to what degree further tariff reductions could influence the achievement of those objectives. Before we reduce tariffs further knowing that there will be at least some impact on business, we need to consider if we can afford to lose some industries that may otherwise survive were tariff reductions to occur at a later date. The question was asked whether, or to what degree, Australia's interests should be subordinated to the global trade agenda.

- The Commission was asked to establish a position on whether it sees manufacturing as a strategically important activity in Australia.

  The Commission was also asked to establish, in the context of declining employment in manufacturing, why further tariff reductions will be beneficial and where those benefits will be realised, in particular whether these benefits will occur in rural and regional Australia.

  It is understood that a number of submissions raised concerns regarding the possible actions of overseas parents of Australian operations should tariffs be removed.

  As well as the negative implications for investment provided to the Commission by the Australian Industry Group (AIG), it is understood a number of Australian companies which are Australian operations of multinational companies alerted the Commission of the possibility of closure of operations should the general tariff be removed.

As an example, it is understood that the Commission was alerted to the fact that the international owners of the sole Australian manufacturer of polyethylene, a major plastics business, described how production and profitability implications from any further tariff reductions will mitigate against further investment.

Clearly investment that produces economies of scale is essential for competitiveness. Without further investment our competitive position will decline and the justification for Australian operations will be eroded.

The Commission needs to recognise that Australia is in competition with many countries that offer a range of incentives, tariffs, tax concessions, etc. It is fair to argue that international investors won't hesitate to invest in more friendly business environments.

The Commission needs to examine this issue and argue what industries Australia needs and justify why some industries may not be needed.

As Qenos, the plastics business, stated in its submission, the plastics industry in Australia could simply move off shore.

- There are serious concerns regarding the impact on small business and regional communities from further tariff reduction. In terms of numbers, small businesses account for 98 per cent of Australia's manufacturing firms and many of these are located in regional areas.

  There are approximately 2,700 manufacturing enterprises in country NSW that employ around 43,000 people directly and have an estimated turnover of more than $7 billion. While a portion stand to benefit from reduced tariffs some will not and by virtue of their size, will be less resilient to change. Tariff reduction will seriously affect their ability to compete against cheaper imports.

## Conclusion

The Productivity Commission's draft report contains a disappointing, but not surprising, recommendation to remove Australia's remaining 5 per cent general tariff. This conclusion appears to have been based on a fairly limited analysis of the cost benefits of tariff removal.

The Commission has been dismissive of many of the concerns brought to its attention in submissions. Rather than recognise that Australia's rate of tariff protection is already low by world standards, it recommends their removal regardless of reciprocal actions by Australia's trading partners.

Moreover, the arguments for keeping the tariff regime in place to act as a foreign exchange buffer were similarly dismissed. The Commission feels that currency fluctuations are more significant in size than any benefit afforded by the 5 per cent tariffs and therefore their retention on this basis is unjustified. The Commission's argument here is inconsistent with reality where national currency fluctuations no longer reflect trade volumes but often reflect more speculative activities. Therefore, given that currency fluctuations are the result of non-trade factors, the retention of tariffs on this basis is wholly justifiable.

The Commission needs to reconsider the issues raised above and those raised by other interested parties in a broader and more balanced context. In doing so the Commission need take account of the negative consequences of tariff reductions, where those consequences will be felt, where the timing of such reductions may conflict with the industry objectives of State Governments, or where and why proportionate action is not taken by Australia's trading partners.

These are very real issues and should be fully considered by the Commission in preparing its final report.

It is important that the Commission respects the recent conclusion reached by Federal, State and Territory Trade Ministers that further tariff reductions be undertaken within a framework of ongoing multilateral trade negotiations with a view to gaining improved market access.

By not doing so the Commission will find itself out of step with the concerns of the Australian business community and Australian governments.