

MONSANTO

Food • Health • Hope



MONSANTO AUSTRALIA LIMITED  
A.C.N. 006 725 560  
12TH FLOOR, 600 ST KILDA ROAD  
MELBOURNE VIC 3004  
POSTAL ADDRESS: PO Box 6051  
ST KILDA ROAD CENTRAL  
VICTORIA 8008, AUSTRALIA  
PHONE 61 3 9522 7122  
GENERAL FAX 61 3 9525 2253  
ORDERS FAX 1800 249 888  
www.monsanto.com.au

The Secretary,  
Productivity Commission,  
P.O. Box 80,  
Belconnen,  
ACT 2616

Dear Sir,

**Re: Draft Report into General Tariff Arrangements**

We note the commission's draft recommendations and advise that we are disappointed with its preferred option to eliminate the 5% general tariff from 1 July, 2001.

None of the reasons advanced for its position appear to be conclusive and by its own admission, any quantifiable benefits to the community (as a consequence of the tariff removal) are extremely marginal. In chapter 7 of its draft report, the Commission states inter alia:

*"...remaining general tariffs under reference are low and relatively uniform — consequently, distortions in production and consumption are less marked than previously and tariff-induced costs borne by users and consumers are much smaller.."*

*"...General tariffs on goods under reference distort producer and consumer prices and, hence, production and consumption decisions throughout the economy. Although the average price distortion is not large, being of the order of 3 per cent or less (see section 2.4), its removal could be expected to provide some benefit.."* (emphasis added).

*"...Australian consumers should ultimately benefit from the lower costs and from the direct price reductions and improved choice flowing from reductions of general tariffs on consumer goods....."*

*The benefits are expected to be small relative to those which stemmed from past across-the-board tariff reductions. This assessment is supported by estimates from the quantitative analysis undertaken by the Commission (see chapter 3). Subject to the caveats which necessarily attach to such analysis, particularly where small policy changes are involved, these estimates indicate that removal of the tariffs under reference would have a marginally positive effect on overall community welfare...."* (emphasis added)

It suggests that because current tariffs cause price distortions (of an estimated magnitude of 3% or less), their removal “could” produce some benefit for the economy. In an inquiry as important as this, we would expect the Commission to be somewhat more definitive with its conclusions. Moreover, we would have appreciated further analysis on the negative economic consequences of the 3% revenue tariffs levied on concessionally imported business inputs.

By their universal condemnation, we expected the Commission to have at least advocated their removal as a first priority since it would have received unanimous support from all inquiry participants. It would clearly remove an unnecessary impediment to the competitiveness of Australian manufacturing industry and in our view, remove a distortion for which there is clearly no justification. We remind the Commission that the 3% concessional duty rate applying to business inputs (imported under the Tariff Concession System) constitutes **negative** assistance and substantially diminishes the rate of effective assistance normally afforded to outputs by the general 5% tariff.

The Commission further states that the impact upon community welfare would be “marginally” positive according to its quantitative analysis but, then proceeds to qualify its assessment by stating that its analysis is subject to the necessary “caveats”. We understand this to mean that the Commission might have been compelled to arrive at an alternative conclusion in the absence of those caveats.

The company believes that the Commission’s recommendations are counter-productive to manufacturing investment in Australia and are particularly damaging the long-term prospects for our industry. More importantly, the adverse consequences of reducing general tariffs to zero will more than outweigh any perceived benefits, unless of course, there are significant trade advantages for Australian producers arising as a consequence.

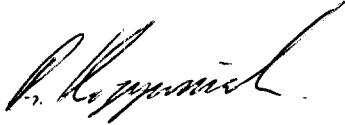
The removal of the tariffs will put a very real question over the viability of continuing the operation of the Monsanto Manufacturing Plant in Victoria (itself a “world class” low cost performer, as benchmarked against similar Monsanto operations globally), thus putting a significant number of Victorian jobs at risk.

On the issue of using tariffs as a bargaining tool during bilateral trade negotiations, we note the Commission’s view that “...Australia has limited bargaining strength...” on the basis of its limited leveraging opportunities during such negotiations. It appears to suggest therefore, that such a proposition should not be seriously considered as a valid reason for retaining general tariffs. It is however, opportune to quote a recent example of tariffs being successfully used in such circumstances. We refer of course to the recently reported dispute resolution between Australia and the USA in the matter of Howe and Company. It is reported that in resolving this dispute, the Australian Government has agreed inter alia, to remove tariffs on some 30 categories of goods imported from the USA. The quantum of annual duty revenue associated with these goods is believed to be \$1.6 million but, the resolution effectively averts the possibility of US sanctions against Australian exports to the USA.

We believe this is one clear example of the value of tariffs being used as negotiating currency in bilateral trade disputes.

In the circumstances, we urge the Commission to reconsider its draft position and to focus only upon those areas of the tariff for which there are clear and demonstrable benefits to be achieved. We refer of course, to the 3% concessional duty rate, which should be rescinded as soon as possible.

Yours sincerely

A handwritten signature in black ink, appearing to read "R. Krzywniak". The signature is fluid and cursive, with a long horizontal stroke at the end.

Rick Krzywniak.  
Operations Planning Manager,  
Monsanto Australia Limited.

30 - 6 - 2000