

Oth/All/TariffReview

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Productivity Commission
PO Box 80
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Subject: Review of Australia's General Tariff Arrangements

MSAS Global Logistics Pty Ltd (MSAS) would like to take the opportunity provided by the Commission and present a submission addressing the above referred subject of review.

MSAS is part of the OCEAN GROUP *plc*, a world leader in global logistics with over 16,000 employees, an annual turnover exceeding A\$3.2 billion and a market capitalisation of over A\$3.5 billion. MSAS brings together all of the Group's logistics businesses under a unified identity to meet customer needs for a single, seamless organisation offering customers programmes from a broad range of supply chain capabilities: Global transportation, regional distribution, customs brokerage, trade facilitation and consulting services, inventory control, warehousing, value added services – including product assembly, configuration, testing, repair, after-sales service – and information management. MSAS' global service network extends across more than 550 locations in 112 countries. Customers include many of the world's leading multi-national companies.

In Australia, MSAS is one of the leading logistics management companies. In particular, MSAS is one of Australia's largest international freight forwarders and is Australia's largest corporate licenced customs brokerage. As such, MSAS is responsible for handling a large proportion of Australia's international trade transactions on behalf of the Australian importing / exporting community. Furthermore, a major portion of this logistics service involves the classification of goods for both duty and sales tax assessment purposes under the *Customs Tariff Act 1995* and the *Sales Tax (Exemptions & Classifications) Act 1992*, including the valuation and entry of goods under the *Customs Act 1901*. This aspect of the service also involves MSAS in the use of the available concession systems. For instance, on behalf of its clients MSAS utilises the TEXCO scheme and makes application under both the *Tariff Concession Scheme* and the *Policy By-law Scheme*, sometimes extending to applications for review before either the *Administrative Appeals Tribunal* or the *Courts*.

Given that MSAS represents a broad range in clientele, such as international traders, local importers/exporters, Australian manufacturers and consumers, etc. we do not feel it is appropriate to take up a stance in support of either a protectionist's view or, to the other extreme, a free trader's view. On the other hand, because we are involved in the day to day operational implementation of Australia's tariff policy MSAS does feel it appropriate to comment on the operational aspects of the systems and schemes under review.

2.

Policy objectives:

Tariff protection is, historically, an inherent part of the Australian economic rationale. The phasing of tariffs has been previously forecast and, consequently, taken into account by the Australian business community. Business plans and the adoption of economic planning are often based on long term policy expectations. Accordingly, in order that the Australian economy remains efficient overall, and that the competitiveness of the Australian industry and overall Supply are not adversely affected, any further tariff changes must be the subject of long-term forecast.

Currently, in areas outside the scope of this review, the existence of tariffs is used, indirectly, to encourage and promote the development of internationally competitive industry. (See, for example, the automotive industry's Export Facilitation Scheme (EFS) – to be replaced by the more WTO acceptable Automotive Competitiveness and Investment Scheme (ACIS) in 2001 – and the textile, clothing and footwear industry's Import Credit Scheme (ICS) – to be similarly replaced by the Strategic Investment Program (SIP).) Therefore, Australia's tariffs, especially at their current low rates, are no longer solely protectionist in nature. Rather, Australia's tariffs can be seen as an effective 'tool' whereby economic policy objectives may be achieved, or at least assisted. While the use of tariffs in this 'assistance' role is currently limited, to eliminate the general tariff rate altogether would be to eliminate the tool as a resource in any future assistance objective.

MSAS has been witness to the successful assistance role within industry of tariffs through use of the abovementioned, EFS and ICS, schemes. Without doubt, such use has proved effective in the development of internationally competitive industry within the limited fields of operation. Accordingly, MSAS would strongly suggest that the Commission consider recommending the expansion of such policy throughout Australian industry.

Effects:

Tariffs have long been a major source of revenue for the Australian Federal Government. The adverse effect of the loss of such a revenue source cannot be discounted. While it is true that Australia's general tariffs are now low, reducing the indirect cost impact to consumers and individual industries, the cost impact that any further phasing of tariffs would have on the general Australian community would directly correspond with the revenue currently derived.

The adoption of such a policy objective whereby tariffs are used uniformly in the manner suggested above (*i.e.* as a tool for both protection and assistance) would see post-2000 tariffs develop into an economic tool providing both protective and assistance related elements to the industries to which they directly relate. Moreover, dependent upon the mode of the scheme adopted, such a policy objective could see the full scope of Australian governments' social, environmental and regional policy objectives achieved.

3.

Effects continued:

As far as the *GST* is concerned, any reduction in import tariffs would have minimal effect. While it is true that *GST* on imports is calculated on a value base which includes the duty paid – refer *Division 13 of the GST Act*, a corresponding *Input Tax Credit (ITC)* is available to all registered entities involved in enterprise – refer *Division 15 of the GST Act*. Moreover, the general tariff rate of 5 % is of little significance on the end-price to the Australian consumer. In other words, except in the case of direct consumer import, the impact of reduced tariffs under the *GST* would see a cost reduction of much less than the 0.5 % directly derived at the time of import.

Trade aspects:

Importantly, it should be noted that the new *ACIS* and *SIP* schemes discussed above are considered to be *WTO* ‘friendly’. Therefore, the adoption of an *across the board* policy with similar parameters, as suggested, must be seen as acceptable under Australia’s *WTO* commitments. (As noted in the Commission’s ‘Issues Paper’, Australia’s tariff rates are already lower than the anticipated ‘Bound rates’ to be put forward at the next *WTO* round.)

In addition, Australia has various preferential trade arrangements in place. All of these arrangements are derived through set reductions on the general tariff rate. (*e.g.* Developing countries enjoy a preferential tariff fixed at 5 % below the general rate.) Therefore, any further phasing of the general tariff rate below the current position would effectively and correspondingly erode the benefits derived under these existing preferential trade arrangements.

Concession arrangements:

1. *TRADEX and Manufacture in Bond Schemes* - Under existing arrangements, imported goods against which duty and tax has been paid are eligible for *Duty Drawback* upon subsequent export, or on having been used-up or consumed in exported goods. This is an effective mechanism reducing costs on exports, but requires the initial outlay and associated financing costs. Also, where goods are imported for industrial processing and subsequent export they may be imported duty and tax free under the *TEXCO* scheme. This is a more effective mechanism for reducing costs on exports, as there is no finance outlay. The *Manufacture in Bond Scheme* extends the concession available under *TEXCO* to all goods (*i.e.* whether for use in industrial processing or otherwise) which are to be subsequently exported, provided they are confined to a licenced warehouse. The only disadvantage being the licenced warehouse costs and associated limitations. *TRADEX* will effectively expand on the *TEXCO* and *Manufacture in Bond Schemes* by allowing duty and tax free entry to all goods ‘ear marked’ for export. Given the benefits available under this scheme we fail to see any continued need for the retention of the *Manufacture in Bond Scheme*.

4.

2. *Tariff Concession System* - The Tariff Concession System provides for concessional entry for goods not available from Australian manufacture. In other words, it is an effective avenue to overcome tariff barriers where no protective/assistance element is necessary. However, the current system only partially assists, in that, while a concessional 'Free' tariff rate applies under Item 50A, the Government has imposed a concessional 3 % tariff rate against Item 50. This Item 50 rate was imposed supposedly to help fill the 'black hole' left by the previous Labor Government. Given that the problem of that budget deficit has been largely overcome, we would urge the Commission to consider recommending the re-adoption of a concessional 'Free' rate against Item 50.

3. *Project By-law arrangements* - We see the Project By-law arrangements as being beneficial to industry and would urge the continuance of the scheme. However, there are two aspects of the current administrative policy arrangements that we see as being anomalous and/or detrimental to both industry and the stated policy objectives.

Project status - Currently, in order for a subject project to be considered eligible for concessional by-law treatment the project must involve a capital equipment expenditure of at least A\$10 Million. This requirement relates to the capital equipment component expenditure only, not to the overall project cost. All expenditure outside the capital equipment component is excluded from consideration. MSAS has witnessed this as being detrimental to small business and discriminatory in its overall effect. For instance, why should a small to medium sized Australian business expending less than A\$10 Million in capital outlay be excluded from receiving assistance in favour of a multi-national expending A\$10 Million or more. Surely, provided the overall policy objectives are being addressed the amount expended should not matter. (Note, the potential savings for a capital outlay of just A\$1 Million = A\$50 Thousand.) Accordingly, MSAS would urge the Commission to consider a recommendation that this threshold be eliminated.

Item 56 - Under the existing administration's interpretation of the intended government policy goods for which no substitute is available from Australian manufacture are ineligible for consideration for Item 56 coverage. This interpretation is derived from a narrow reading of the terms of the Item, which requires a comparison with "... equipment currently available from Australian manufacture" (*emphasis added*). The anomalous effect of this narrow interpretation is that goods for which no substitute is available from Australian manufacture are denied assistance, whereas goods for which local manufacture exists – albeit to a lesser standard – are eligible for assistance. MSAS has witnessed detriment and disparity resulting from the application of this narrow interpretation. Moreover, we see the terms of the Item as affording a broader interpretation. That is, the very fact that no substitute from Australian manufacture exists should see a favourable comparison, in that the imported equipment should be seen as being automatically "... technologically more advanced, more efficient or more productive than equipment currently available from Australian manufacture". Accordingly, we would urge the Commission to recommend the adoption of a broader interpretation along the lines suggested above. Alternatively, the terms of the Item could be altered to reflect the effect of the suggested broader interpretation. (It should be noted that the adoption of a recommendation to reduce the concessional Item 50 tariff rate from the current 3 % down to 'Free', as espoused in the paragraph marked '2' above, would eliminate the need to address this proposal.)

5.

Other issues - It is pointed out in the Commission's 'Issues Paper' that any reduction in tariffs will obviously erode the assistance available under these schemes. And, furthermore, that the administrative compliance costs associated with these schemes may effectively eliminate any benefit to be derived. While these observations are obviously true in many respects, the cost of compliance is, in most cases, far outweighed by the available benefits. In this regard, MSAS is directly involved in passing on compliance costs to its clientele and is witness to the benefits derived. Rarely does the cost of compliance outweigh the benefit. Large value items warrant some form of concessional assistance along existing lines in every instance. Small value items, when imported in large quantities also warrant similar assistance. Therefore, given that the Government has already addressed the issue of 'nuisance tariffs', MSAS believes that the existing concession systems warrant continuance while any level of general tariff exists. Accordingly, we would urge a recommendation to maintain the existing concession arrangements.

Summary:

To ensure overall efficiency in the Australian economy, MSAS believes that any tariff changes should be the subject of long term forecast. However, rather than see the elimination of the general tariff, MSAS would recommend the retention of tariffs for use as an assistance tool in the promotion of competitiveness and investment in Australian industry. Moreover, MSAS would further suggest that the level of assistance adopted should directly correspond to the tariff revenue derived in the industrial sphere to which it most closely relates. The adoption of such an overall policy objective would see continued economic growth and would assist in the achieving of social, environmental and regional policy objectives. Most importantly, these objectives can be achieved in a manner acceptable under WTO guidelines. (Note the effect of changes to the tariff policy is considered to be insignificant on GST.)

MSAS sees the development of the TRADEX Scheme as being a positive development, offering benefits over and above those available under currently existing export concessions. MSAS recommends continuance of both the Tariff Concession System and the Project By-law arrangements. But, we would urge that the concessional tariff rate available, under Item 50, be returned to the originally applicable 'Free' rate. MSAS also urges that the 'project status' threshold of A\$10 Million be dropped from the Project By-law arrangements altogether, and that the need, under Item 56, to have comparative equipment manufactured in Australia be discarded.

MSAS trusts that the points raised in this submission will be of assistance to the Commission in carrying out its review process and we look forward to the final outcome.

Yours faithfully,
MSAS Global Logistics Pty Ltd

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