

30 June 2000

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

Dear Mr Plunkett

I refer to the Productivity Commission's draft report on *The Review of Australia's General Tariff Arrangements* and your request for comments on the report's recommendations.

In summary, ACCI recommends that:

- Nuisance Tariffs and the 3% tariff on business inputs (Tariff Concession Scheme) be abolished immediately, or 1 July 2001 at the latest; and
- General tariff rates be reduced in the context of multilateral negotiations, or 1 January 2005 at the latest. Furthermore, the abolition of concessional arrangements (Policy By-laws and the Project By-law Scheme) should be linked to the abolition of general tariffs.

Our specific comments against your recommendations are as follows:

Recommendation 1

General tariff rates on goods under reference be reduced to Free sooner rather than later, preferably on 1 July 2001.

ACCI welcomes the recommendation that general rates of tariffs be abolished. However, ACCI is concerned that the time frame of 1 July 2001 will result in a missed opportunity to gain greater benefits through multilateral tariff reductions.

ACCI recognises that there are gains to be made through unilateral reductions in tariffs. As we argued in our original submission, the benefits that have accrued over the past decade are evidence of the value of general tariff reform and support the need for further reductions in general tariffs.

However, given the world trading environment and the need to have tangible negotiating coin in the WTO and APEC context, it would be better to use the further reductions in Australian tariffs to leverage lower protection levels amongst our trading partners. In our estimation, credit is not always given for what already has occurred, but, more frequently what is offered in negotiations.

We view nuisance tariffs differently from general tariffs and recommend that they can be removed in isolation. Indeed, the Government has already removed some nuisance automotive tariffs in settling the Howe Leather case with the United States of America. The nuisance tariffs provide no protection to domestic industries, little in the way of revenue, yet they raise the cost of production to Australian business. They are severable from general tariff system.

Recommendation 2

Consistent with draft recommendation 1, concessional arrangements related to the goods under reference be abolished on 1 July 2001.

This recommendation addresses the Tariff Concession Scheme, Policy By-laws and the Project By-law Scheme.

In the draft report, you link the removal of the general tariff and the abolition of the Tariff Concession Scheme. We believe that the removal of the 3% tariff on business inputs, imposed in 1996 through the Tariff Concession Scheme, must be a priority for the Australian Government and can be treated separately from a reduction in the general tariff rate. Given that the budget has returned to surplus, which was the original reason for the impost, there remains no justification for this highly distortionary measure.

We support the continuation of the Policy By-laws and the Project By-law Scheme until the general tariff rates are reduced to free. The Policy By-laws were put in place to provide concessional rates of duty on imported goods that contribute to Government's industry policy objectives. They are still relevant to the manufacturing sector as they reduce costs to industry and they encourage and enhance investment in Australia. The Project By-law Scheme provides for capital equipment (valued at more than \$10M) for major projects to be imported free of duty where it can be demonstrated that the equipment cannot be made in Australia. Industry believes that this scheme has meant some major projects have occurred which otherwise may not have and therefore the scheme should be maintained until the general tariff rate is reduced.

If you would like to discuss our views regarding general tariff arrangements please contact me or Karen Curtis on (02) 6273 2311.

Yours sincerely



Mark I Paterson
Chief Executive