

Supplementary Submission

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Y. Flicker
Direct Line: (03) 9313-0155
Tel. No. (03) 9313-0100
Email: yaron@flickers.com.au

Productivity Commission
Review of TCF Assistance Post 2005
P.O. Box 80
BELCONER ACT 2616

Dear Sir,

I would like to make this supplementary submission in response to the position paper and the open hearings.

I. Basic Principles and Assumptions

1. The Australian consumer and the Australian taxpayer are one and the same. Therefore, a benefit to the consumer via lower government revenue is a cost to the taxpayer irrespective of the source or name of the tax. All taxes are paid by Australians as are all tariffs.
2. The Government expenditure agenda is independent to the source of the government revenues.
3. The economy can be divided into import sensitive sectors and import insensitive sectors, (in a relative sense) which has significant considerations for policy. Taxation or tariff changes on import sensitive sectors has greater significance (both in cost and benefit) than in import insensitive sectors. In a competitive global economy the natural corollary of this is that taxes rises on non-import sensitive areas in order to replace lost revenue from tariff reductions and shrinking of import competitive sectors. This is accelerated when local taxes are 40% of cost when import taxes are only 5-25% of cost.

II. Inconsistencies and Contradictions of Positions Taken in the Position Paper

1. On pages 103 an amendment and revival of a bilateral Australia-Fiji is considered outside the scope of inquiry. No reason is given for this position despite the terms of reference clearly asking for policy options consistent with international obligations, which includes SPARTECA. Consideration of this policy option is even more acutely required by the fact that South Africa has a nearly identical program that clearly is untroubled by WTO considerations. This was a successful program for Australia and Fiji and had the net benefit of lower cost apparel to the Australian consumer, net effective lower tariffs for the consumer and benefits to Australian Textilers. Clearly, if it is desirable to reduce tariffs on fully imported products, it is even more desirable to reduce effective

tariffs on Australian intermediate inputs. This position is acknowledged on page 136 in the PC 2000 Review of General Tariff Arrangements.

2. A similar argument can be mounted for an enhanced EOAP scheme.
3. Pages 135 and 137 recognise tariffs as a revenue tax on imports and payroll tax as a revenue tax on local manufacturing. The logical conclusions are not drawn, that is if a 3% tariff on INPUTS is a COST to manufactures then a 30% tariff reduction to FINAL PRODUCTS IMPORTS (clothing) is a death knell to clothing manufactures. Tariff reductions to inputs AND tariff reductions to end product have exactly the OPPOSITE effects. The former lowers the cost of domestic manufacturing leading to greater domestic economic activity, the latter ceases economic activity in that area. Good policy recommendation acknowledges this. Payroll tax and other taxes on local manufacturing is simply put into the too hard basket and inappropriately ignored.
4. On page 105 the comment, *"the merits and means of giving TCF and other importers greater opportunity to apply for exemption from the Excluded Goods Schedule of the TCS system warrant further exploration"* is made without any reason as to why. Nor is any comment made why this benefit is desirable whereas in contradistinction a similar benefit for the EOAP or an ICS scheme is not considered worthy of further exploration.
5. On page 104 the comment, *"Arguments that tariffs protecting Australian TCF producers should be tied to levels in other countries do not stand close scrutiny"* is made without explanation or justification. No analysis of this view is provided, nor the counter view and its analysis is provided. This comment is simply a position of pre-determined bias presented to be misleading and condescendingly dismissive designed to relieve the need to discuss the pros and cons of arguments made in the various submissions.
6. I would urge the commission to critically evaluate the unsubstantiated comments and the contrary position or else delete them.

III. Comments

1. I would urge the commission to compare the current policy recommendations with the alternative (and not mentioned) policy option of reducing taxes and therefore costs on domestic manufacture either in parallel to tariff reduction or, preferably, instead of tariff reduction.
2. The continuation of positive assistance measures should be continued for all the reasons included in the TFIA submission.
3. The late (and in the opinion of many great), Dr. John Colvin, Ophthalmologist who was instrumental in ensuring man could walk on the moon and see, said, *"more mistakes are made by not looking than not knowing"*. Please ensure your report is not blinkered by pre-existing bias, and compare the alternatives to ascertain which is better for Australians.

Yours faithfully,

Dr. Yaron Flicker, MBBS (Melb), MBA (Monash)
Managing Director