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## **AMWU and CFMEU Manufacturing Submission to The Treasury's Tariff Reform: Removal of nuisance tariffs**

To whom it may concern,

The Australian Manufacturing Workers' Union (AMWU) and Construction, Forestry and Maritime Employees Union – Manufacturing Division (CFMEU Manufacturing) together represent thousands of highly skilled workers and apprentices in Australia's manufacturing industries. Our members process food for supermarkets; they make the ventilation systems that keep people and workers cool in summer and warm in winter; they service refrigeration systems essential to food safety; they maintain and build components for rolling stock; they build the tanks and trailers that transport fuel and freight around the country; they saw logs into timber and manufacture building products, furniture and mattresses that go into our housing; they make the clothes that many Australian workers wear to work; and they craft the paper, cardboard packaging and sanitary products that Australians use every day.

A distinguishing feature of our combined membership is how many of the workers we represent are employed in industries where their jobs and income security depend on Australian firms successfully competing against imports. That is why productivity, international competitiveness and fair trade have always been our core business.

Many of these industries contribute billions of dollars to Australia's economy and are a solid source of full-time, secure, union jobs. This makes them critical to the Federal Government's stated objectives to sustain and grow Australian sovereign manufacturing capabilities.

The AMWU and CFMEU Manufacturing therefore welcome the opportunity to make a submission to The Treasury's process to reform Australia's tariff system, specifically its proposal to remove so-called 'nuisance' tariffs. Together, our unions are of the belief that The Treasury is making decisions that will potentially undermine the Government's stated aims of developing sovereign capability in key areas of advanced manufacturing.

Firstly, the claimed rationale that five hundred existing tariffs 'do nothing' to protect Australian businesses because they 'often' apply to goods arriving in Australia under a concessional rate requires some scrutiny. However, the scrutiny required is hindered by the nature of Treasury's consultation process.

Little evidence is provided in The Treasury's media release nor in its consultation documents that these tariffs qualify as "nuisance tariffs." The claim in the media release that "Australian workers and businesses are not protected by these tariffs" lacks cogent explanation. By way of example, the media release cites how sixteen products combine for revenue of \$3.7 million. Of that revenue just \$732,200 is related to fifteen of the products.

The consultation paper is silent on the total amount of tariff revenue that will be foregone by this reform process but claims a saving to businesses of over \$30 million in compliance costs each year. The Productivity Commission estimates a wide range for compliance costs for business, arguing that it represents between 47 per cent and 146 per cent of the value tariff revenue.

This suggests that the total foregone tariff revenue represents between \$14.1 million and \$43.8 million per annum. It also means that the foregone tariff revenue in those examples cited in the media release represents a fraction, between just 8.5 per cent and 26 per cent of foregone tariff revenue associated with these reforms. Taking out sanitary items (which represented three million dollars of the \$3.7 million foregone revenue from tariffs selected in the media release) the percentage of the impact cited in the media release compared to actual impacts is between just 1.6 per cent and 5 per cent.

Astonishingly, the consultation is therefore silent on the impacts on most of the trade effected by the proposed reforms. Even essential information required for industry to make informed decisions on the impact on the reforms, such as the average applied tariff for the products captured by the reform process, is not provided in the consultation.

We think that this blasé approach has been taken because The Treasury's ideological thinking belongs in the 1990s, complete with the since discredited, orthodox economic ideology held by policy bureaucrats. This period was characterised by a frightening naivete about economic and industrial development and evidently, The Treasury clings to this position today despite any useful application to the real world. Clearly, a lazy 'good for consumers' rhetoric is being relied on as the rationale for this major tariff system reform despite little evidence of cost savings for importing businesses of tariff removal of this nature translating to lower prices to Australian consumers and downstream users.

However, perhaps where this consultation is most out of step is in its apparent disregard of the important context of a post-pandemic world where most advanced industrial economies (the exception being Australia) are taking full advantage of a range of policy levers that assist their sovereign industries to create or expand competitiveness. This is something that heterodox economic thinking on industrialisation has long understood empirically. Secondary manufacturing industries – those that produce increasing economic returns – must be defended in the first instance to build scale and develop innovative capacity before later becoming competitive with imports, and competitive on more than just price.

Despite apparent Treasury thinking that Australia's global economic standing as an advanced industrial economy leaves it prepared for the further relaxing of global trade relations, a cursory understanding of economic complexity theory makes a far more concerning picture very clear. In Harvard University's 'Atlas of Economic Complexity,' which measures the diversification and development of the industrial base in domestic economies, Australia ranked ninth in the world for GDP per capita but only ranked 93rd for economic complexity. Moreover, Australia has been falling in those economic complexity rankings: since the turn of the century, its ranking has dropped by thirty-one positions. Unless this trend is reversed, the Australian economy will be less able to provide for its citizens and its resource dependence will leave it vulnerable to future polycrises and other external shocks.

Read in this light, many of the tariffs The Treasury has deemed 'nuisance' could be critical to underwriting nascent, or competitive but low-scale manufacturing industries or areas of production that still require a degree of protection from the volatility of global markets. The AMWU and CFMEU Manufacturing Division suspect that The Treasury has not considered the protection that some existing tariffs provide to the advantage of Australian manufacturing businesses and as a result, the skilled jobs that those businesses provide to Australian workers. One must therefore determine that the approach taken has matched the ideological positioning of the Productivity Commission (PC) which insists on monitoring the downstream and compliance 'nuisance costs' of Australia's tariff

system, rather than estimating benefits of tariffs, an approach that the PC has admitted in its latest annual Trade and Assistance Review.

In any event, whether they were intended to do so or not in their design, the reality is that many tariffs can still act to the strategic advantage of sovereign manufacturing industries if they are understood in the broader context of industrial policy. Particularly in the current geopolitical context, tariffs must be considered as potentially offering strategic advantages to Australia's reindustrialisation ambitions. This is of particular concern when products produced by domestic sectors foreshadowed as priority sectors for the National Reconstruction Fund, and/or Buy Australia Plans – as is the case in several instances. For example, it is the policy of the Federal Government to develop 'Future Made in Australia Industry Plans' in sectors including textile, clothing and footwear manufacturing and paper, pulp and fibre manufacturing. It is ALP Party policy to be "A country that makes things" with plans outlined for sectors including building materials and products, rail, textile, clothing and footwear, food, pulp, paper and fibre, and timber and wood products.

In the following section, we aim to contextualise several so-called 'nuisance' tariffs of particular concern to our members and the skilled work that they perform. We do this to contend that The Treasury must consider these factors in the context of sovereign manufacturing capability, rather than possessing a tax policy hammer whereby all tariffs appear as nails. The onus should be on The Treasury to demonstrate through data that their assumptions about the impact of tariffs on existing or nascent domestic industries are indeed 'nuisance' in nature and do not play an actual or potential material purpose in preventing the buffeting of local industry from unfettered trade.

## **Context on nuisance tariffs in focus**

### **1. *Chapter 20 – Preparations of vegetables, fruit, nuts or other parts of plants:***

Proposed tariffs to be removed under this section include those on preserved vegetables. Considering tariffs as a nuisance to Australian businesses does not account for the value-adding opportunities to Australian-grown fresh produce in manufacturing facilities. These are in many cases connected directly to a local agricultural supply chain. Secondary manufacturing processes add value to the Australian economy where the exports of our primary agricultural commodities are transformed through preservation processes that lend themselves to innovation and improvement. In such instances, tariffs on the importation of vegetables preserved in a variety of ways support the development of local supply chains and raise the profile of high-quality Australian food exports.

The Federal Government has committed, in its platform, to work with food industry companies, workers, and their unions to grow the sector and develop technology to create new products aimed at enhancing Australia's leading position as the world's food bowl in a carbon-constrained world. The Treasury's removal of tariffs on sectors of the food manufacturing industry that help achieve this threatens to limit Australia's potentially key role in this global growth industry.

### **2. *Chapter 44 - Wood and articles of wood; wood charcoal***

Proposed tariffs to be removed under this section include those on sawn timber, plywood, and veneers. Some of the products which fall under these categories (for example, sawn softwood timber), are predominately imported from countries which are still subject to the 5% tariff rate (i.e., Scandinavian countries) due to a lack of a bilateral agreement with preferential arrangements between Australia and the source countries.

Imported volumes of products like veneers and plywood are currently dominated by countries which do not face tariffs on entry. However, there could be a shift in demand to sources which do face tariffs due to sustainability (and legality) concerns with some production, particularly from tropical forests.

The Australian Government has a detailed “*A Future Grown in Australia*” forest and forest products policy which, amongst other things, aims at reducing the reliance on imports (which we have seen can lead to a disastrous timber shortage when both local and international demand is high) by encouraging resource security, building local processing, and manufacturing capacity. Vigilance is required to ensure that this approach is not undermined by making imports more competitive vis a vis local production by unilateral tariff reform.

**3. Chapter 48 – Paper and Paperboard; Articles of Paper Pulp, of Paper or of Paperboard**

Proposed tariffs to be removed under this section include those on copy paper, kraft liner, sack kraft and some communication papers. Like for sawn softwood timber, current imports for some paper products which are still produced locally include those sourced from Europe which therefore likely attract a material ‘average applied tariff.’

As mentioned above, the sector has been earmarked as one where a *Future Made in Australia Industry Plan* will be developed. In terms of the potential for nascent industries to be developed, the ALP platform states that Labor will support domestic industry to develop new packaging materials, bioproducts and production methods in partnership between local wood and forestry product industries, researchers, and institutions, including CSIRO.

**4. Chapter 61 – Articles of Apparel and Clothing Accessories, Knitted or Crocheted**  
**5. Chapter 64 – Footwear, Gaiters and the Like; Parts of Such Articles**

Proposed tariffs to be removed under these sections include those on textile clothing and footwear products (TCF) Like the pulp and paper industry, the TCF sector has been earmarked as one where a *Future Made in Australia Industry Plan* will be developed.

The ALP platform states that Labor recognises the TCF sector as a vital cog of Australia’s manufacturing industry and advanced industrial capacity worthy of support and innovation assistance. The policy states that Labor will ensure a tripartite approach to building the innovative capacity of Australian industry including the TCF sector, noting that there exist new and emerging markets where locally made, ethically accredited products, as well as sustainably made, high-quality products and unique design innovations are highly valued, and this presents an opportunity for local producers.

Considering the ambitions of this policy, future competition of future production could come from countries where tariffs remain. Given the current weighted average tariff is heavily influenced by the predominance of imports from countries which supply cheaper ‘fast fashion’ with questionable sustainability credentials the average may not be a good indicator of whether the tariff is simply a nuisance or something that can be relied on to support fledging local production following a forecast shift of in consumer preferences.

**6. Chapter 84 – Nuclear Reactors, Boilers, Machinery and Mechanical Appliances; Parts Thereof: Solar Water Heaters; Heating and Refrigeration Devices**

Removal of tariffs on the importation of solar water heaters presents a significant threat to the ability of Australian renewable energy manufacturing industries to supply Australian-made solar water heaters and associated components, as well as complementary products like heat pumps, to Australian markets to aid in the rapid transition and decarbonisation of businesses and households. It also risks placing further barriers to major export opportunities for these products to global markets, as outlined in the recently released report by the Institute for Sustainable Futures that suggests

Australia's solar supply chain in Australia requires industrial assistance in the form of strategic policy and other levers.<sup>1</sup>

Likewise, removal of tariffs on the importation of heating and refrigeration devices risks exacerbating a trend that has for decades left Australia's own whitegoods industry at times dangerously close to the brink of closure. Many major companies have shutdown product lines being unable to compete with imports, even with some level of tariff protection, resulting in job loss. Despite this, during the pandemic, AMWU members were able to work collaboratively with a major whitegoods manufacturer to increase the percentage of local content supplied to its remaining production lines – demonstrating that Australia does still possess highly sophisticated manufacturing capabilities that could benefit from ongoing protections if strategically aligned with industrial strategy to develop sovereign supply chain capabilities and export-competitiveness.

**7. Chapter 86 – Railway or Tramway Locomotives, Rolling-Stock and Parts Thereof; Railway or Tramway Track Fixtures and Fittings and Parts Thereof; Mechanical (Including Electro-Mechanical) Traffic Signaling Equipment of All Kinds**

The proposal to remove tariffs on the importation of rolling stock carriages and components works in direct conflict with the Federal Government's priorities in the rail sector as outlined in its National Rail Manufacturing Plan. This Plan seeks to coordinate the industry, connect it to major industrial opportunities through government procurement investment, develop the domestic supply chain essential to building Australia's scale and capacity to deliver on projects and position Australia as a global leader in rail industry innovation and develop a highly skilled and diverse workforce capable of growing the sector further.

The recent initiative of government, industry and unions to develop the Office of National Rail Industry Coordination (ONRIC) is the first step towards actioning the Government's industrial priorities, where the role of ONRIC is, as the name suggests, to coordinate Australia's national rail industry by connecting Small and Medium-Sized Enterprises to large rail sector primes and develop a sophisticated and elaborate rail industry supply chain characterised by high-quality manufactured railway components and rolling stock.

Not only is ONRIC's role a reflection of the critical importance of Australia's sovereign capability in rail manufacturing, but it is also an acknowledgement that strategic industrial policy in support of sovereign manufacturing capability is high on the Federal Government's agenda for the national economy. The tariffs proposed as a 'nuisance' to the unfettered importation of foreign rail products contradicts these tripartite efforts to develop Australia's industrial self-reliance in delivering high-value sovereign industrial capabilities for the rail freight and passenger networks that connect Australian communities and form a major pillar of the national economy.

**8. Vehicles other than Railway or Tramway Rolling-Stock, and Parts and Accessories Thereof**

The proposal to remove tariffs on the importation of tanker trailers and tanker semi-trailers would lead to both a flood of foreign trailer imports and the closure of Australia's existing trailer industry, which complements a robust heavy vehicle manufacturing industry. Recent changes to Australian Design Rules for heavy vehicle width which increased the regulation on truck width on Australian roads from 2.5m to 2.55m has already resulted in increased volumes of prime mover (truck) componentry and cabin importation, with metal fabrication work done offshore instead of in Australian firms by skilled Australian workers.

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<sup>1</sup> *Towards a Renewable Energy Superpower: Industry opportunities for Australia to embrace the clean energy revolution*, Institute for Sustainable Futures, University of Technology Sydney. 2024.

The erosion of sovereign capability exhibited here will only continue if tariffs on trailer importation proceed. Australian trailer manufacturers currently build to 2.5m specifications, meaning width increases will potentially lead to a need for retooling of production lines and costs prohibitive to ongoing competitiveness; and furthermore, many foreign trailer imports are of far lower quality than Australian-made trailers. Hence, the 'cost' being weighed by The Treasury in this case suggests short-term gains in terms of revenue, but long-term pain for freight/logistics firms that will foot the bill of higher replacement costs for unsafe or low-quality imported trailers.

**9. Chapter 94 - Furniture; bedding, mattresses, mattress supports, cushions and similar stuffed furnishings; luminaires and lighting fittings, not elsewhere specified or included; illuminated signs, illuminated name-plates and the like; prefabricated buildings**

Proposed tariffs to be removed under this section include those applying to imported mattresses. Mattresses are produced locally, and it is important to maintain a local manufacturing capacity for sovereign capability reasons. In addition, mattresses have been placed on the Minister's recycling priority list with objectives to move the industry towards a circular economy for mattresses and bedding products and provide national recycling solutions including in regional communities. Circular economy implies the retainment and expansion of a local manufacturing capability given the unfeasibility of exporting used mattresses for recycling abroad.

**10. Chapter 96 – Miscellaneous Manufacturing Products**

Proposed tariffs to be removed under this section include those on sanitary towels, pads and napkins including incontinence pants. These products are still produced in Australia and some local production has been earmarked for potential growth given a growing (and aging) population.

Production is considered a sub-sector of the pulp and paper industry where Labor has pledged to develop a *Buy Australian Plan* which will include procurement guidelines that encourage the purchase of Australian-made paper and sanitary products.

The Treasury's media release states that "menstrual and sanitary products" with over \$211 million worth of annual imports, raise less than \$3 million in revenue per year. This suggests an average tariff weighting of 1.4%. However, reduced compliance costs associated with importers not having to apply for a concession means that this reform does make it more attractive for suppliers to shift to imports rather than source local production. This may risk the further outsourcing of local production. In addition, a further break down of distinct products would provide an indication of any unintended consequences, like significant reduced tariffs for a particular product within this tariff code. However, this is not provided and has potentially even not been analysed by The Treasury.

We also contend that the removal of the tariff on grounds of aligning the measures to the removal of the GST on some of these products is a poor and nonsensical justification.

**Concluding remarks**

In summary, our unions are of the view that The Treasury naively – or worse, ideologically – starts from a position that removing tariffs will be beneficial to Australian workers, consumers, and businesses because it dispenses with what its technocrats perceive as interference in the otherwise 'perfect' operation of free markets. Were this to be true of markets, Australia's economic complexity would have grown with the Productivity Commission's favoured industry policy setting of 'comparative advantage'; yet we now face the opposite scenario wherein Australia's economic structure has been hollowed out and risks further erosion with the removal of important policy settings like tariffs that provide much needed support to industries that need only reach scale and advancement to be competitive with imported alternatives.

Clearly there is a slight softening from the Productivity Commission's position that all remaining tariffs on imported goods are nuisance tariffs, but it is unclear what criteria has been applied to determine what tariffs are going to be abolished.

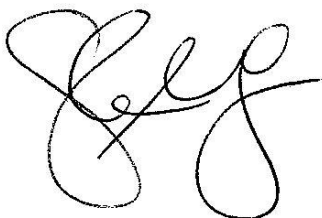
Furthermore, where The Treasury's claims that removing tariffs on as many as five hundred imported items – many of which are found in Australian supermarkets – will place 'downward pressure' on the price consumers pay for these goods, we question the reality in which The Treasury's 'experts' are living. The world that many workers live in has seen inflation dramatically outpace wage rises in recent years due to a profit-price spiral that continues to push the cost of many necessities out of reach for many wage-earning Australians.<sup>2</sup> There is sufficient evidence that tariff reductions have been absorbed in the profits of importers rather than being passed on in the form of lower prices for consumers.

In any event, tariff reduction in isolation from the proper assessment of the potential economic losses of such action is poor policy. By not accounting for industrial policy imperatives – even those of the very Federal Government that The Treasury is deployed to deliver the policy objectives of – the blunt tool of tariff reform is a major risk to many of Australia's existing sovereign manufacturing capabilities. Therefore, it is essential that The Treasury adopt a position on tariffs that does not simply view them as a tax for the purposes of raising revenue. Tariffs can play a far more instrumental role in the economy, particularly where they have historically helped to develop technical barriers to trade competition. In many cases, such barriers cohere with existing regulations, or discourage the importation of foreign products of substantially lower quality to Australian-made products. Such barriers therefore create advantages for Australian industry that lead to growth in economic complexity – and therefore higher-skill, higher-paid jobs for Australians.

Finally, it is not taking a mercantilist approach to suggest that unilateral abolition of tariffs makes no sense in the current trading environment. Tampering with the Australian tariff system – with seemingly little regard to the bilateral and multilateral trade policy framework in which it sits – risks cutting across the Australian Government's negotiating position.

The AMWU and CFMEU Manufacturing welcome further discussion and collaboration on this critical issue, and we thank you for the opportunity to make a submission. If you require any further information, please contact Mark Dean ([mark.dean@amwu.org.au](mailto:mark.dean@amwu.org.au)) or Travis Wacey ([twacey@cfmeumd.org](mailto:twacey@cfmeumd.org)) in the first instance.

Yours sincerely,



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<sup>2</sup> Stanford, J. 2023. 'Profit-Price Spiral: The Truth Behind Australia's Inflation', Centre for Future Work at The Australia Institute: Canberra, Australia.