

TARIFF REDUCTION

1. The Prime Minister and the Minister for Overseas Trade and for Secondary Industry today announced a decision taken by the Australian Government for a reduction of 25% in all tariffs - each tariff will be reduced by  $\frac{1}{4}$  of what it is now - excluding revenue items and anti-dumping duties. This reduction which will apply forthwith, is designed to restrain price increases by increased competition and by stimulating in the short run a sufficiently large inflow of additional imports to help meet pressing demand. Action to combat price inflation through tariff action was clearly forecast in the Prime Minister's policy speech and has recently been urged upon the Government by Trade Union, primary production, commercial and industrial groups. The Government has also decided that in future by-law administration will be more flexible. The reduction is to be combined with an ambitious program of assistance to employees and firms who may be adversely affected by the tariff reduction.

2. The decision followed unanimous advice from a Committee which was appointed on 27 June and reported on 15 July. It was chaired by Mr. G.A. Rattigan, Chairman of the Tariff Board and comprised Professor F.H. Gruen, Consultant to the Prime Minister; Mr. B. Brogan, Consultant to the Minister for Overseas Trade and for Secondary Industry; Dr. S.F. Harris, Deputy Secretary, Department of Overseas

Trade; Mr. J.C. Taylor, First Assistant Secretary, Department of the Prime Minister and Cabinet and Mr. F.A. Bennett, First Assistant Secretary, Department of Secondary Industry. The Committee's report will not be released at present because it also deals with matters affecting our trading relations and makes some comments on budgetary strategy. It will be released with the Budget papers.

3. The justification for the general reduction of tariffs is the excessive rate of inflation which now prevails. Inflation is harmful to every Australian. Action must be taken to reduce its harmful effects with the least delay. Inflation can be offset by an increase of supply of goods in Australia. The most readily available source of supply of goods is imports from overseas. Whilst it is expected that imports will increase in the next few months, because of the high level of tariffs the increase would be insufficient to help combat inflation. Consequently the Government has decided to reduce tariffs so that imports may increase in the short term to help meet inflationary pressures in Australia.

4. The tariff changes will have a direct impact on import prices of approximately the same order of magnitude as a revaluation of slightly less than 6%. Increased competition in Australia will have a salutary effect upon those who have taken advantage of shortages by unjustified price increases which have exploited the public. The Joint Committee on

Prices will be asked to ensure that consumers get the full benefit of these reductions as it is already doing by its present inquiry on import prices. The earlier reference to the Committee related to the revaluation of the Australian dollar in December, 1972 and other relevant currency changes in 1973. The Government is similarly determined that import prices respond to the tariff reduction.

5. The increased imports may affect production and employment in Australia. A Tribunal is being established to immediately hear appeals from any firm or company which may be seriously affected by imports. The Tribunal will be authorised to immediately recommend appropriate assistance either to bring about changes for a firm or company or to restore the tariff level which previously protected it. Any person who may lose his job as a result of these changes will be entitled to receive, as special readjustment assistance, a weekly amount equal to his average wage in the previous six months until he obtains or is found suitable alternative employment. Such persons will be offered retraining for new and better occupations if they so desire. The Government has provided \$25m to cover assistance which may be necessary as a result of the tariff changes. The procedure for providing assistance required as a result of these changes are set out in a separate statement which is attached.

6. While these changes can be expected to require some workers to move from one employment to another this must be

seen against the existing high level of unfilled vacancies and rising employment opportunities. The Government is confident that most of the employees who may be affected will gain from the assistance provided and from the new opportunities which will be created. In making this decision the Government is conscious of the urgent need for some major steps to deal with inflation. It has adopted these changes as part of a complex of measures some of which have already been taken and others will follow. These tariff changes will assist in the fight against inflation in the interest of the nation as a whole and at the same time the Government is confident that losses which may affect individuals will be adequately offset by readily available assistance.

7. This decision represents a major step towards implementing the Government's objective of support for moves to liberalise international trade -- moves which in the long term can only strengthen the economies of the trading countries of the world. Consistent with these objectives the Government intends to implement its international commitments, which are of principle concern to New Zealand and Canada, in the context of the new tariff structure. Furthermore, the scheme to aid developing countries, announced by the Minister for Overseas Trade and for Secondary Industry on 3 July, will be implemented and existing and future preference margins will be lowered from the new general tariff rate.

PROCEDURES ESTABLISHED FOR PROVIDING ANY  
SPECIAL ASSISTANCE REQUIRED AS A RESULT OF  
THE MEASURES TAKEN TO INCREASE IMPORTS

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On the recommendation of the Prime Minister and Minister for Overseas Trade and for Secondary Industry, the Government has established a Tribunal to examine and report on requests for relief for the measures taken to increase the demand for imports where a domestic industry is being seriously damaged by the tariff reduction. The tribunal will be guided by two basic principles; its recommendations should be compatible with the long-term objectives of assistance to industries, and it should not provide relief as a matter of course - that is, simply because the question of relief had been referred to it. The Government has also decided that there should be established an effective range of adjustment assistance measures which would be available to assist in those cases where the Tribunal felt that some assistance was required but that restoration of the duties in whole or in part was not a suitable means of assistance.

If the Tribunal were to recommend relief too readily by raising, perhaps to their former level, individual tariffs which have just been reduced as part of a general tariff cut, the purpose of the initial tariff cut would be largely frustrated. The desired increase in imports resulting from the tariff reduction would not occur, and the desired increase in aggregate domestic supplies would not be achieved. In other words, the anti-inflationary impact of the original measure would be seriously weakened.

If the Tribunal were to provide relief (particularly in more highly protected industries) not by raising tariffs previously reduced, but by other measures - such as compensation payments - the problems described above could be partly avoided. But compensation payments or other direct subsidies to a particular industry could have undesirable side effects, particularly if those payments were not made conditional on some adjustment by the industry concerned to the new situation. For example, compensation payments, if they are equivalent to the tariff 'subsidy' they replace, could continue to support the use of resources in activities which are high cost; in these circumstances the gain to consumers of the action proposed would be at the expense of taxpayers. In cases where it is evident that the industry could, with assistance, adjust to the changed circumstances of import competition (and of protection), it would clearly be in the interests of the community as a whole to prefer adjustment assistance to restoring the high rates of duty.

In summary, therefore, if relief from any effects of the general tariff reduction is provided readily by partially or wholly restoring the tariffs previously reduced, particularly where the previous tariff was high, the objectives of the initial tariff reduction will tend to be frustrated; and if the relief is readily provided in ways which do not induce some adjustment to the new situation by highly protected domestic manufacturers, that relief will tend to be inconsistent with the long-term objectives of protection policy.

### Adjustment Assistance

Events such as a currency appreciation or a tariff reduction can be to the overall benefit of the nation as a whole by making more goods and services available to the Australian people, by helping to restrain price increases and by improving the allocation of our resources and efficiency of our industries. These benefits, however, may involve some cost in the form of reduced business opportunities for some firms and the need for changes in employment and perhaps location for some individuals. Whilst the benefits are enjoyed generally throughout the economy, the costs may tend to fall on a small minority in the community.

In such circumstances, it is inequitable to allow the cost to fall on any particular group - especially when the changes are brought about by a conscious Government decision. More importantly, it is socially undesirable for the cost to fall on groups in the community which are likely to be less privileged than the majority or on to individuals which do not have the opportunity or the capability to adapt readily to the change in circumstances.

A positive approach is needed for these human and economic problems of structural and technological change which reflects a genuine understanding of the non-economic as well as the economic costs to those affected and which in consequence cannot be too finely calculated. In the absence of effective action to counter them, they will continue to represent a real impediment to desirable and beneficial changes.

With these points in mind, the Ministers for Secondary Industry, Labour and Social Security established

an inter-departmental committee to study measures needed to facilitate desirable structural changes in the Australian economy. This inter-departmental committee will be recommending a long-term approach to structural change. This will include:

- assistance to employees;
- social security measures;
- assistance to firms.

The short-term tariff changes now taken will precipitate the need for immediate adjustment assistance. Because of the importance which this Government attaches to the availability of adjustment assistance it has anticipated those elements of the long-term program that could be developed quickly to assist in adjustment to the proposed tariff changes.

#### Assistance to Employees

Such assistance will be given through the existing services such as the Commonwealth Employment Service with appropriate strengthening and augmentation - such as the proposals already outlined by the Minister for Labour in his statement on manpower policy.

The measures which will be applied include:

Grants to individuals to meet relocation expenses where the C.E.S. is able to offer employment at a different location.

Re-training assistance to those suited by age, health, etc., including guaranteed minimum wages during re-training, payment of training fees and related transport costs including living-away from home allowances where necessary.



Incentives to firms to train or re-train staff  
rendered redundant by tariff changes.

The Government has decided that an initial allocation of \$5 million could properly be made for these purposes.

Social Security Measures

Additional social security measures may also be needed for several purposes. In order to ensure adequate incomes for those temporarily displaced by the tariff change, the Government has decided it would be desirable for them to be paid their average weekly wage over the preceding six months for a period of up to six months - or until they are offered suitable alternative employment.

Where special local unemployment problems are caused by the tariff changes, special local unemployment relief grants will be given in a form similar to the rural and urban unemployment relief schemes now being phased out.

To provide adequate incomes for those members of the work force who become redundant in advance of normal retiring age as a result of the tariff change and are unlikely to find suitable employment because of age, health or physical handicaps, the Government will make provision for early retirement benefits such as full superannuation entitlements, retirement grants and early retirement allowance.

To minimise social problems for workers and families affected by the tariff changes, family counselling services will be provided.

These measures will be implemented through the Department of Social Security. The Government has

decided that an initial allocation of \$10 million will be made for this purpose.

Assistance to Industries and Firms

Forms of adjustment assistance which should be considered by the Tribunal in relation to industries affected by the proposed tariff reduction include:

- . Rationalization assistance to encourage, when appropriate:
  - . changes in an industry's structure (i.e. numbers of enterprises or establishments);
  - . changes in patterns of production (e.g. greater product specialization or diversification into new areas of production);
  - . investment in new equipment;
  - . changes in the locational structure of and industry and changes in the industrial structure of an affected region.

Such assistance may be provided in the form of grants, loans, loan guarantees, or a combination of these. Once its new legislation has been passed, the Australian Industry Development Corporation may be able to assist mergers within industries.

- . Compensation to firms for closure, given when particular establishments cannot remain in production through some form of rationalization or other adjustment. When production cannot be

continued efficiently, the establishments concerned should be closed, or the inefficient processes should cease.

The long-term scheme under development for adjustment assistance to industries and firms will be administered by an Adjustment Assistance Board empowered to grant specified forms of assistance from a pool of funds appropriated for the purpose. Applications for assistance arising out of tariff changes are expected to be an important part of the Board's activities.

The Government has decided that an effective means of handling this aspect, pending further development of the longer term proposals, is for the Interdepartmental Committee on Structural Adjustment (acting in concert with the Tribunal responsible for recommending when adjustment assistance is appropriate) to administer assistance to firms affected by the proposed tariff changes. It has decided further that an initial allocation of \$10 million will be included in the 1975/74 budget for this purpose.

A prima facie case for reference to the Tribunal could be established if an industry claiming to be affected by the tariff change can demonstrate:

- . that the firms comprising the industry were viable prior to the effects or likely effects of the tariff change being recommended; and
- . that tariff change is causing, or has caused serious injury affecting viability of the firms or the jobs of their employees in such a way as to cause hardship or 'high' social cost;

- . the effects of the tariff change cannot be avoided or offset by action which the industry itself might reasonably be expected to take;
- . the affected firms within the industry are unable to obtain financing needed to make necessary changes on reasonable terms and conditions from commercial sources without Government backing.

#### Procedures for Reviewing Requests for Assistance

The following general procedures have been established for reviewing requests for assistance from industries or persons employed in them:

- (1) Requests for assistance should be submitted by organizations representative of the affected employers and employees. It would be unrealistic to allow for the submission of requests from individuals or single firms, and at the same time to expect careful but speedy review of those requests.
- (2) To ensure expedition and consistency of approach and result, the existing inter-departmental machinery for servicing Cabinet's consideration of assistance to industries will be the vehicle for co-ordinating the work of the relevant departments on requests for referral to the Tribunal.
- (3) Requests for assistance should be accompanied by the data which would be required by the Tribunal to assess damage, and by the Inter-departmental Committee on Structural Adjustment to deal with questions of adjustment assistance.

The data required will be specified in a questionnaire.

- (4) The Tribunal should submit a report on a reference within 60 days of receiving it.

This report should contain advice on:

- . whether the industry or persons employed in it have been, or are likely to be, seriously damaged by the general reduction of tariffs; and, if so,
- . the form of assistance (that is, by tariff action or adjustment assistance) which should be given to the industry or employees.

- (5) If, on the evidence available, the Tribunal considers that adjustment assistance should be recommended, the general nature, extent and likely cost (to public revenue) of the adjustment assistance will be identified by the Inter-departmental Committee on Structural Adjustment. If tariff action is recommended, the Tribunal's report will recommend its form and level.

- (6) The Tribunal will submit its reports to the Prime Minister, and they will be published at the same time as the decisions are announced on their recommendations - including the general nature of the decisions on adjustment assistance, if that form of relief is recommended.

It will be noted that this timetable will require the Tribunal to decide on the question of damage within about three weeks of receiving the request for assistance and,

if adjustment assistance is to be recommended, will require the Interdepartmental Committee to identify its general nature and extent within the next three weeks.

This general and preliminary evaluation of the adjustment assistance required would then be examined by the Tribunal in relation to the question of damage and the alternative forms, and costs, of assistance. The examination and the finalization of its report would have to be completed during the last eighteen days of the sixty-day period.

#### Composition of Tribunal

The purpose of these procedures for the operation of the Tribunal and related Government institutions is to provide effective machinery for employees and proprietors who feel they may be affected by the action to communicate with the Government; and to provide an advisory system which is at once independent, speedy and informed by the co-ordinated efforts of relevant Government institutions. These matters have relevance for the question of the composition of the Tribunal. It has been decided that, with the sharing of institutional responsibility for servicing the Tribunal's work suggested above, one person should comprise the Tribunal - with the provision that, on the recommendation of that person and based on his assessment of the need, the membership of the Tribunal may be expanded to cope with any unforeseen increase in its workload. It is important that the person initially constituting the Tribunal be generally accepted, by employees and proprietors as well as the community at large, as having the necessary balance of relevant experience, an understanding of the human problems (for individuals) which may result from the proposed course

of action as well as the potential economic benefits (for the community), and the capacity to use the resources of relevant Government institutions to service the Tribunal's advice. With these considerations in mind, it has been decided that Mr. D. McBride has the required balance of skills and experience and would provide disinterested advice on the potentially divisive issues confronting the Tribunal. He will therefore be appointed as the Tribunal.

As mentioned earlier, the Tribunal will report on whether there is any need for assistance. If it considers that assistance is required, it will recommend either a restoration in part or whole of the original duties or that relief should take the form of adjustment assistance.