# Submission to the

# The Australian manufacturing industry inquiry

# Senate Standing Committees on Economics

**From**

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## About the author

Patrick J Byrne BA is President of the National Civic Council. He writes on economic, foreign affairs and social issues for the National Civic Councils publication, *News Weekly*.

The National Civic Council (NCC) was founded by B. A. Santamaria in 1941.

It is founded on five primacies**:** the integrity of the human person; the family as the basic unit of society; patriotism (not nationalism); decentralisation of population, economic and political power; Judeo-Christian virtues as the moral cement of society.

## Contents

## Terms of Reference

The Australian manufacturing industry, with specific regard to:

a. what manufacturing capacities Australia requires for economic growth, national resilience, rising living standards for all Australians and security in our region;
b. the role that the Australian manufacturing industry has played, is playing and will play in the future;
c. the drivers of growth in manufacturing in Australia and around the world;
d. the strengths of Australia's existing manufacturing industry and opportunities for its development and expansion;
e. the sectors in which Australian manufacturers enjoy a natural advantage in energy, access to primary resources and skilled workers over international competitors, and how to capitalise on those advantages;
f. identifying new areas in which the Australian manufacturing industry can establish itself as a global leader;
g. the role that government can play in assisting our domestic manufacturing industry, with specific regard to:
    i. research and development;
    ii. attracting investment;
    iii. supply chain support;
    iv. government procurement;
    v. trade policy;
    vi. skills and training; and
h. the opportunity for reliable, cheap, renewable energy to keep Australia's manufactured exports competitive in a carbon-constrained global economy and the role that our manufacturing industry can play in delivering the reliable, cheap, renewable energy that is needed.

# Executive Summary

**To deal with the covid19 economic crisis and China's increasing belligerence, Australia needs:**

- **to declare military and other key industries as strategic industries,**
- **then build domestically owned strategic industries to strengthen national resilience for the economy to continue functioning at a high level in the event of a conflict or crisis that would otherwise seriously disrupt or cut the nation's current global supply.**

**Strategic industries are exempt from WTO trade rules.**

**The government needs to give leadership by announcing a plan to double Australia's manufacturing output by 2035 with $1 trillion invested into diversified manufacturing industries and related infrastructure by government, a development bank, commercial banks and equity finance over 15-20 years.**

- **This will employ another 1 million people directly.**
- **Another 750,000 would be employed indirectly as manufacturing has a high multiplier into the economy.**
- **Further, 85% of jobs in manufacturing jobs are full-time and are well paid.**
- **This will add diversity and complexity to Australian manufacturing industries, which is important to innovation and rising productivity.**
- **This will improve Australia's manufacturing self-sufficiency, whereas Australia now rates as the lowest in self-sufficiency among the OECDs 36 member countries.**
- **Ensure a resilient economy in times of crisis.**

**A series of policy measures are outlined to achieve this outcome:**

1. **An enhanced Department for Strategic Industries like the US Office of Strategic Industries and Economic Security (SIES).**
2. **How to keep strategic industries Australian owned and onshore.**
3. **Government procurement policies including a "National Strategic Industries Act" modeled on the U.S. *Defence Production Act.***
4. **Incentives should be provided for the establishment of new strategic industries and for strategic industry R&D.**
5. **Encouraging domestic suppliers for strategic industries.**
6. **Need for liquid fuel exploration, extraction and refining.**
7. **Affordable, reliable electricity.**

8. **A development bank focused on investment for strategic industries.**
9. **Mobilising Australian superannuation funds to invest in strategic industries.**
10. **Education and skills training needed for these industries.**
11. **Tax reform.**
12. **Managing Australia's volatile currency fluctuations.**
13. **Decentralisation of new industries.**

# Part A: Economic and strategic challenges facing Australia

**"Decouple [from China], have industrial policy, invest in your people, science and technology, STEM [science, technology, engineering, and mathematics] education, infrastructure, manufacturing and, for heaven's sake, build a secure, encrypted internet for your people where you can protect them from outside influence from authoritarian regimes."**

***U.S. Brigadier General Robert Spalding (retired), author of*** **Stealth War**[1]***, speaking at the 2021 National Civic Council NCC National Conference***.

**The covid19 pandemic** has exposed the weakness of Australia's manufacturing sector. Shortages of pharmaceuticals, PPPs, medical equipment illustrate the problems. The federal government has provided $1 billion to CSL to build high-capacity vaccine production facilities, after CSL was privatised in 1994. It was established in 1916 to provide vaccines to Australians in time of war.

Supply chain shortages of many products have been caused by numerous factors including temporary closure of production plants overseas and reduced capacity at wharves when covid19 has struck workers loading ships to Australia.

At the same time, **China's growing strategic challenge** has further exposed Australia's weaknesses and vulnerabilities. Loss of industrial capacity and over dependence on trade with China has made the nation vulnerable to economic sanctions on Australian exports to China and to disruption of imports that are essential for the economy to keep functioning. Australia has become heavily dependant on an increasingly belligerent, totalitarian trading partner that has become an economic, military and technological superpower, and an emerging global superpower.

This is happening at a time when China can rival US power in the Indo-Asian-Pacific region, as America struggles with global military overreach and internal divisions. Sustaining a global military presence since WWII has come at great cost to the American economy, which cannot even provide a universal basic health-care system. Today, in its current state, it cannot be ruled out that America's problems go so deep that the country may be incapable of running a coherent foreign policy to counter China's increasingly aggressive push into Australia's region of the world. Beijing can only be emboldened by the shambolic American withdrawal from Afghanistan.

There are several concerns regarding China.

**First,** Australia has become increasingly dependent on trade with China for exports of minerals, energy, agricultural products and education services that earn currency needed to pay for manufactured imports we don't produce domestically following half-a-century of deindustrialisation.

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[1] *Stealth War: How China Took Over While America's Elite Slept,* U.S. Brigadier General Robert Spalding (retired), Portfolio; 1 October 2019. https://www.amazon.com.au/Stealth-War-China-While-Americas/dp/0593084349

China is the largest buyer of our exports, well above Japan, South Korea, the USA, India and the UK (see Figure 1).[2]

China is the largest source of our imports followed by the US, Japan, Germany, Thailand and the UK (See Figure 2).[3]

Figure 1. Top six destinations of Australian Exports 2019, A$bn

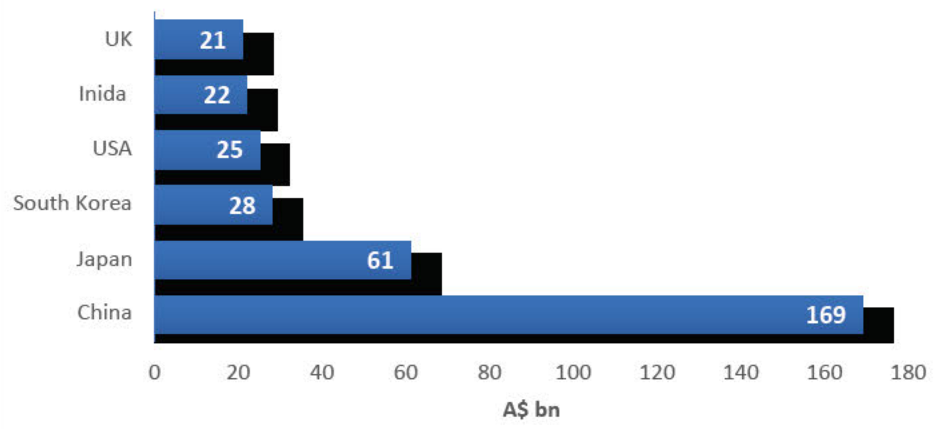
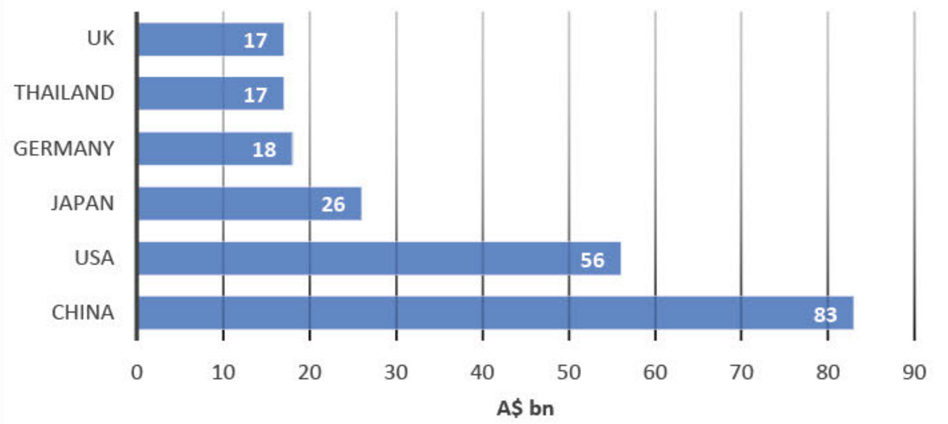



Figure 2: Top six sources of Australian Imports 2019, A$ bn




This dependence comes at a potential cost. There are many examples of China using its economic might to exert strategic influence, or to punish nations that criticise its human rights abuses or oppose its increasingly belligerent stand on the world stage. Brahma Chellaney, professor of strategic studies at the New Delhi-based Centre for Policy Research and fellow at the Robert Bosch

[2] Australia's direction of goods and services trade – calendar years from 1987 to present, Trade Time Series Data, Department of Foreign Affairs and Trade.

https://www.dfat.gov.au/sites/default/files/australias-direction-of-goods-services-trade-calendar-years.xlsx

[3] Ibid.

Academy in Berlin, has documented many cases (See Appendix 1). In summary, Professor Chellaney says:

> The harsh reality is that China is turning into a trade tyrant that rides roughshod over international rules. Its violations include maintaining nontariff barriers to keep out foreign competition; subsidising exports; tilting the domestic market in favour of Chinese companies; pirating intellectual property; using antitrust laws to extort concessions; and underwriting acquisitions of foreign firms to bring home their technologies.[4]

**Second,** in 2019, the Defence Department's director of preparedness and mobilisation, Cheryl Durrant, undertook a defence exercise to assess how Australian essential services would fair in the event of a serious strategic conflict that saw Australia's supply chains were severely disrupted. It found that essential services would collapse within just three months, causing even greater ramifications than the nation has faced since covid19.

The exercise involved 17 senior engineers from Engineers Australia, covering sectors including health care, electricity, fuel, water, mining and telecommunications.

The report, viewed by the ABC's Sean Rubinsztein-Dunlop and Kyle Taylor, predicted a disastrous domino effect for Australia if trade is severely disrupted, illustrated by this chart from the report.[5]

**Table 1 Timeline of effects**

| Time | Event |
|---|---|
| **Pre-Day 0** | Cyber security and telecommunications infiltrated |
| **Day 0** | Public and industrial hoarding |
| | Specialised medicines shortage |
| **Week 1** | Water treatment systems begins to fail |
| | Export sectors affected |
| | Mass worker lay-offs begin |
| **Week 2** | Export mining operations cease |
| | Diesel shortages |
| | Copper shortages |
| | Standards for supply of goods & services declines |
| **Month 1** | Liquid fuel shortages affect logistics |
| | Food supplies begin to run out |
| **Month 2** | Civil construction supplies start to run out |
| | Liquid fuel supplies exhausted |
| | Freight and passenger transport services cease |
| **Month 3** | Employment scarce |
| | Social unrest |
| | Software security degraded |
| | Undersea communications cables degrade |
| | Water supply networks degrade |
| | Electricity supply & transmissions degrade |

The first casualty after health care would be sanitation, creating a risk of disease. Within one week, Australia would suffer massive upheaval due to job losses, social unease and public and industrial hoarding.

With at least 90 per cent of Australia's specialist medical supplies imported, the report found specialist medicines "may be exhausted within days", with "severe repercussions for public

[4] "China uses trade as political weapon", Brahma Chellaney, professor of strategic studies at the New Delhi-based Centre for Policy Research and fellow at the Robert Bosch Academy in Berlin, Bangkok Post, 31 July, 2017. https://www.bangkokpost.com/opinion/opinion/1297047/china-uses-trade-as-political-weapon

[5] "Think of coronavirus as a test run: Australian military leaders warn we must prepare for worse," Sean Rubinsztein-Dunlop and Kyle Taylor, ABC, Wed 29 Apr 2020. https://www.abc.net.au/news/2020-04-29/military-leaders-warn-australia-prepare-for-worse-coronavirus/12193228

health". Within a fortnight, with a restriction of imported medical equipment, "health care would be degraded". Within three months, the economy would be dysfunctional.

Another report this year by major RAND Australia came to similar conclusions. Also done for the Defence Department, RAND's *Defence Mobilisation Planning Comparative Study* said a wide range of measures, from trade and power, to manufacturing and services, will be needed "if Australia is to be a *fortress* with the ability to open and close the doors as needed" in the event of a crises that disrupted the nation's international supply chains.[6]

Former Air Force deputy chief John Blackburn has been sounding the alarm for a decade, warning Australia is vulnerable to global forces because of its low stocks of essential supplies.

"The economic fallout from covid19 is putting us into uncharted territory," says Mr Blackburn.

"We could be talking about a failure of the trading system in areas — that is a nightmare we don't want to go to and requires very close cooperation between governments.

He says successive Australian governments have failed to consider the risks of an overwhelming reliance on global trade, particularly given our geographic isolation.

"Almost all our trade — 98 per cent of our trade, imports and exports — depends upon foreign-owned shipping systems, so we are actually in a pretty fragile position."

He has called on the government to establish a national strategy to make Australia more resilient to global shocks.[7]

**Third,** Australia's economic dependence on China has stemmed from Australia's industry and trade policies that have focused almost exclusively on improving "consumer welfare" at the expense of the nation's strategic interests. This has also resulted in the nation becoming over reliant on the exports of primary products and education services to pay for manufactured imports at the expense of the nation's industrial base. Indeed, the rationale behind our free trade agreements and unilateral cutting of tariffs accepted this outcome.

This flawed economic model seriously underestimated the risks to global supply chains, now obvious in today's two-fold crisis. It discounted the risk to supply chains that can come not only from China, but from pandemics, natural disasters (tsunamis, floods, droughts, fires, earthquakes), strategic conflicts, civil turmoil/wars, economic downturns, forecasting errors, industrial disruptions, reliance on one supplier, supplier bankruptcy, telecommunication breakdowns, corruption, government controls (e.g. limits on exports), transport accidents, financial failures (like the Global Financial Crisis), currency collapses, price volatility and volatile exchange rates.

The "consumer welfare" model ignores a truer economic principle, that a nation's wealth comes from what it makes, not from what it consumes.

The run-down of our industries has left Australia with:

- the smallest manufacturing sector in the developed world. As Figure 3 (below) indicates, World Bank data shows that Australian manufacturing stands at 5.8% of the economy

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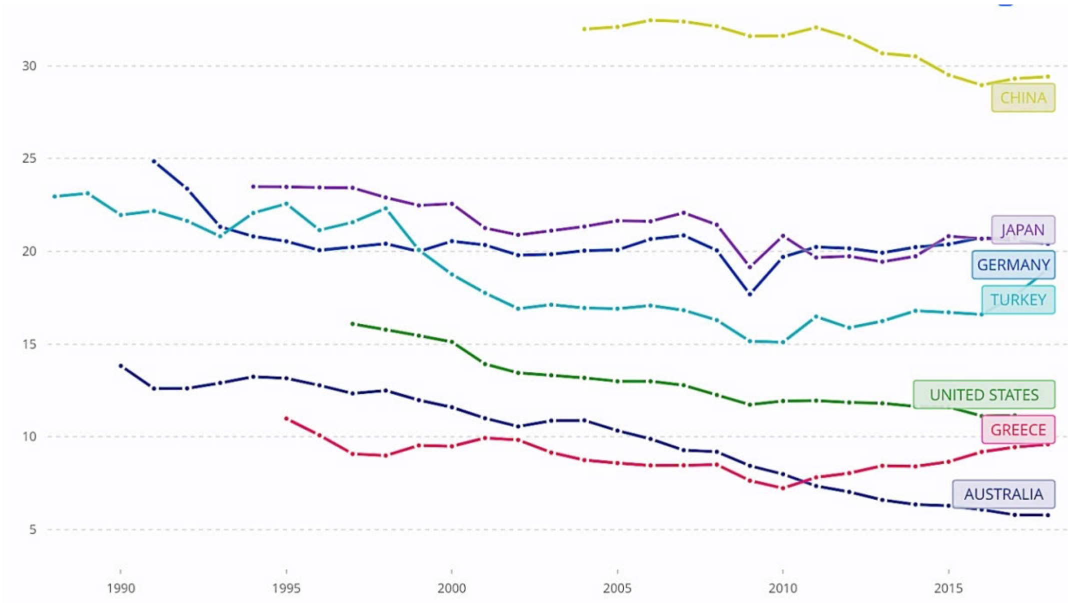
[6] *Defence Mobilisation Planning Comparative Study: An Examination of Overseas Planning,* RAND Australia, Joanne Nicholson, Peter Dortmans, Marigold Black, Marta Kepe, Sarah Grand-Clement, Erik Silfversten, James Black, Theodora Ogden, Livia Dewaele, Pau Alonso Garcia-Bode, 2021.

[7] "Think of coronavirus as a test run: Australian military leaders warn we must prepare for worse," Sean Rubinsztein-Dunlop and Kyle Taylor, ABC, Wed 29 Apr 2020. https://www.abc.net.au/news/2020-04-29/military-leaders-warn-australia-prepare-for-worse-coronavirus/12193228

(employing a record low 872,000 people[8]), well below Turkey (19.1%) and Greece (9.6%). Manufacturing in the US is 11.2% of GDP, Japan 20.7%, Germany 20.4%, China 29.4%.[9]

- the lowest level of manufacturing self-sufficiency of the OECD's 36 member countries, as measured by comparing Australian output of manufactured products to Australian total consumption of manufactured products.[10]
- a very low level of industry complexity, when complexity (i.e. diversity) is important to harnessing the synergies between industries that are the basis of innovation and higher productivity. According to Harvard University's Kennedy Center for International Development, Australia rates 87th on their Economic Complexity Index, just above Oman, Botswana and Uganda, and just above Paraguay and Cambodia.[11] While the Index is not perfect (Australia has some more advanced industries than these countries), the Index nevertheless indicates the hollowing out of Australia's manufacturing sector over the past 50 years. Or as a *Financial Review* headline described the Kennedy Center's findings, "Australia is rich, dumb and getting dumber".[12]

**Figure 3: Manufacturing, value added (% of GDP) 1990-2018[13]**




[8] *Australian Manufacturing in 2019 Local and Global Opportunities,* AIG, May 2019, pg. 6. https://cdn.aigroup.com.au/Economic_Indicators/Economic_Outlook/Australian_Manufacturing_in_2019.pdf

[9] Manufacturing, value added (% of GDP), World Bank. https://data.worldbank.org/indicator/NV.IND.MANF.ZS

[10] A Fair Share for Australian Manufacturing: Manufacturing Renewal for the Post-COVID Economy, By Dr. Jim Stanford, The Centre for Future Work at the Australia Institute, July 2020. https://www.tai.org.au/sites/default/files/A%20Fair%20Share%20for%20Australian%20Manufacturing%20%5BWEB%5D.pdf

[11] Country & Product Complexity Rankings, Kennedy Center for International Development, Harvard University, 2019. https://atlas.cid.harvard.edu/rankings

[12] "Australia is rich, dumb and getting dumber", Financial Review, October 8, 2019. https://www.afr.com/policy/economy/australia-is-rich-dumb-and-getting-dumber-20191007-p52y8i

[13] Source: World Bank national accounts data, and OECD National Accounts data files. Accessed June 15, 2020. https://data.worldbank.org/indicator/NV.IND.MANF.ZS?end=2018&locations=DE-US-AU-GR-TR-JP&start=1988&view=chart

The COVID-19 crisis and the behaviour of Beijing's leaders towards Australia, and the world, has highlighted fragilities in global supply chains that underscore the risk to our nation's sovereignty.

After a long period of complacency, this is a wakeup call that Australia's sovereignty must be protected with:

- A strong forward defence capability to deter any distant aggressor before they can reach Australian shores.
- A strong national industry base capable of withstanding global economic shocks, denial of major trading routes and denial of critical imports and important exports. Australia may not be able to greatly diversify its exports of minerals and coal, but it can diversify its domestic industries and reduce its reliance on global supply chains.
- A much more diverse and stronger domestic manufacturing industry base that can restore a balanced economy to create new employment opportunities in the post-Covid19 Australia, which is potentially facing unemployment levels not seen since the Great Depression. Manufacturing diversity (complexity) is important to innovation and productivity growth, and to building a higher level of self-sufficiency.
- A strong industry base that is (majority) Australian owned and sufficiently protected, or else, given the lessons of the last fifty years, industries will either shift offshore or face takeover by larger multinationals and then either be moved offshore or closed down and their products imported.

Overcoming the COVID-19/China threats require a significant new restructuring and rebalancing of the Australian economy and new defence arrangements.

# A Strategic plan

The government's first job is to defend the country from strategic threats and ensure economic resilience in the event of a strategic conflict.

A strategy for strategic industries starts with the government declaring its determination to build and diversify Australian manufacturing industries.

Nowhere in the world has manufacturing just happened by the working of market forces alone. It only happens when a government says the nation is going to build up manufacturing industries with government help and significant direction.

The government needs to declare its intention to build manufacturing so that industry has a framework in which to plan, invest and operate.

# First Objective: double manufacturing by 2035

**The Government must roll out a plan to double manufacturing production by 2035, comparable to other developed nations.**

- **Aim to have $1 trillion invested into strategic manufacturing and related infrastructure by government, a development bank, commercial banks and equity finance over 15 years**. If Daniel Andrews can announce a $50bn-100bn project to put a ring rail around Melbourne by 2050, is $1 trillion to build manufacturing industry and infrastructure by 2035 beyond the federal government?
- **This will employ another 1 million people directly.** There were 918,000 employed in manufacturing in 2019[14], hence more than doubling manufacturing should add another one million jobs to the economy.
- **Another 750,000 would likely be employed indirectly as manufacturing has a high multiplier into the economy.** The Industry Capability Network (2016) estimates that $1 million in manufacturing output supports between $713,400 and $1.2 million in related economic activity (See Appendix 1).[15] The final jobs multiplier for original equipment manufacturing in the US automotive industry is 10-to-1.[16]
- **85.5% of Australians in manufacturing jobs are full-time, compared to 65% of the total workforce[17] and tend to be well paid.**
- **This investment will diversify Australian industry, reduce Australia's reliance on foreign investment and on imports and will pay for itself in profits and taxes.**

Manufacturing, like agriculture, has a high multiplier effect because:

> Most manufacturers rely disproportionately on inputs of all kinds (primary, secondary, and tertiary) purchased from outside companies. Those intermediate purchases totalled almost $250 billion in 2012-13, according to the input-output tables published by the Australian

[14] ABS, *Labour force, detailed, quarterly, Feb 2019*, cat. no. 6291.0.55.003 (Data cube EQ06), cited in "Snapshot of employment by industry, 2019", by Penny Vandenbroek, Parliamentary Library. https://www.aph.gov.au/About_Parliament/Parliamentary_Departments/Parliamentary_Library/FlagPost/2019/April/Employment-by-industry-2019

[15] *Economic Impacts of New and Retained Business in the Australian Manufacturing Industry*, Industry Capability Network Limited, 2012. https://icn.org.au/sites/default/files/AEC_Report_2012%20summary%20flyer.pdf

[16] Kim Hill, Debra Menk, and Adam Cooper, *Contribution of the Automotive Industry to the Economies of all Fifty States and the United States*, Ann Arbor: Center for Automotive Research, 2010, cited in Manufacturing (Still) Matters: Why the Decline of Australian Manufacturing is NOT Inevitable, and What Government Can Do About It, By Jim Stanford, Centre for Future Work at the Australia Institute, June 2016; pg. 6. https://www.tai.org.au/sites/default/files/Manufacturing%20Briefing%20Paper%20FINAL.pdf

[17] Aus*tralian Manufacturing in 2019 Local and Global Opportunities,* AIG, May 2019, pg. 15. https://cdn.aigroup.com.au/Economic_Indicators/Economic_Outlook/Australian_Manufacturing_in_2019.pdf

Bureau of Statistics. As business models have become more sophisticated and specialized, supply chains have become more complex and interconnected.

But they still rely on the domestic presence of a key manufacturing customer, which acts as an economic "anchor" stabilizing the whole supply chain. These supply chain relationships explain why, when a major manufacturing facility opens (or, unfortunately, closes), the impact on regional and national labor markets is magnified. Jobs in supply industries (some of which may be several steps removed from that final manufacturing customer) are also ultimately affected. These "multiplier effects" are stronger in manufacturing than in other sectors, because of the more developed and elongated supply chain. In specialized, high-technology manufacturing operations like automotive assembly or ICT, final jobs multipliers can be as high as ten-to-one.[18]

## Second Objective: declare strategic industries

**Once the government announces its aim to double manufacturing, focused on strategic industries, it needs to bring defence and industry groups together to determine which industries are strategic priorities, industries that also reduce Australia's reliance on unreliable and strategically vulnerable global supply chains.**

**Given the interdependence of manufacturing supply chains, a range of potential industries include:**

- essential **pharmaceutical and other medical supplies**;
- important **defence products**, under license if necessary as is already done with ships and submarines;
- **an advanced chemical industry** is important to supply pharmaceuticals, defence and manufacturing industries;
- domestically owned firms in the **transportation and agricultural equipment sectors** – automotive (possibly the Holden brand could be recoverable if actioned quickly), heavy vehicles, rail and rolling stock, agricultural machinery, heavy tractors, etc., are well within national capabilities;
- **machine tools** industry for supplying tools to strategic industries and some areas of manufacturing;
- **metals processing** industries are needed to supply other strategic, machine tool and other industries;
- **telecommunications and transport**;

[18] Manufacturing (Still) Matters: Why the Decline of Australian Manufacturing is NOT Inevitable, and What Government Can Do About It, By Jim Stanford, Centre for Future Work at the Australia Institute, June 2016; pg. 6. https://www.tai.org.au/sites/default/files/Manufacturing%20Briefing%20Paper%20FINAL.pdf

- **agriculture and food processing industries;**
- **essential consumer good manufacturing;**
- **energy.**

Industries need to audit their supply chains, and if found to be vulnerable there should be an assessment to establish if Australia can produce substitute products.

The states need to be involved to avoid downward competition for industries.

## Third Objective: key support policies

**The UK, USA, Germany, China and Japan have large populations giving them major domestic markets, easier access to capital, technology and other factors to develop and maintain large manufacturing industries.**

**Australia is disadvantaged in all these areas because of its small population and high transport costs across the continent. Hence, special policies will be needed to ensure new strategic manufacturing industries stay in Australia, including:**

1. An enhanced **Department for Strategic Industries** is needed, with a section for strategic industries, like the US Office of Strategic Industries and Economic Security (SIES) that supports the US defence industrial base through its involvement in the interagency and international programs and activities.[19]
2. **Declare key industries as strategic industries**, which would give them security exemptions under the World Trade Organisation rules and thereby allow favourable treatment of such industries and the prevention of foreign takeovers.
3. **Strategic industries need to be Australian owned**, or majority owned, and given incentives to stay onshore, while welcoming partnerships that encourages technology transfers. To this end:
    - The Foreign Investment Review Board (FIRB) would have to be tasked with preventing such takeovers by foreign companies.
    - Government equity, temporary and sometimes permanent, may be needed in some companies for them to be viable.
    - Trade policy would require appropriate limitations/restrictions on imports where foreign competitors threaten a strategic industry, particularly where the competing imports are subsidised. Selective tariffs would provide more better-class jobs and a more robust economy more firmly in local control. Although the cost structure would be higher from some sectors shielded from import competition, tax collections would be better with less foreign ownership and less access to corporate tax havens, transfer pricing and other forms of corporate tax avoidance.

[19] US Office of Strategic Industries. https://www.bis.doc.gov/index.php/other-areas/strategic-industries-and-economic-security-sies

Inevitably the government would need to be deeply involved in managing this properly, including a body like the former Tariff Board.

Note: a common fallacy is that Australia was a high tariff nation and that these tariffs impeded competitive development of industries. Appendix 3 cites the late former Deputy Secretary of the Department of Trade, Colin Teese, who points out that while Australia had a large tariff schedule until the 1980s, over 70 per cent of the schedule was never applied, meaning that Australia's average applied tariff was comparable to that of other developed nations. (See Appendix 3 and Supplementary document, *The Customs Tariff Act 1966*.)

As Mr Teese wrote: "Highly selective and targeted 'protective tariffs', not broad 'negotiating tariffs', will be essential to ensure that strategic industries are established and retained in Australia.

"Either Australia is prepared to similarly reconsider its trade and competition policies, or it can forget about building and keeping strategic industries."

4. All levels of government should have **government procurement policies** that support strategic industries. If governments had adopted a "buy Australian made cars" policy, the nation would still have a domestic motor vehicle industry.

   Further, the RAND Australia report has proposed that Australia adopt a "National Strategic Industries Act" to help identify nationally critical heavy industries such as mining, water security, agriculture, and strategic resource reserves. It should be modelled on the U.S. *Defence Production Act*[20] that allows preferential treatment for contracts or orders relating to certain approved defence or energy programs for military production and construction.

   Such an act would be consistent with the Defence Sensitive Technologies Policy Framework for the newly raised Critical Technologies Branch within the Department of the Prime Minister and Cabinet.[21]

5. **Incentives should be provided for the establishment of new strategic industries and for strategic industry R&D.**

   As part of last year's economic stimulus package, eligible businesses were granted and instant asset write-off to claim a deduction for the cost of purchasing most business assets.[22]

6. Governments should encourage/incentivize strategic industries to have **domestic suppliers** wherever possible, further minimising reliance on global supply chains.

7. Incentives are needed for **liquid fuel exploration**, extraction and refining to ensure energy security to reduce Australia's heavy reliance on imported liquid fuels.

8. Many strategic industries, and their upstream suppliers, will require **reliable and affordable electricity** over and above most other considerations. Until there is proven reliable base load power for renewables, or until nuclear power is established, existing coal fired power stations must be refurbished and operated to ensure the establishment of necessary new strategic industries.

[20] US *Defence Production Act,* https://www.fema.gov/disaster/defense-production-act

[21] *Defence Mobilisation Planning Comparative Study: An Examination of Overseas Planning,* Op. cit.

[22] Instant asset write-off for eligible business, ATO. https://www.ato.gov.au/Business/Depreciation-and-capital-expenses-and-allowances/Simpler-depreciation-for-small-business/Instant-asset-write-off/

9. To reduce reliance on foreign investment and the government budgets, a **development bank** should be established, modeled on banks like the former Commonwealth Development Bank and Germany's KfW, to target long-term capital for strategic industries and infrastructure. This would reduce reliance on financing by federal and state deficit budgeting.
10. To reduce reliance on foreign investment, Incentives and/or mandates should be applied to Australian **superannuation funds** to encourage investment in domestic industries, particularly strategic industries.
11. An inventory of skills required by strategic industries would give direction to the **education and training** needed for these industries and would require the expansion of TAFE institutions.
12. **Tax reform** should include ensuring multinationals operating in Australia to pay their fair share of tax. Rather than company tax cuts, only levy tax on company dividends collected at source, or allow full upfront tax deductibility for equity investment to discourage too much borrowing.
13. Mechanisms are needed to ensure Australia's **volatile currency fluctuations** don't disrupt new manufacturing industries.
14. A major emphasis should be on incentives to build new industries in regional areas as part of federal and state commitments to **decentralisation**, to provide other benefits like decongesting cities and making more affordable housing available.

# Part B: Key policies in detail

## 1. A Department for Strategic Industries

The US Office of Strategic Industries and Economic Security (SIES) provides a starting model for Australia to adapt to its own purpose, at least in relation to defence industries and foreign investment. Australia would need a broader agency to propose the development of new strategic industries.

The US Office of Strategic Industries and Economic Security (SIES) says that it supports U.S. national security and the U.S. defense industrial base through its involvement in the following interagency and international programs and activities[23]:

- 600 Series - SIES is responsible for policy actions, export licenses, commodity classifications, license determinations, and advisory opinions for 600 series items.
- Defense Priorities and Allocations System (DPAS) – SIES administers the Defense Priorities and Allocations System utilized by the Departments of Defense (DOD), Energy, and Homeland Security, the General Services Administration, and owners/operators of critical infrastructure to prioritize the performance of contracts to support national defense programs.
- Offsets in Defense Trade – SIES prepares an annual report to Congress on offsets in defense trade and serves on an interagency team that engages foreign governments to reduce the adverse impact of offsets in defense procurements.
- National Defense Stockpile Market Impact Committee – SIES co-chairs the interagency National Defense Stockpile Market Impact Committee that advises DOD on the potential economic impact of disposals of stockpiled material.
- NATO-Related Business Opportunities – SIES serves as the U.S. Government authority that certifies a U.S. firm's eligibility to compete for NATO-funded procurements.
- Defense Trade Advocacy – SIES is part of the interagency review of industry requests for U.S. Government advocacy support in foreign defense competitions.
- Excess Defense Articles Program – SIES provides DOD with input on the competitiveness implications of DOD's proposed transfers of excess defense articles.

In addition to the above programs and activities, SIES coordinates the Bureau of Industry and Security's participation on the interagency Committee on Foreign Investment in the United States and on the interagency Defense Production Act Committee established in 2011 to promote the more effective use of Defense Production Act authorities to support military, energy, homeland security, emergency preparedness, and critical infrastructure programs.

[23] https://www.bis.doc.gov/index.php/other-areas/strategic-industries-and-economic-security-sies

## 2. Strategic industries are exempt from WTO rules

If the government declares particular industries to be “strategic industries”, they are exempt from World Trade Organisation (WTO) trade rules, allowing countries the freedom to support and protect these industries. This can include military and other industries vital to the nation’s sovereignty, for example agriculture.

The General Agreement on Tariffs and Trade (GATT 1947) covers trade in goods.[24] The “Security Exceptions” (Article XXI) provisions allow Australia to support and protect strategic industries and to prevent foreign takeovers of these industries.

The GATT Article XXI states:

> Nothing in this Agreement shall be construed
>
> a) to require any contracting party to furnish any information the disclosure of which it considers contrary to its essential security interests; or
>
> b) to prevent any contracting party from taking any action which it considers necessary for the protection of its essential security interests:
>
> i. relating to fissionable materials or the materials from which they are derived;
> ii. relating to the traffic in arms, ammunition and implements of war and to such traffic in other goods and materials as is carried on directly or indirectly for the purpose of supplying a military establishment;
> iii. taken in time of war or other emergency in international relations; or
>
> c) to prevent any contracting party from taking any action in pursuance of its obligations under the United Nations Charter for the maintenance of international peace and security.

This Article should be read and interpreted in the context of the GATT’s purpose as stated in the GATT 1947 Preamble, and as incorporated into the WTO, which set down the WTO rules.

> Recognizing that their relations in the field of trade and economic endeavour should be conducted with a view to raising standards of living, ensuring full employment and a large and steadily growing volume of real income and effective demand, developing the full use of the resources of the world and expanding the production and exchange of goods …
>
> Being desirous of contributing to these objectives by entering into reciprocal and mutually advantageous arrangements directed to the substantial reduction of tariffs and other barriers to trade and to the elimination of discriminatory treatment in international commerce,
>
> Have through their Representatives agreed as follows: …

The GATT “Security Exceptions” Article XXI are the basis of similar clauses in later WTO agreements:

- Agreement on Government Procurement, Article XXIII
- Agreement on Intellectual Property Rights, Article 73
- General Agreement on Trade in Services, Article 14

[24] The General Agreement on Tariffs and Trade (GATT 1947) https://www.wto.org/english/docs_e/legal_e/gatt47_02_e.htm#articleXXI

- Agreement on Procurement of Services, applies Article XXI of GATT
- Agreement on Technical Barriers to Trade, various articles (2.2, 2.10, 5.4, 5.7, 10.8.3)
- Uruguay Round Agreement on Agriculture, various articles
- The Agreements on Trade-Related Aspects of Intellectual Property Rights (TRIPS), Article 73.

## 3. Can Free Trade Agreements (FTAs) be renegotiated?

If declaring some industries as strategic industries conflicts with any FTA, these FTAs should be renegotiated. While some policy makers have regarded free trade agreements as set in concrete, the Trump administration has renegotiated its trade agreement with Mexico and Canada and changed the terms in US agreements with China.

In the major China-US trade reset initiated by President Donald Trump, both countries abrogated their trade commitments under WTO rules without going through any WTO tribunals or processes.

After 26 years, the North American Free Trade Agreement (NAFTA) was recently replaced with the United States Mexico Canada Agreement (USMCA). Important changes reflect US determination to stop American car, steel and aluminium industries being further undermined. *Vox* (1 July, 2020) summarised the new policies in USMCA:

- Wage and labour rules require that by 2023, 40-45 per cent of automobile parts will have to be made by workers who earn at least US$16 an hour. Mexico has agreed to new laws that would make it easier for workers to unionise and increase protections to workers.
- A “rapid response mechanism” will see a panel of multinational, independent experts tasked with ensuring Mexico implements these wages and labour requirements.
- Under “country of origin rules”, 75 per cent of automobile components must be manufactured in the US, Mexico, or Canada to qualify for zero tariffs. Under NAFTA, this applied to 62.5 per cent of auto components.
- American dairy farmers are set to have greater access to the Canadian market.
- New rules for digital trade will mean that internet companies are not liable for content their users produce and prohibit duties on music, ebooks, etc., neither of which could have been anticipated when NAFTA was negotiated.[25]

Most importantly, USMCA will be subject to review and renegotiation every six years and has a sunset clause so that the agreement expires in 16 years.

All Australia’s FTAs carry renegotiation clauses allowing one party to withdraw, or seek renegotiation, with 60-180 days’ notice.

Examples of renegotiation clauses:

[25] “USMCA, Trump’s new NAFTA deal, explained in 600 words,” Vox, July 1, 2020. https://www.vox.com/2018/10/3/17930092/usmca-mexico-nafta-trump-trade-deal-explained

Australia-US FTA:[26]

ARTICLE 23.4: ENTRY INTO FORCE AND TERMINATION

1. This Agreement shall enter into force 60 days after the date on which the Parties exchange written notifications certifying that they have completed respective necessary internal requirements, or on such other date as the Parties may agree.
2. A Party may terminate this Agreement by written notification to the other Party, and such termination shall take effect six months after the date of the notification.
3. Within 30 days of delivery of a notification under paragraph 2, either Party may request consultations regarding whether any provision of this Agreement should terminate on a date later than that provided under paragraph 2. Consultations shall commence within 30 days after the Party delivers such a request.

China-Australia FTA[27], see

ARTICLE 17.4: TERMINATION

1. This Agreement shall remain in force unless either Party notifies the other Party in writing to terminate this Agreement. Such termination shall take effect 180 days following the date of receipt of the notification.
2. Within 30 days of a notification under paragraph 1, either Party may request consultations regarding whether the termination of any provision of this Agreement should take effect on a later date than provided under paragraph 1. Such consultations shall commence within 30 days of a Party's delivery of such request.

## 4. Evaluating Australia's FTAs

Australia's FTAs include:

- Australia–New Zealand (ANZCERTA or CER) – 1 January 1983
- Singapore–Australia (SAFTA) – 28 July 2003
- Australia–United States (AUSFTA) – 1 January 2005
- Thailand–Australia (TAFTA) – 1 January 2005
- Australia–Chile (AClFTA) – 6 March 2009
- ASEAN–Australia–New Zealand (AANZFTA) – 1 January 2010 for eight countries: Australia, New Zealand, Brunei, Burma, Malaysia, the Philippines, Singapore and Vietnam. For

[26] AUSTRALIA-UNITED STATES FREE TRADE AGREEMENT

https://www.dfat.gov.au/sites/default/files/Final_text_ausfta.pdf

[27] FREE TRADE AGREEMENT BETWEEN THE GOVERNMENT OF AUSTRALIA AND THE GOVERNMENT OF THE PEOPLE'S REPUBLIC OF CHINA

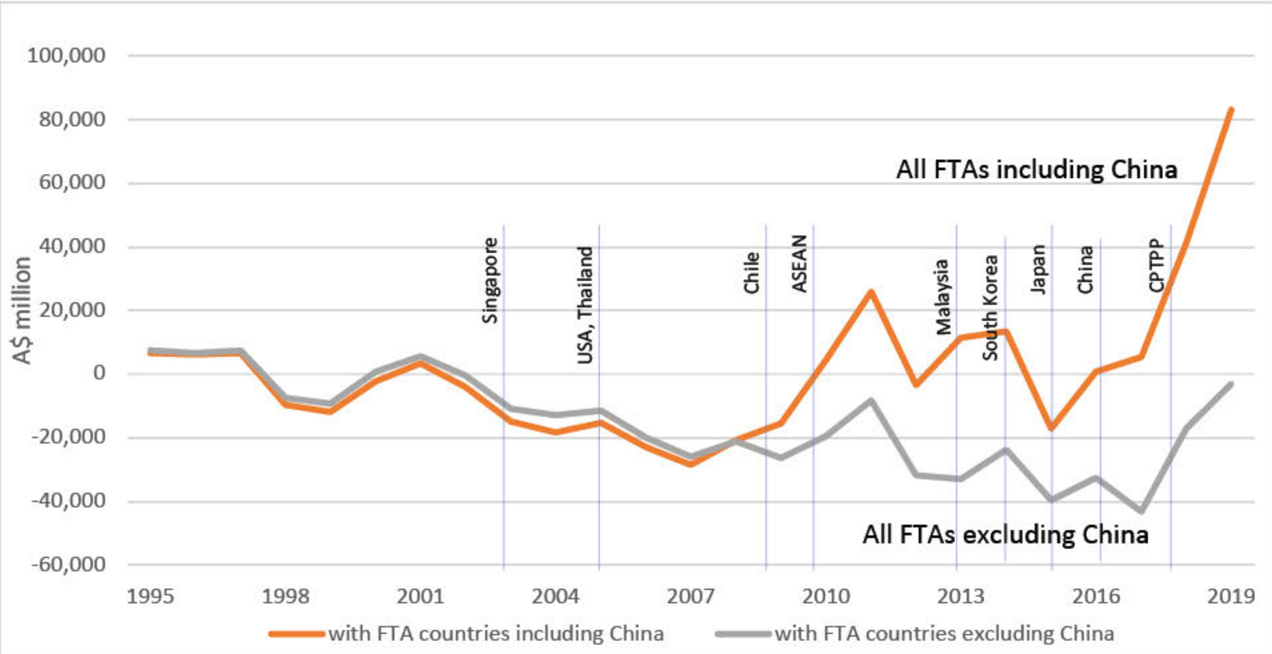
https://ncc.org.au/uncategorized/58016-cover-story-free-trade-agreements-leave-us-even/

Thailand: 12 March 2010. For Laos: 1 January 2011. For Cambodia: 4 January 2011. For Indonesia: 10 January 2012

- Malaysia–Australia (MAFTA) – 1 January 2013
- Korea–Australia (KAFTA) – 12 December 2014
- Japan–Australia (JAEPA) – 15 January 2015
- China–Australia (ChAFTA) – 20 December 2015
- Comprehensive and Progressive Agreement for Trans-Pacific Partnership (CPTPP) – 30 December 2018
- Australia-Hong Kong (A-HKFTA) – 17 January 2020
- Peru-Australia (PAFTA) — 11 February 2020.

Figure 4 below makes two comparisons of Australia's balance of trade with its FTA countries – with all countries it has signed FTAs *including* China, and then with countries it has signed FTAs *excluding* China.

**Figure 4: Australia's Balance of Trade with FTA countries, 1995-2019**




Source: Australia's direction of goods and services trade – calendar years from 1987 to present, Trade Time Series Data, Department of Foreign Affairs and Trade. https://www.dfat.gov.au/sites/default/files/australias-direction-of-goods-services-trade-calendar-years.xlsx

Note: Australia NZ FTA began in 1983. FTAs with Hong Kong and Peru not included as only began in 2020.

With the exception of the Australia-NZ FTA signed in 1983, all remaining FTAs have come since 2003.

Whereas Australia ran trade surpluses with its future FTA countries prior to 1995, from the late 1990s Australia began to run trade deficits that continued collectively to worsen as FTA agreements rolled out progressively, except with China. Excluding China, our trade with FTA countries came near to balance after 2017, due to improvements in trade with ASEAN countries and Japan.

The main reason Australia's trade balance has been in surplus with all its FTA partners collectively after 2010 is due to the huge export growth to China.

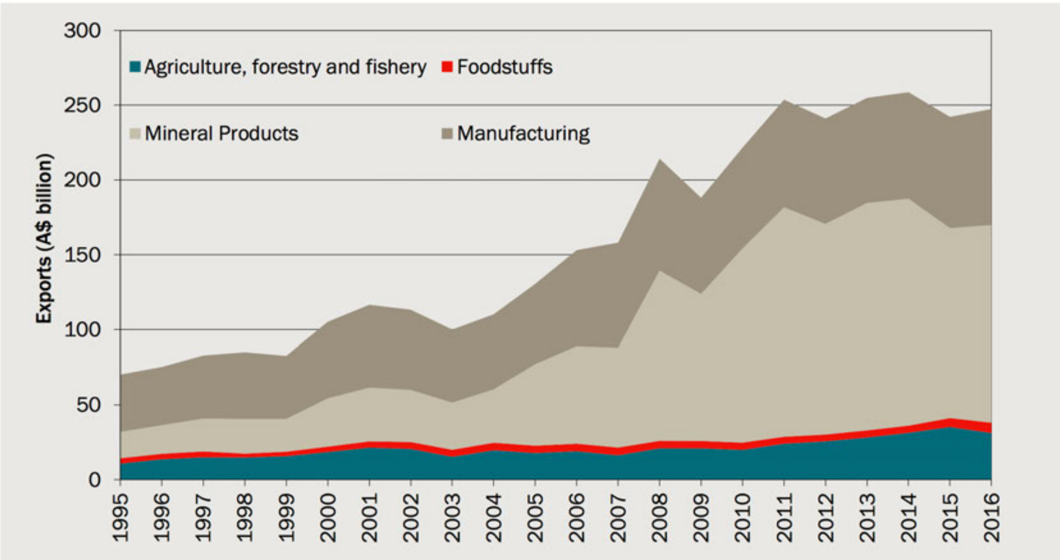
If the two objectives of FTAs are to improve Australia's export earnings and to improve our balance of trade in the national interest, then the following points are important.

After the Australia-China FTA came into effect in December 2015, Australia's exports to China increased 260 per cent by 2019.[28] Around two-thirds of the increase were in minerals and energy exports, but these do not depend on an FTA (a country buys these because they want them), while one-third of the growth was in products like barley, beef, baby formula, wine, crayfish and pharmaceuticals – all products that are susceptible to a possible punitive punishments from China.

Indeed, as Figure 5 from DFAT shows, since the mid-1990s, by far the largest contributor to Australia's overall export growth was mineral products.

While it is argued that the removal of tariff and free trade agreements has boosted exports since the 1980s, in reality these are largely irrelevant to expanding Australia's minerals and energy exports. Countries like China, Japan, South Korea etc. buy Australia's raw materials because they need them, not because Australia cuts tariffs or signed an FTA with them.

**Figure 5: Change in Australian merchandise exports by broad product category**




*Note:* Merchandise exports falling under HS Chapters 97 (Works of Art, Collectors' Pieces and Antiques) and Chapters 98 and 99 (Special classification Provisions) have been excluded from the chart. Australia's exports of products falling under HS Chapters 97, 98 and 99 amounted to A$7.8 billion in 2016.

*Data source:* Global Trade Atlas.

Source: *Australian trade liberalisation: Analysis of the economic impacts*, prepared for DFAT by the Centre for International Economics, October 2017; pg. 10. https://www.dfat.gov.au/sites/default/files/cie-report-trade-liberalisation.pdf

Also, QUT economist, Dr Mark McGovern, provided data in *The Conversation*, showing that overall free trade agreements had failed to boost Australian agriculture and food manufacturing, as of

[28] Australia's direction of goods and services trade – calendar years from 1987 to present, Trade Time Series Data, Department of Foreign Affairs and Trade.

https://www.dfat.gov.au/sites/default/files/australias-direction-of-goods-services-trade-calendar-years.xlsx

2014. He added, "Australian trade performance has been better with non-agreement partners."[29] This was prior to, so did not include, the Australia-China FTA.

## 5. A national, government backed Development Bank

A national development bank would be a significant driver of new investment in the Australian economy.

Globally there are 400 development banks with combined assets of more than $11 trillion, equivalent to roughly 70 per cent of the assets of the entire US banking sector.[30] [31] "Capitalized by governments, but co-funding their lending with the private sector, development banks commit $2 trillion each year, representing 10 per cent of annual global investment."[32]

Development banks are not confined to emerging nations, but are prominent in Europe, and include:

- Kreditanstalt für Wiederaufbau (KfW), Germany
- Development Bank of Austria
- Norwegian Industrial and Regional Development Fund
- Vnesheconombank, Russia
- Banque publique d'investissement, France
- Bulgarian Development Bank
- Caisse des Dépôts et Consignations, France
- Cassa Depositi e Prestiti, Italy
- Croatian Bank for Reconstruction and Development
- Hellenic Industrial Development Bank, Greece
- Hungarian development bank
- Instituto de Credito Oficial, Spain
- Industrial Development Bank of Turkey

Others of significance in our region of the world include: Development Bank of Japan, China Development Bank, Agricultural Development Bank of China, Development Bank of Singapore, Korea Development Bank and Industrial Development Bank of India, to name but a few.

Germany's huge KfW, with over €506 bn (AUD$865 bn) in assets and 6,700 employees[33], plans to

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[29] Free trade agreements fail to boost Australian agriculture and food manufacturing, Dr Mark McGovern, *The Conversation,* September 17, 2015. https://theconversation.com/free-trade-agreements-fail-to-boost-australian-agriculture-and-food-manufacturing-47576

[30] "Mobilizing Development Banks to Fight COVID-19," STEPHANY GRIFFITH-JONES, RÉGIS MARODON, JOSÉ ANTONIO OCAMPO, Project Syndicate, April 8, 2020. https://www.project-syndicate.org/commentary/mobilizing-development-banks-to-fight-covid19-by-stephany-griffith-jones-et-al-2020-04?barrier=accesspaylog

[31] INSURED U.S.-CHARTERED COMMERCIAL BANKS THAT HAVE CONSOLIDATED ASSETS of $300 MILLION or MORE, RANKED by CONSOLIDATED ASSETS, US Federal Reserve, As of December 31, 2018. https://www.federalreserve.gov/releases/lbr/20181231/default.htm

[32] "Mobilizing Development Banks to Fight COVID-19," STEPHANY GRIFFITH-JONES, Op. cit.

[33] https://www.kfw.de/KfW-Group/About-KfW/Zahlen-und-Fakten/KfW-auf-einen-Blick/

increase lending by €100 billion (AUD$171 bn),[34] which is more than the Morrison government's $134 bn support/stimulus scheme.

Indeed, the KfW provides a model for the federal government-backed, Australian development bank.

**Structured to Australia's needs**

A development bank could be structured to meeting Australia's economic needs, with specialist departments to:

- build strategic industries, starting with pharmaceuticals and essential medical equipment, then other industries deemed essential to Australia's future;
- provide patient capital to build world competitive export industries;
- finance both federal and state projects that not only modernise infrastructure and stimulate private enterprise, but provide employment to many people until the private sector recovers;
- lend to small business and farmers, and even for home mortgages, if needed.

Funding could come from any combination of:

- direct federal and/or state government seed injections;
- government-issued bonds, which could be granted a favourable tax concession on earnings;
- commercial borrowing at favourable rates, as the bank would have a AAA-rating as a government-backed bank, possibly providing a way for superannuation funds to invest indirectly in infrastructure and strategic industries;
- the Commonwealth Government Future Fund;
- Reserve Bank lending to the new bank.

A development bank provides many advantages to both the economy and government. It can:

1. reduce the demand for deficit budgets from government stimulus packages, allowing the government to maintain a high credit-rating thus preserving the government's best possible borrowing capacity. By taking on government capital expenditure, it would help to separate government recurrent and capital expenditure;

2. target investment to strategic industries, export industries with long-term growth prospects and industries that have high economic multipliers into the domestic economy that commercial banks would not necessarily fund;

3. provide patient capital, not available from commercial banks, to help underwrite the post-Covid19 recovery;

4. provide the government with its own financial institution to provide transparency on the operations of the commercial banking sector, which is needed after the Banking Royal Commission to help manage the Australian financial system and to head off future crises.

[34] Germany may raise up to €350bn in new borrowing to fight coronavirus, Market Watch, March 21, 2020. https://www.marketwatch.com/story/germany-may-raise-up-to-350bn-in-new-borrowing-to-fight-coronavirus-2020-03-21

**Objection: It is argued that the Federal government could not effectively run a bank.**

**Answer 1:** The RBA operates under federal legislation and oversight. The government used to successfully operate the Commonwealth Bank and under it, the now defunct Commonwealth Development Bank.

**Answer 2:** The Federal government operates a number of lending agencies that require similar operational activities and oversight as a bank, including:

| Agency | Capital, $ bn |
|---|---|
| Australian Business Securitisation Fund | 2 |
| Regional Investment Corporation | 4 |
| Northern Australia Infrastructure Facility (NAIF) | 5 |
| Export Finance Australia | ongoing |
| Clean Energy Finance Corporation | 10 |
| Australian Infrastructure Financing Facility for the Pacific (2109) | 2 |
| **TOTAL** | $23 bn |

In addition, the Federal government is investing $100bn in infrastructure 2020-30, requiring similar project oversight to that of a bank.

An Australian Development Bank could take over the operation of these projects for the federal government, thereby reducing the government's fiscal deficit by $123bn, which is comparable to the amount the government is spending on its post-Covid19 package.

**Answer 3:** Under the auspices of the Federal Government, the Future Fund has been successfully managed. In 2019, the Future Fund beat the nation's top super funds over 12 months. Its *assets* swelled by $16 billion to $162.5 billion.[35]

**Answer 4:** The Federal government contributed $US738m towards China's Asia Infrastructure Investment Bank, so why can't Australia have its own development bank?

## 6. Agriculture as a strategic industry

Australia's agriculture and associated food and fibre processing industries are high productivity sectors. A nation should invest in its high productivity sectors. Many argue that Australia should be

[35] Behind the Future Fund's $16b year, Australian Financial Review, 31 August 2019. https://www.afr.com/companies/financial-services/behind-the-future-fund-s-16b-year-20190829-p52m5s

marketing to the massive 900 million Asian middle class, which is expected to grow to 3 billion by 2030.

Evaluating the state of agriculture requires multi-dimensional analyses, but the table provides a reasonable overview of the various sectors. This summary compares the production changes in agriculture over the period the 1975 to 2016 to the 72.8% growth in population between 1975-76 (14.0m) and 2016-17 (24.2m).

**Figure 7: Summary Australian farm statistics compared to population growth[36]**

| | 1975-76 | 2016-17 | change |
|---|---|---|---|
| Australian population, million | 14.0 | 24.2 | 72.8% |
| Cattle herd, million | 32.8 | 25.0 | -24.4 % |
| Sheep flock, million | 148.0 | 72.1 | -51.2% |
| Red meat, cattle & sheep, kt*† | 2,602 | 3,135 | 20.5% |
| Dairy, ML* | 6,248 | 9,015 | 44.2% |
| Sugar cane, kt*¶ | 21,959 | 36,507 | 66.3% |
| Rice, kt*^ | 638 | 565 | -11.4% |
| Wheat, kt* | 11,982 | 22,275 | 85.9% |
| Coarse grains, kt*‡ | 5,630 | 17,076 | 204.3% |
| Forestry, cm* | 12,872 | 33,145 | 157.5% |
| Cotton, kt* (lint production) | 25 | 1,000 | 3,900% |
| Chicken meat, kt* | 182 | 1,230 | 576% |

* ML, million litres; mt, metric tonnes; kt, kilotonnes; cm, cubic meters.

† likely increase compared to herd numbers due to heavier weight cattle and more lamb/sheep being slaughtered.

¶ Peak in 1997-98 at 39,531 kt.

^ 10 year average 1975-76 to 1984-85 and 2007-08 to 2016-17 due to highly variable seasons.

‡ Includes barley, grains sorghum, corn (maize), oats, triticale.

Consider the performance of major agricultural sectors, roughly in order of their export importance, since the mid 1970s:

- Total production of wheat has increased just above the increase in Australia's population in 1975 but has not matched expansion of the Asian or global middle class.
- Coarse grains production has increased well above population growth, although the 2016-17 was an exceptionally good season. The 2019-20 forecast is for 10,000 kt, which is 49 per cent less that in 2016-17.[37]
- The beef herd is almost 8 million under its peak in 1975.
- The sheep flock (mainly wool flock) has dropped by 72 million since 1975, and by almost 100 million sheep since its 1989-90 peak of 170 million.

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[36] Data from ABARES *Agricultural commodity statistics 2018*.

https://doi.org/10.25814/5c07afde3fec3.

Chicken meat data from Fact and Figures, Australian Chicken Meat Federation. https://www.chicken.org.au/facts-and-figures/

[37] Coarse grains: June quarter 2020, Department of Agriculture, Water and Environment, 16 June 2020. https://www.agriculture.gov.au/abares/research-topics/agricultural-outlook/coarse-grains

- Red meat production has risen with perhaps higher weight cattle and more sheep going to meat production, but is still well below population growth.
- Despite major investments in the sugar cane and dairy industries, overall growth has not kept pace with population growth and production has declined in both sectors since deregulation and loss of single selling desks in the 2000s.
- Forestry has increased with population, but has significant competing imports.
- Cotton and chicken meat have had major growth, well above population growth.

Overall, it shows that there are major declines (beef, sheep, rice), while other sectors have not kept pace with the growth in population (red meat, dairy, sugar), let alone kept pace with Asia's growing middle class. Wheat is just above population growth, while some other sectors have had growth well above population increase (forestry, coarse grains, cotton, chicken meat). While for some products like wheat, there have been bumper production years, the figures presented here are representative of the direction of changes in production.

For other sectors, ABS data only covers the period since 1990.[38]

- Wine grape production greatly increased in the 1990s (from 564 kt in 1990-91 to 1,608 kt in 2015-16), but plateaued after 2003-2004.
- Pig production marginally increased from 364 kt (2000) to 386 kt (2016), and then substantially increased to 511 kt (2018).
- Horticulture (fruit, nuts and vegetables, but excluding table grapes) increased from $2.5bn (1990-91) to $8.6bn (2015-16). However, over that time it went from being a net exporter by $91m (1990-91) to a net importer by $839m (2016-17).
- Fish production had a small 23% increase, from 232 kt (2000-01) to 255 kt (2015-16), however most types of seafood production have been declining except for salmonid and oysters.
- Pulses (peas, chickpeas, beans and lentils) were first measured in 2000-01 at $583m and increased quickly to $1.4bn 2015-16, then $2.1bn 2017-18.

**Discussion**

Australia began to introduce experimental economic policies for agriculture in the 1980s and through the 1990s with the deregulation of many agricultural sectors under National Competition Policy (NCP), irrigation water trading and hard free trade policies.

Under NCP, marketing arrangements were abolished in wheat, dairy, barley, sugar and other smaller sectors – oats (state arrangements), sorghum, maize, oil seeds (canola/rape seed, safflower, sunflower, linseed). Other supports have been wound back until there are only what OECD calls General Support Services (e.g., private or public services, institutions and infrastructure, but not direct payments to farmers), leaving Australia (alongside NZ) with the lowest support levels for farmers in the developed world, while the price for their products are set by world market prices that are corrupted by subsidies and other support mechanisms.

Only quarantine and anti-dumping rules provide some tangible management of food and fibre imports.

The abolition of farmer marketing arrangements has meant that farmers now engage in "beggar thy farm neighbour" selling by competing with fellow Australian farmers on the domestic and

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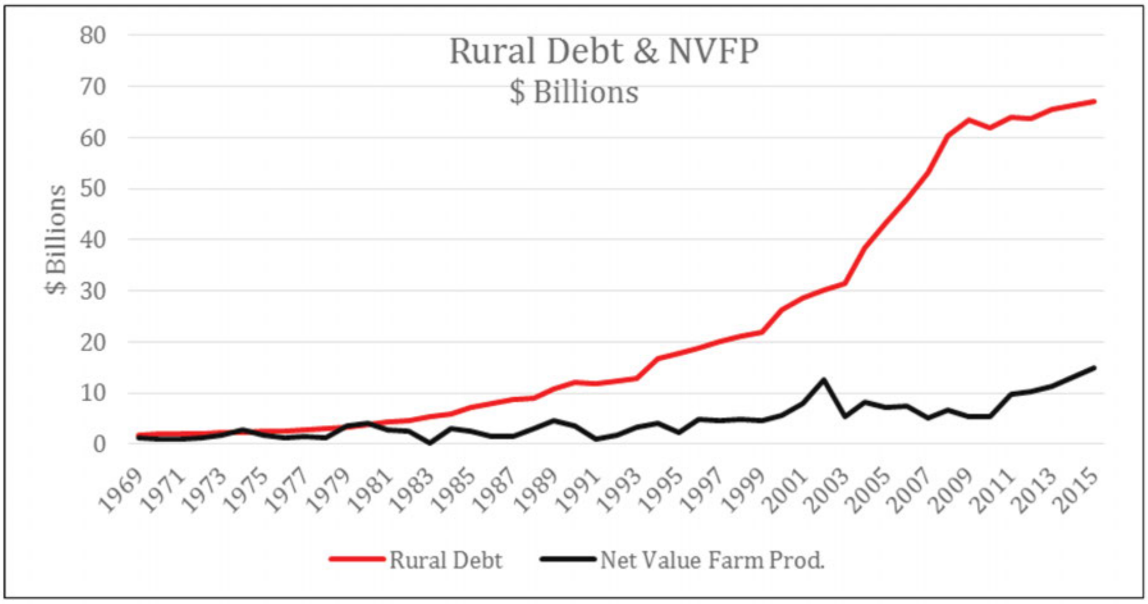
[38] Source: Data from ABARES *Agricultural commodity statistics 2018*, https://doi.org/10.25814/5c07afde3fec3

global markets. Individual farmers have little bargaining power when selling to foreign commodity traders, or to the increasingly concentrated processing sector or to two major supermarkets that now control 70-80% of the Australian grocery market. The weakest seller sets the price.

The production data above do not reflect overall profitability of farms. An indication of difficulties facing the farm sector is the rising level of farmer debt to historically high levels, as see in Figure 8 below.

**The starting point for new agricultural policies is to exempt farmers from National Competition Policy, allowing the creation of collective marketing agencies for farmers.**

**Figure 8: Rural Debt & Net Value Farm Production, Australia 1969 -2015[39]**




Compiled from ABARES Australian Commodity statistics 2015 and earlier editions, Debt from RBA statics Table D9 online.

**Can Australian agriculture be a strategic industry?**

While Australia spent many years unilaterally pursuing the policies of deregulation and free trade in agriculture and pushing for a WTO free trade agreement on agriculture, in 2002 US President Bush declared that US agriculture was a strategic industry when he handed down the US$200 billion Farm Bill for the following five years.

He said:

[39] Addressing debt and drought problems in rural Queensland, Rural Debt and Drought Taskforce, Queensland Government, 2016.https://www.publications.qld.gov.au/dataset/d7a728ed-a5b0-4f19-8d59-67e4c0125142/resource/fea23ad0-e069-4484-91ce-d1d762decc48/fs_download/addressing-debt-and-drought-problems-in-rural-queensland.pdf

> One of the things about America is that we're self-sufficient in food. It's a national security interest to be self-sufficient in food. It's a luxury that you've always taken for granted here in this country.[40]

In 2008, the US five-year farm bill increased subsidies again to $US288 billion.[41]

The 2014 Agricultural Act, also known as the 2014 U.S. Farm Bill, authorised US$956 billion in spending over the next ten years on US nutrition and agriculture programs.[42]

The European Union was built around farm subsidies for its member states.

When the World Trade Organization (WTO) was formed in 1994, the Uruguay round of trade negotiations confirmed the agricultural trade arrangements in the 1947 GATT, with some amendments.

The subsequent Doha round of talks on agricultural trade went on for years without a "break though" to achieve free trade in agriculture.

Indeed, in 2009 the Australian Farm Institute's *Farm Policy Journal* published a series of comprehensive papers examining the state of world trade in agricultural products. The Journal's editorial concluded:

> [T]here are some who argue that in many respects trade in agricultural products has become more, rather than less restricted over recent years, and this trend is likely to continue into the future …
>
> After digesting the considerable detail in the papers contained in the current *Journal*, it is hard not to come to the conclusion that international trade negotiations are now more to do with finding new definitions and rules to appease every possible national exception, than they are to do with actually reducing impediments to agricultural trade.
>
> The overall picture that emerges from these papers is that progress in achieving reductions in agricultural trade barriers is at best likely to be tortuously slow.
>
> In fact, very real questions emerge about the continuing value of Australian engagement in the Doha trade negotiations, and also in the Cairns Group.[43]

**Given that the EU, Japan, China and the US treat agriculture as a strategic industry, Australia can and should declare agriculture to be a strategic industry in order to set new policies for developing the farm sector.**

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[40] U.S. FARM BILL ENDS FREE TRADE ILLUSION, Patrick J Byrne, *News Weekly,* May 18, 2002. Cited from, *Australian Financial Review,* January 17, 2001. https://ncc.org.au/newsweekly/1013-cover-story-u-s-farm-bill-ends-free-trade/

[41] *Food, Conservation, and Energy Act of 2008.* https://en.wikipedia.org/wiki/Food,_Conservation,_and_Energy_Act_of_2008

[42] CONGRESSIONAL BUDGET OFFICE Douglas W. Elmendorf, Director U.S. Congress Washington, DC 20515 January 28, 2014.

http://www.cbo.gov/sites/default/files/cbofiles/attachments/hr2642LucasLtr.pdf

[43] Editorial by Mick Keogh, *Australian Farm Policy Journal,* Australian Farm Institute, August Quarter, 2009. http://www.farminstitute.org.au/publications/editorials.html

## 7. Alternative market model necessary to build and keep industries

Since the mid-1980s, Australia has adopted the 20th century Anglo-American free trade economic model. This has led to significant de-industrialisation and left Australia relying for much of its prosperity on mineral and energy exports, foreign students, migration and property development, including foreign investment in property.

However, Australia is not the US or Britain and their histories tell a different story. Both UK and America became industrial powers using the protectionist/mercantilist model. Only after using this model to become dominant world industrial powers (Britain in the 19th century and the US in the 20th century) did they switch to "invisible hand," free trade policies. As industrial hegemons, they could afford to adopt free trade policies as they had little competition, while proselyting free trade opened up the markets of other nations to their products.

Australia does not have the population base to become a dominant industrial power, and the free trade model has been based on flawed assumptions, that:

- foreign investment and reliance on imported manufactures was strategically benign, and
- having a major manufacturing sector was not necessary for long-term income growth and wealth creation.
- the primary concern with trade is maximising consumer welfare – on the one hand boosting exports, on the other hand accessing cheap imports for domestic consumers.

Today, both China's aggressive strategic push in the region, with its trade threats (e.g. over exports of barley), and the Covid19 economic crisis disrupting global supply chains dispel the first assumption.

Regarding long-term growth and consumer welfare, similarly sized countries – like Taiwan and South Korea – demonstrate that industrial growth models for selected industries deliver both well paid, secure jobs and long-term wealth creation. They demonstrate that a country's prosperity and wealth is determined more by what they produce than what they consume.

In these smaller countries, governments and industries (the "visible hand") set a target of building say five new industries. One or two may fail, three or four succeed and the nation would grow an industrial base with well paid jobs. In this way, the Taiwan government with its local industries, became one of the world's biggest producers of flat screen TVs in 20 years.

These are market economies, but they don't work solely on the Ricardian principle of one country specializing in agriculture and another in manufactured products. Like these Asian models, Australia needs to produce iron ore and also steel, wheat and also chemicals, beef and also important pharmaceuticals and medical equipment, sheep and also defence equipment.

For strategic and employment reasons, it is imperative that Australia now adopt new policies, rather than only relying on free trade (i.e. relying on the "invisible hand"), to first *build* and then *keep* manufacturing industries.

- Australians invented the photocopier (by Defence Standards Laboratories in 1952, but developed by Xerox[44]) and Wi-Fi (at CSIRO[45]), and if we had invested in these, we could have been world producers, like Taiwan in flat screen TVs.
- Australia had a substantial car industry, with advanced research and technology, but being foreign owned and without some limitations on imports and government procurement policies, it shut down and now we import.
- Australia is a big food producer, but how much is either processed offshore or is processed here by foreign owned companies?

So, once built, how does Australia *keep* industries?

Food processing can probably be kept by declaring it a strategic industry and then having the FIRB prevent takeovers, and firm application of quarantine and anti-dumping rules.

However, other manufacturing industries need the broad range of policies described above. Depending on the industry, the following are *necessary* policy tools to *build* and *keep* industries onshore:

- limits on competing imports: the WTO prefers tariffs over other import limitations);
- the FIRB limiting foreign takeovers, while allowing minority shareholding, to ensure majority Australian ownership;
- sometimes, government equity.

Either have these policies available, or any industry created will eventually:

- move offshore to lower cost countries;
- face foreign takeover and move offshore;
- be subject to foreign takeover and face shutdown in favour of importing from the parent company, potentially as part of a geopolitical strategy to weaken our economy by making Australia more reliant on a dominant importer. Some Australian manufacturers, who have learned the hard way, call this the "Rob, Replicate and Replace" strategy – rob our technology, replicate our industry and then replace our product by exporting into Australia.

<u>Either we adopt these policies or we cannot build and keep strategic industries in Australia.</u>

**Objection 1: Tariffs impeded our prosperity**

**Answer 1:** Trade is not strategically benign; it can be used as a geopolitical instrument against Australia. Our economic policies should put the national interest first by building industries that give Australia a much higher level of self-reliance. In the medium-to-long-term, this strategy also provides well paid, secure jobs and creates wealth. Arguably, a society's well-being and its overall wealth are determined not by what the society consumes but by what it can make.

**Answer 2:** There is a widespread view that until the mid 1980s, Australia was a high tariff nation, with a broad range of tariffs that punished consumers with high prices. For example, a 2017 DFAT paper implied that this situation changed with cuts to tariffs from the mid-1980s, such that by 2016,

[44] https://www.dst.defence.gov.au/innovation/wet-electrophotographic-process

[45] https://arstechnica.com/tech-policy/2012/04/how-the-aussie-government-invented-wifi-and-sued-its-way-to-430-million/

> 79 per cent of all imports (by value) to Australia attracted no tariff … The period of declining tariffs [from the mid-1980s] has coincided with increased trade — both merchandise imports and exports — and increasing integration of the Australian economy with the rest of the world.[46]

First, this implies that Australia operated a high tariff system. In fact, Australia's tariff regime was not high by comparison to other developed nations post-WWII. As Colin Teese, a former deputy secretary of the Department of Trade, has pointed out in another submission to this inquiry:

> Under Australia's 'by law' system, where the Tariff Schedule nominated a tariff on a particular good, importers of such items were able to apply for the goods to enter duty free under 'by law' provisions, were no equivalent locally produced goods available. The Customs Department had the power to waive the tariff on such products if no like product was produced domestically. Customs routinely waived the duty on imports specified in the Tariff Schedule.
>
> Thus, a routine perusal of the Tariff Schedule would give a misleading impression to the effect that thousands of items not made in Australia were actually subject to tariffs when in fact these items were admitted duty free under by law provisions…
>
> … the Industries Assistance Commission, successor to the Tariff Board, said that in 1972 that about 75% of all imports entering Australia came in duty free. Obviously the 'by law' arrangement was working as was intended.[47]

Second, while individual tariffs have been reduced and Australia's exports have expanded considerably since the 1990s, it is also the case that the lion's share of this export expansion has been in minerals and energy exports, as explained above in relation to Figure 5. Those exports would likely have happened regardless of cuts to tariffs or Australia signing FTAs.

**Answer 3:** DFAT argues against protective tariffs saying, "tariffs that support domestic industries are paid for by the consumer through *higher prices*", that "unilateral tariff liberalisation is removing this burden on consumers and allowing for *efficient resource allocation* within the economy,"[48] The ASPI says that "economists concerned with *consumer welfare* emphasise the value of imports" and that "Australian consumers have benefited from low-cost Chinese technology and household goods."[49] (my emphasis)

These arguments against tariffs have problems:

1. Trade is not only about "consumer welfare", it is about strategic interests. "Low-cost Chinese technology and household goods" have made Australia's trade dependent on an increasingly belligerent state.

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[46] *Australian trade liberalisation: Analysis of the economic impacts*, Prepared for Australian Department of Foreign Affairs and Trade by the Centre for International Economics, October 2017; pg. 4. https://www.dfat.gov.au/sites/default/files/cie-report-trade-liberalisation.pdf

[47] Submission to the Inquiry into Diversifying Australia's Trade and Investment Profile, Joint Standing Committee on Trade and Investment and Growth, from Craig Milne and Colin Teese, Australian Productivity Council, July 2020.

[48] *Australian trade liberalisation: Analysis of the economic impacts*, Prepared for Australian Department of Foreign Affairs and Trade by the Centre for International Economics, October 2017; pg. 7. https://www.dfat.gov.au/sites/default/files/cie-report-trade-liberalisation.pdf

[49] https://www.aspistrategist.org.au/australias-booming-trade-with-china-will-shape-strategic-policy/

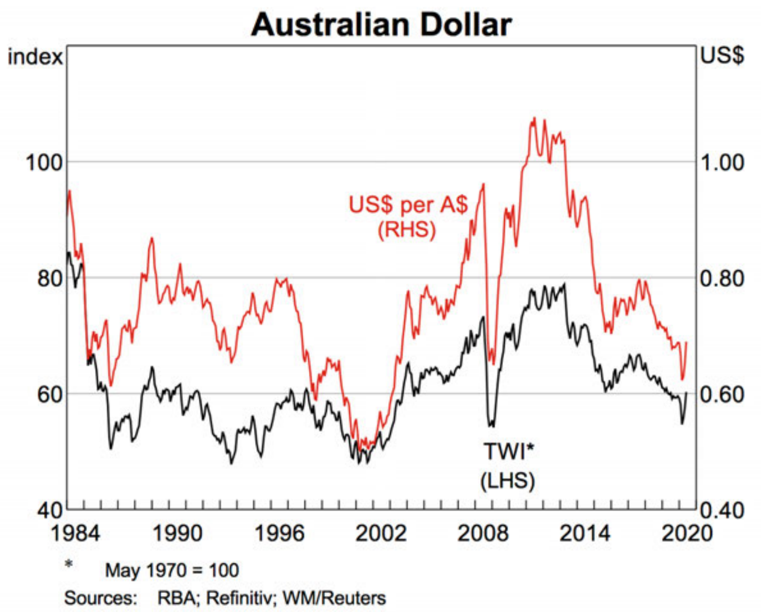
2. These arguments assume that people who lose high paying, secure jobs in manufacturing find comparable jobs in new industries. US research shows that mostly they don't and many end up on welfare. How is this "efficient resource allocation"?
3. Many imports are priced at what the market will tolerate, not on cost of production plus reasonable profit.
4. Tariffs are tax revenue for government. When tariffs are reduced, the import price *may* fall, but so does government tax revenue. If tariffs are a tax on consumption, so is the GST.
5. Hostile governments can deliberately undercut domestic industries to drive them out of business to expand not only their market share (as in the Rob, Replicate and Replace strategy), but their strategic interests in Australia.
6. Losing industries like the car industry also loses skills and advanced technology, losing diversity and complexity that are necessary for innovation and rising productivity.

**Objection 2: Under floating exchange rates, tariffs force up exchange rates thereby making exports dearer, imports cheaper and negating any protection from the tariff.**

**Answer 1:** Tariffs on a narrow, selected range of strategic industries are unlikely to significantly push up the Australian dollar and cancel out the tariff protection effect.

**Answer 2.** Australia has more significant currency problems to worry about. As a major commodity exporter, our currency is subject to sizable exchange rate fluctuations (see Figure 6).

**Figure 6**




Source: The Exchange Rate and the Reserve Bank's Role in the Foreign Exchange Market
RBA, Last updated: July 2020. https://www.rba.gov.au/mkt-operations/ex-rate-rba-role-fx-mkt.html

Partly for this reason and partly because of the high level of confidence in Australia, the AUD is the 5th most traded currency in the world.[50] This adds to volatility, while high demand for the AUD can pushes up the value of the dollar.

A high dollar makes it difficult for Australian manufacturers to compete with imports and a volatile currency makes it difficult to plan for long-term investment in manufacturing industry, particularly as Australian manufacturers are small compared to industries in much larger economies.

[50] "Australian dollar retains ranking as fifth most traded currency", *Australian Financial Review,* 17 September 2020. https://www.afr.com/markets/currencies/australian-dollar-retains-ranking-as-fifth-most-traded-currency-20190917-p52s0l

# Appendix 1

## China uses trade as political weapon

Professor Brahma Chellaney

*Brahma Chellaney, professor of strategic studies at the New Delhi-based Centre for Policy Research and fellow at the Robert Bosch Academy in Berlin, is the author of nine books, including 'Asian Juggernaut', 'Water: Asia's New Battleground', and 'Water, Peace, and War: Confronting the Global Water Crisis'.*

Bangkok Post, 31 July, 2017

https://www.bangkokpost.com/opinion/opinion/1297047/china-uses-trade-as-political-weapon

China denies mixing business with politics, yet it has long used trade to punish countries that refuse to toe its line. China's recent heavy-handed economic sanctioning of South Korea, in response to that country's decision to deploy the Terminal High Altitude Area Defence (THAAD) anti-missile system, was just the latest example of the Chinese authorities' use of trade as a political weapon.

China's government has encouraged and then exploited states' economic reliance on it to compel their support for its foreign-policy objectives. Its economic punishments range from restricting imports or informally boycotting goods from a targeted country to halting strategic exports (such as rare-earth minerals) and encouraging domestic protests against specific foreign businesses. Other tools include suspending tourist travel and blocking fishing access. All are used carefully to avoid disruption that could harm China's own business interests.

Mongolia became a classic case of such geo-economic coercion, after it hosted the Dalai Lama last November. With China accounting for 90% of Mongolian exports, Chinese authorities set out to teach Mongolia a lesson. After imposing punitive fees on its commodity exports, Chinese Foreign Minister Wang Yi voiced “hope that Mongolia has taken this lesson to heart” and that it would “scrupulously abide by its promise” not to invite the Tibetan spiritual leader again.

A more famous case was China's trade reprisals against Norway, after the 2010 Nobel Peace Prize was awarded to the then jailed Chinese dissident Liu Xiaobo. As a result, Norwegian salmon exports to China collapsed.

In 2010, China exploited its monopoly on the global production of vital rare-earth minerals to inflict commercial pain on Japan and the West through an unannounced export embargo. In 2012, after China's sovereignty dispute with Japan over the Senkaku Islands (which the Japanese first controlled in 1895) flared anew, China once again used trade as a strategic weapon, costing Japan billions.

Likewise, in April 2012, following an incident near the disputed Scarborough Shoal in the South China Sea, China bullied the Philippines not only by dispatching surveillance vessels, but also by issuing an advisory against travel there and imposing sudden curbs on banana imports (which bankrupted many Philippine growers). With international attention focused on its trade actions, China then quietly seized the shoal.

China's recent trade reprisals against South Korea for deploying the THAAD system should be viewed against this background. China's reprisals were not launched against the US, which deployed the system to defend against North Korea's emerging missile threat and has the heft to hit back hard. Nor was this the first time: In 2000, when South Korea increased tariffs on garlic to protect its farmers from a flood of imports, China responded by banning imports of South Korean cellphones and polyethylene. The sweeping retaliation against unrelated products was intended not only to promote domestic industries, but also to ensure that South Korea lost far more than China did.

China will not use the trade cudgel when it has more to lose, as illustrated by the current Sino-Indian troop standoff at the border where Tibet, Bhutan, and the Indian state of Sikkim meet. Chinese leaders value the lopsided trade relationship with India -- exports are more than five times higher than imports -- as a strategic weapon to undercut its rival's manufacturing base while reaping handsome profits. So, instead of halting border trade, which could invite Indian economic reprisals, China has cut off Indian pilgrims' historical access to sacred sites in Tibet.

Where it has trade leverage, China is not shy about exercising it. A 2010 study found that countries whose leaders met the Dalai Lama suffered a rapid decline of 8.1-16.9% in exports to China, with the result that now almost all countries, with the conspicuous exception of India and the US, shun official contact with the Tibetan leader.

The harsh reality is that China is turning into a trade tyrant that rides roughshod over international rules. Its violations include maintaining nontariff barriers to keep out foreign competition; subsidising exports; tilting the domestic market in favour of Chinese companies; pirating intellectual property; using antitrust laws to extort concessions; and underwriting acquisitions of foreign firms to bring home their technologies.

China regards even bilateral pacts as no more than tools to enable it to achieve its objectives. From China's perspective, no treaty has binding force once it has served its immediate purpose, as officials recently demonstrated by trashing the 1984 Sino-British Joint Declaration that paved the way for Hong Kong's handover in 1997.

Ironically, China has developed its trade muscle with help from the US, which played a key role in China's economic rise by shunning sanctions and integrating it into global institutions. President Donald Trump's election was supposed to end China's free ride on trade. Yet, far from taking any action against a country that he has long assailed as a trade cheater, Mr Trump is helping make China great again, including by withdrawing the US from the Trans-Pacific Partnership and shrinking US influence in the Asia-Pacific region.

The TPP, which Japanese Prime Minister Shinzo Abe is seeking to revive, but without US participation, can help rein in China's unremitting mercantilist behaviour by creating a market-friendly, rule-based economic community. But if the TPP is to be truly effective in offsetting the trade sword wielded by a powerful, highly centralised authoritarian regime, it needs to be expanded to include India and South Korea.

China's weaponisation of trade has gone unchallenged so far. Only a concerted international strategy, with a revived TPP an essential component, stands a chance of compelling China's leaders to play by the rules.

# Appendix 2
# The manufacturing multiplier

Manufacturing has a high multiplier into the economy, meaning it creates industrial support activity and more jobs. The Industry Capability Network (2016)[51] estimates that $1.0 million in manufacturing output supports (using a Type I multiplier) creates a further:

- $713,400 worth of gross value added in terms of industrial support activity (i.e., type I effects),
- six full time equivalent (FTE) job,
- $64,900 in avoided welfare expenditure,
- $225,300 in tax revenue.[52]

And using a Type II multiplier, $1.0 million in manufacturing provides a further:

- $1.2 million in value added,
- 10 FTEs (an additional four FTEs compared to Type I analysis),
- saves approximately $101,800 in welfare payments,
- $365,000 in tax revenue.[53]

Type I multipliers show induced activity resulting from industry production to supply inputs into either new or retained manufacturing business, assuming an exogenous household sector. Type I multipliers assume the income generated from induced industry activities does not affect household consumption decision. [54]

Type II multipliers show induced activity resulting from industry production to supply inputs into either new or retained manufacturing business, and as households respond to income (generally by increasing demand for goods and services) from induced industry activity. Consequently, Type II multipliers give higher estimates of impacts than those of Type I as they include the Type I effects plus household expenditure effects.[55]

NOTE: Andrew Liveris shows in his book *Making it in America*, that the US manufacturing industry multiplier is virtually the same as in Australian Type I multiplier. He calculates that for every $1 spend on final manufactured goods, another $1.70 is spent in other sectors of the economy (primary production, and services), whereas for every $1 spend on services jobs, only $0.71 is spend on support industries.[56]

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[51] *Economic Impacts of New and Retained Business in the Australian Manufacturing Industry*, Industry Capability Network Limited, 2012. https://icn.org.au/sites/default/files/AEC_Report_2012%20summary%20flyer.pdf

[52] Ibid., pg. 14.

[53] Ibid., pg. 16.

[54] Ibid., pg. 14.

[55] Ibid., pg. 14.

[56] *Making it in America: the case for reinventing the economy,* Andrew Liveris, President and Chair of Dow Chemicals, John Wiley and Sons Inc., 2011.

# Appendix 3

## Australia was not a high tariff nation prior to the 1980s

Extract from a submission on behalf of the Australian Productivity Council by **Colin Teese** to the 2020 Joint Standing Committee on Trade and Investment Growth Inquiry into Diversifying Australia's Trade and Investment Profile.

Colin Teese was a Deputy Secretary of the Department of Trade from 1982 to 1986. He was Australia's Representative to the General Agreement on Tariffs and Trade (GATT) from 1972 to 1977.

Over more than twenty years Colin was the leader of numerous Australian trade delegations, both bilateral and multilateral, involving both manufacturing industry and agriculture.

In the Department of Trade and Industry Colin was involved in the shaping of policy for both manufacturing industry and agriculture, including interactions with the various marketing boards set up to assist farmers sell their produce.

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**In his Australian Productivity Council submission, Colin Teese concluded:**

> Highly selective and targeted 'protective tariffs', not broad 'negotiating tariffs', will be essential to ensure that strategic industries are established and retained in Australia.
>
> Either Australia is prepared to similarly reconsider its trade and competition policies, or it can forget about building and keeping strategic industries.

**In more detail, Mr Teese said that in the history of Australian manufacturing,**

new businesses would not agree to manufacture in Australia at local wages unless they could be protected against low wage import competition. This would be facilitated by means of the tariff protection administered by the Tariff Board.

The Tariff Board would offer protection, and continue to offer protection, after a publicly conducted inquiry, to industries which were deemed 'economic and efficient' – although not necessarily internationally competitive.

The Australian customs tariff was to be the sole instrument of protection. It served two protective purposes.

- Firstly, to offer a margin of protection to new industries setting up in Australia.
- Secondly, to protect existing industries from damaging import competition in recognition of the fact that, operating within Australia's cost structure, they would be unable to survive without protection against lower cost foreign production.

This same protective arrangement was also available for industries processing primary products, which gave further security indirectly to the farm sector …

**False perceptions of Australian tariffs and industry development post WW2**

To understand how and why we were able to previously create a large and prosperous manufacturing sector, it is necessary first to understand what Australia had in place as protective measures before the Hawke/Keating government dismantled industry protection, and how and why these measures operated.

Little of this is on the public record; nor is it examined closely in academic discourse.

Australia has had tariffs since Federation, when it was placed in the hands of the Commonwealth Department of Customs and Excise, aimed at fostering the growth of local industry. The Australian Tariff Schedule covered goods imported, or anticipated to be imported, into the newly formed Commonwealth.

After WW2, along with other Western nations, Australia signed up to the General Agreement on Tariffs and Trade (GATT), which provided the governing rules of trade between member states. There were eight rounds of tariff negotiations held between 1947 and 1994: Geneva (1947), Annecy (1949), Torquay (1950-51), Geneva (1956), Geneva (1960-61), also known as the Dillon Round, the Kennedy Round (1964-67), the Tokyo Round (1973-79) and the Uruguay Round (1986-94).[57]

Australia's tariff system was unique among GATT member countries. As a small industrial nation, with no chance of becoming a dominant industrial power, Australia applied 'protective tariffs" strictly for protecting key selected domestic industries. Ours was specifically a protective tariff aimed at protecting the industries we wanted to operate in Australia. Unlike other western nations we did not trade off specific tariff benefits with other nations and rely on non-tariff measures for industry protection. Australia's manufactures were not involved in any of the trade-off bargaining agreed in GATT negotiating rounds because our tariffs were specifically for protection purposes.

'Negotiating tariffs', as used by most GATT members, were broadly based tariff classifications. Australia's were narrowly based, covering only goods we specifically wanted to protect, i.e., goods being made in Australia. Where protection was unnecessary the tariff was forgone under a system of 'by-laws'. The Tariff Schedule was extensive. The Customs Tariff Act 1966 was over 153,000 words long.[58] [**See supplementary document, The Customs Tariff Act 1966]**

Under Australia's 'by law' system, where the Tariff Schedule nominated a tariff on a particular good, importers of such items were able to apply for the goods to enter duty free under 'by law' provisions where no equivalent locally produced goods were available. The Customs Department had the power to waive the tariff on such products if no like product was produced domestically. Customs routinely waived the duty on imports specified in the Tariff Schedule.

**Thus, a routine perusal of the Tariff Schedule would give a misleading impression to the effect that thousands of items not made in Australia were actually subject to tariffs when in fact these items were admitted duty free under by law provisions. (See the 1966 Tariff Schedule supplement to this submission).**

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[57] GATT bilateral negotiating material by Round, WTO.
https://www.wto.org/english/docs_e/gattbilaterals_e/indexbyround_e.htm#:~:text=During%20the%20GATT%20(General%20Agreement,1973%2D79)%20and%20the%20Uruguay

[58] CUSTOMS TARIFF ACT 1966, Federal Register of Legislation.
https://www.legislation.gov.au/Details/C2004C03324

These facts remained largely unknown to all but a small band of customs officials administering the tariff regime and to those at the centre for our trade negotiations.

As well, almost none of the trade negotiators of our major trading partners understood, or preferred to remain ignorant of the procedures, especially those where tariffs existed only for the purpose of negotiation.

If they were misunderstood at the time, imagine how unlikely it will be that those discussing the role of tariffs today will be aware of this history.

All the more so because our unique system of tariff administration has never been understood by historians and economists, whose purpose has been to portray Australia in the Menzies/McEwen era and beyond as a high tariff country led to the path of righteousness by the Hawke /Keating government

Even the Parliamentary Library's 1999 "Australian Manufacturing: A Brief History of Industry Policy and Trade Liberalisation", makes no mention of the 'by law' system and claims that

> "over the last 30 years … barrier protection to manufacturing industries, mainly via tariffs, has been reduced from 35 per cent to five per cent in 2000-01"[59]

The 35 per cent figure is wrong.

Foreign writers Whittaker et. al., in the 1974 "Area Handbook for Australia" (American University, 1974 pg. 374 asserted:

> "In mid-1971, *about 68 percent of imports entered duty free or at low, non-protective rates of 12.5 percent or less*. Protective rates were highest for manufactured imports. The tariff board estimated that the manufacturing sector enjoyed an average effective protection of 46 percent; industries with averages rates of protection exceeding 50 percent (in 1970) included metal manufactures, machinery, vehicles, textiles, footwear, furniture and plastic products. Although tariffs generally tended to support high domestic prices for consumer manufactures, *it was estimated in 1972 that from 40 to 60 per cent of the effective protection available was not being used by domestic producers in setting prices*."[60] (my emphasis)

This too is seriously questionable.

**The Parliamentary Library paper is misleading because from my personal knowledge the Industries Assistance Commission, successor to the Tariff Board, said that in 1972 about 75% of all imports entering Australia came in duty free. Obviously the by law arrangement was working as was intended.**

**The Parliamentary Library paper maintained that manufacturing had an average 35% tariff. That is an average from the entire tariff schedule. It takes no account of the fact that 75% *of all goods entered duty free under bylaw.***

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[59] "Australian Manufacturing: A Brief History of Industry Policy and Trade Liberalisation", Parliamentary Library, 1999.

https://www.aph.gov.au/About_Parliament/Parliamentary_Departments/Parliamentary_Library/pubs/rp/rp9900/2000RP07

[60] Area Handbook for Australia, C Donald P Whitaker, Peter Just, John E MacDonald, Kenneth W. Martindale, Research completed December 1973, First Edition, Published 1974, American University, pg. 374. https://books.google.com.au/books/about/Area_Handbook_for_Australia.html?id=hVh0AAAAMAAJ&redir_esc=y

Many economic commentators, unaware of the facts, make similar mistakes.

That the Commonwealth of Australia protected its emerging industries after World War 2 should come as no surprise. Every developed nation in the world has built its industrial base behind much less carefully defined protective tariff barriers than Australia, including Britain in the 18th and 19th centuries and the United States in the 19th and early 20th centuries. Only after they became dominant industrial powers did Britain and the US lower their protectionist barriers.

It is argued that tariffs are self-defeating because protecting industries has the effect of reducing imports and expanding exports, which drives up the value of the domestic currency and so negates the effect of the tariff. Are we then to assume that the purpose of cutting tariffs is preventing us exporting more*? And are not these the same critics who assert that we have been able to increase minerals exports because we have cut tariffs?*

The Australian form of tariff protection was unique and especially sophisticated, in ways not readily understood or acknowledged, either internationally or, for that matter in today's Australia …

**Tariffs and the WTO**

It will be argued that applying protective measures today cannot be done under WTO rules.

First, The US has shown that it is prepared to renegotiate trade agreements. United States-Mexico-Canada Agreement (USMCA) has replaced NAFTA[61], while the US and China have changed their trade arrangements without going through the WTO. The US is prepared to impose tariffs to protect its steel and related heavy industries.

Second, WTO applies the GATT rules for trade in goods. The GATT says that strategic industries are not subject to the normal rules of trade and that a nation can apply what trade protection rules it wants in order to protect and develop such industries. Further, all Australia's free trade agreements have a renegotiating clause that allows the agreement to be renegotiated or cancelled on 3-9 months' notice.

**Conclusion**

Australia needs to both protect its sovereignty and provide jobs for many Australians facing unemployment in the post-Covid-19 economic crisis.

Critical to both is building a strong and reliable manufacturing industry. This paper says it has been done before in the Menzies/McEwen period and it can be done again.

Highly selective and targeted 'protective tariffs', not broad 'negotiating tariffs', will be essential to ensure that strategic industries are first established, and then remain, in Australia.

Either Australia is prepared to similarly rethink its trade and competition policies, or it can forget about building and keeping strategic industries in Australia.

[61] United States-Mexico-Canada Agreement (USMCA), Office of the United States Trade Representative. https://ustr.gov/usmca