



Customs Tariff Amendment (Incorporation of Proposals) Bill 2006

Rosemary Bell
Law and Bills Digest Section

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Customs Tariff Amendment (Incorporation of Proposals) Bill 2006

Date introduced: 29 November 2006

House: House of Representatives

Portfolio: Justice and Customs

Commencement: The formal provisions commence on Royal Assent. The provisions in Schedules 1 and 2 commence retrospectively.

Purpose

To amend the *Customs Tariff Act 1995* in order to introduce measures that were included in Customs Tariff Proposal No. 4 of 2005 and Customs Tariff Proposal No. 1 of 2006.

Background

Customs tariff measures are usually introduced by way of a customs tariff proposal that is moved and tabled in Parliament. It is rare that these motions are debated. The collection of customs duties commences on the date set out in the motion.¹ A customs tariff amendment bill is usually introduced at an appropriate time to consolidate most of the outstanding proposals introduced into the House of Representatives. These bills are retrospective in operation, in respect of each proposal, to the date on which collection of customs duties commenced.

This Bill contains amendments to the *Customs Tariff Act 1995* that were included in Customs Tariff Proposal No. 4 of 2005 and Customs Tariff Proposal No. 1 of 2006. Customs Tariff Proposal No. 4 of 2005 was moved on 13 October 2005 but commenced operation on 11 May 2005. The proposal reduced the rate of customs duty from three per cent to zero for goods entered under item 47 of Schedule 4 of the tariff. Item 47 applies to machinery that incorporates or is imported with other goods, which for technical reasons render the machinery ineligible for a tariff concession order. Item 47 allows such goods to be dutiable at the same rate of customs duty that would be apply if the goods were subject to a tariff concession order. The lowering of the duty rate applying to goods entered under item 47 maintains consistency with the 2005-06 budget decision to remove the three per cent duty on business inputs that are subject to a tariff concession order and commences retrospectively, on the same day. The financial impact of the proposed reduction in duty will result in a loss of Government revenue of approximately \$2 million per annum.²

Customs Tariff Proposal No. 1 of 2006 contained two proposals. It was moved on 15 June 2006 and both proposals commenced on 1 July 2006. The first proposal altered item 31 of Schedule 4 of the customs tariff. This item allows the duty-free entry of certain aircraft

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parts, materials and test equipment for use in the manufacture, repair and maintenance of aircraft. The proposal, which was announced in the 2006-07 budget, alters item 31 by extending duty-free entry to certain goods used in the modification of aircraft. According to the Minister's second reading speech:

[t]he extension of item 31 to include goods for use in the modification of aircraft will reduce costs to business and will provide a clear incentive to continue heavy maintenance work in Australia. This will strengthen the international competitiveness of Australia's aviation and maintenance industries, and is consistent with the Government's policy to improve the international competitiveness of Australia's aerospace and aviation industries.³

The second proposal announced in Customs Tariff Proposal No. 1 of 2006 altered item 71 of Schedule 4 to the customs tariff by expanding the Enhanced Project By-law Scheme to include the duty-free entry of qualifying goods for the power supply and water supply industries.

The Enhanced Project By-law Scheme (EPBS) provides tariff duty concessions on eligible goods for large-scale projects in the mining, resource processing, agriculture, manufacturing and gas supply industries.⁴ The EPBS enables eligible goods that are not made in Australia, or that are technologically superior to those made in Australia, to be imported duty free. It is the successor to the Policy By-law Scheme (until 1 August 1998) and the Project By-law Scheme (from 1 August 1998).⁵ The EPBS commenced on 1 July 2002. Since that time, approximately 175 projects have completed the scheme's processes with revenue forgone to the Commonwealth estimated at \$130 million, or around \$0.75 million per project.⁶

The scheme incorporates an Australian Industry Participation Plan (AIP Plan) to encourage the use of Australian industry in projects and global supply chains. Individuals wishing to obtain a tariff duty concession for imported goods under the EPBS must demonstrate in their application that Australian industry has been given a full, fair and reasonable opportunity to participate in the project, and describe in detail the goods that are to be imported. According to the Explanatory Memorandum, experience suggests that 'a well executed AIP Plan can increase Australian industry participation by at least five per cent of the contestable share of the project', and that the EPBS may have increased Australian industry participation in major projects by at least \$1.7 billion since July 2002.⁷

The Government announced in May 2006 that the scheme would be extended to include the duty-free entry of qualifying goods for the power supply and water supply industries.⁸ This extension was recommended to overcome a perceived anomaly in the operation of the scheme.⁹ The loss of Government revenue resulting from this measure is estimated to be \$10 million in each of the four financial years from 2006-07 to 2009-10 inclusive.¹⁰

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Financial implications

The measures proposed by this Bill will reduce customs duty and result in a loss of Government revenue of approximately \$12 million per annum.¹¹

Main provisions

Amendments in Schedule 1

Item 1 amends item 47 of Schedule 4 of the *Customs Tariff Act 1995* by repealing the three per cent rate of duty and replacing it with a rate of duty that is 'Free'. The amendment applies to goods that are imported into Australia on or after 11 May 2005, and also to goods that were imported before that date, warehoused and not entered into home consumption until on or after 11 May 2005 (**item 2**).

Amendments in Schedule 2

Item 1 amends the text of item 31 of Schedule 4 of the *Customs Tariff Act 1995* to read 'repair, maintenance or modification'. The effect of this amendment is to extend duty-free entry to certain goods used in the modification of aircraft. This amendment applies to goods imported and entered for home consumption after 1 July 2006, as well as goods that were warehoused on importation before 1 July 2006 and not entered into home consumption until on or after 1 July 2006 (**item 3**).

Item 2 creates a **new paragraph (B)** to item 71 of Schedule 4 of the *Customs Tariff Act 1995*. This paragraph will expand the Enhanced Project By-law Scheme contained in item 71 to include the duty-free entry of goods, as prescribed by by-law, for use in the power supply and water supply industries. This amendment is taken to have commenced on 1 July 2006 and applies to goods imported into Australia and entered for home consumption on or after 1 July 2006.

Concluding comments

A review of Australia's general tariff arrangements was carried out by the Productivity Commission in 1999-2000.¹² In assessing the scope for further tariff reductions, the Commission noted Australia's commitment to the Asia Pacific Economic Cooperation Forum (APEC) goal of 'free and open trade and investment in the Asia Pacific by 2010 for industrialised economies and 2020 for developing economies'. The Commission commented that, 'although there has been no definitive statement by APEC governments

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on the meaning of the term ‘free and open’, further reduction or removal of Australia’s remaining general tariffs would be consistent with this commitment’.¹³

Endnotes

1. *House of Representatives practice*, 5th edition, edited by I.C. Harris, Department of the House of Representatives, 2005, pp. 428–429.
2. Explanatory Memorandum, Customs Tariff Amendment (Incorporation of Proposals) Bill 2006, p. 2.
3. Second reading speech on the Customs Tariff Amendment (Incorporation of Proposals) Bill 2006, House of Representatives, *Debates*,
4. AusIndustry, *Enhanced Project By-laws Scheme fact sheet*, version number 1.7, June 2006 at: http://www.ausindustry.gov.au/library/Fact_sheet_22_June_200620060623094047.pdf (site last visited 4/12/2006)
5. The operation of the earlier schemes is discussed in Productivity Commission, ‘Review of Australia’s general tariff arrangements’, *Inquiry report*, no. 12, 2000, pp. 109–117.
6. Explanatory Memorandum, Customs Tariff Amendment (Incorporation of Proposals) Bill 2006, p. 5.
7. *ibid.*, p. 5.
8. AusIndustry, ‘\$10m annual boost to power and water projects and their Australian suppliers’, *Media release*, 9 May 2006.
9. Explanatory Memorandum, Customs Tariff Amendment (Incorporation of Proposals) Bill 2006, p. 3.
10. *ibid.*, p. 2.
11. *ibid.*, p. 2.
12. The inquiry was announced by the Minister for Industry, Science and Resources (Senator the Hon Nick Minchin) on 1 July 1999, and the report was published on 22 July 2000 as the Productivity Commission’s *Inquiry report* no. 12, 2000.
13. Productivity Commission, ‘Review of Australia’s general tariff arrangements’, *Inquiry report*, no. 12, 2000, p. 125.

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