

17th April 2019

Attn: Mr David Trebeck

Chair, Biosecurity Imports Levy Steering Committee

By Email: bilreview@yahoo.com

Dear Mr Trebeck,

RE: Proposed Biosecurity Imports Levy

Thank-you for the opportunity to make the following submission to the Biosecurity Levy Steering Committee.

Manufacturing Australia (MA) is led by the CEOs of some of Australia's largest manufacturing companies: Adelaide Brighton, BlueScope, Brickworks, Capral, Cement Australia, CSR, DuluxGroup, Incitec Pivot, Orora, Rheem and Tomago Aluminium. MA's members provide direct and indirect employment to around 250,000 Australians and operate some 300 plants or smaller facilities around Australia, notably in outer suburban and regional Australia.

MA supports the need for a robust and effective biosecurity system in Australia, for the benefit of all Australians. MA members are willing and active participants in DAWR's biosecurity agenda, complying with industry best practices and all Australian regulations to monitor, minimise and prevent biosecurity risks in their supply chains. This steadfast commitment is not in question.

However, MA is concerned that the proposed levy, while intended as a biosecurity measure, will have the effect of a poorly targeted, inequitable, imports tax that will increase costs for Australian consumers and damage the competitiveness of Australian manufacturing, without improving Australia's biosecurity.

MA recognises and welcomes that the Committee, through its discussion paper and associated consultation, is exploring a range of minor modifications to the levy design and collection options.

However, MA contends that the policy design underpinning the levy, and in particular its reliance on a volume-based tax for bulk cargoes in order to raise the targeted revenue, is fundamentally inequitable. It imposes multi-million dollar costs on a very small number of businesses at a rate seemingly disconnected to either the value of those cargoes, the materiality of the impost on impacted companies or the biosecurity risk created by those cargoes.

In that context, minor amendments to collection methodology are unlikely to remedy the disproportionate impacts of the levy on domestic manufacturing, some of which are identified in this submission.

MA therefore recommends that the levy should not be implemented without a broader redesign of the policy that underpins it. This should include:

1. cost-benefit analysis of the biosecurity measures to be funded;
2. comparison of a levy vs other methods of raising the required revenue for biosecurity expenditure (eg. general taxation, increases to full import declaration (FID) charges for all imports, increases in air-freight and passenger arrivals charges etc)
3. a regulation impact statement to examine the impact on all parties funding the levy or proposed alternatives; and,
4. a framework for biosecurity risk-assessment to ensure any future levy or alternative revenue measures are based on biosecurity risk.

Such analysis should have been undertaken prior to the development of a levy proposal, and is certainly necessary to develop an enduring method of funding Australia's biosecurity system that aligns with the accepted principles of good taxation, which include equity, sustainability, efficiency and consistency.

If a levy is to proceed, MA seeks an exemption from the levy for bulk cargoes of low-value, low biosecurity risk imports used in the Australian manufacturing supply chain, for reasons outlined below.

Bulk imports and Australian manufacturing:

Many Australian manufacturers import low value, low biosecurity risk, bulk commodities for use in local manufacturing of products like steel, cement, aluminium and fertiliser. Examples include:

- clinker used in cement manufacturing;
- limestone, iron ore and anthracite coal used in steel manufacturing;
- phosphate rock used in fertiliser manufacturing; and,
- caustic soda used in aluminium manufacturing.

Several key attributes of these bulk imports are important in the context of this proposed levy:

1. Typically, these imports present extremely low biosecurity risk: they usually do not include organic or volatile matter; are shipped on vessels certified free of hazards; and, are subject to assessments by Australian authorities on a cost recovery basis. In many instances, these cargoes are unloaded on private wharves and consumed in plants adjacent to those wharves.
2. The vessels themselves present similarly low biosecurity risk, as they must typically be cleaned and inspected by third parties before loading, and must not have carried organic material in preceding voyages.
3. The imports are typically low value, low margin, products. Any volume based tax on bulk cargoes therefore results in a tax that is disproportionate to the value of the cargo. Under any such levy, bulk cargoes are taxed at a much higher percentage of value compared to a per-container charge such as that proposed for containerised imports. This discourages domestic manufacturing and encourages imports of finished goods. It is for this reason that the Craik Review recommended that, if a levy were imposed on bulk imports, that it apply to *vessels themselves*, not cargoes.

Excessive costs to manufacturing:

As currently proposed, the levy would add excessive costs to domestic manufacturing businesses.

- Manufacturers that import bulk cargoes currently pay biosecurity import inspection fees to Australian authorities of ~\$1200 per vessel on a cost recovery basis. Such a fee is appropriate and broadly supported by domestic industry. Should those fees need to rise as part of broader, equitable and risk-based changes, that too would likely be supported, provided a cost-benefit analysis was undertaken and any changes were applied fairly across stakeholders.
- However, the proposed levy would see local manufacturers pay \$40,000 to \$60,000 in tax for the same cargo: a 3,000-5,000% increase in costs to local manufacturers for no identifiable biosecurity improvement.
- Manufacturing Australia estimates the tax will add ~\$5m in costs to Australian cement manufacturers; ~\$3m to steel manufacturers; and, ~\$3m to fertilizer manufacturers.

Misinterpretation of the Craik Review

MA contends that the proposal for a volume based tax on bulk imports is at odds with the intentions of the Craik Review, and suggests that some of its key recommendations have been misinterpreted, omitted or distorted:

- The Craik Review did not recommend a product based levy for non-containerised cargo in any part of its report and did not suggest that bulk cargoes themselves, such as those identified above, create biosecurity risk.
- Rather, the Craik Review provided very detailed commentary on a proposed container freight levy, which was an explicitly recommended policy outcome, while also recommending more widespread implementation by the states and territories of land-based levies, along with incoming passenger charges and other measures to target identified biosecurity risks from containers, vehicles, airfreight, passengers and other sources.
- The only reference to extension of a levy to bulk imports is on p121, which states that 'on equity grounds, the levy should be expanded to include non-containerised incoming trade in the future, as the *vessels themselves* also create biosecurity risks' (p121, emphasis added).
- In all subsequent consultation there has been no adequate justification or explanation as to why the brief mention of extension of a levy to non-containerised *vessels* has been distorted and replaced with a levy on non-containerised *cargoes*, as the centrepiece of the biosecurity imports levy, or why several of the broader recommendations have been largely ignored.

Manufacturing Australia urges the Biosecurity Levy Steering Committee to recommend against proceeding with the Biosecurity Imports Levy as currently designed.

Instead, the Steering Committee should propose a broader review of biosecurity system funding in Australia to ensure the system remains robust and effective, but is funded in an equitable, evidence-based and sustainable way, without damaging the international competitiveness of Australian industry.

Should you require additional information or wish to discuss this submission, please do not hesitate to contact me.

Yours Faithfully,



Ben Eade
Chief Executive Officer
Manufacturing Australia