To restructure the bounty payable on metal working machines and to introduce bounties for certain high technology machines, including robots, exports of high technology machines and for machine modification and retrofiting.

Background

Metal working machine tools may be classified in a number of ways. By reference to the function performed, such tools may be broken into three categories namely, metal removing tools (those used for turning, drilling, grinding, etc.); metal forming and shearing tools, which change the shape of metal (e.g. by hammering, bending or pressing); and special purpose tools which are designed to perform a specific function or series of functions. Such machines may also be classified by the technology incorporated in them. Machines may be manually controlled, have numeric controls (NC), program logic controls (PLC) or computer numeric controls (CNC). The latter two methods of control rely on computer technology and are regarded as high technology machines. Such machines can be easily adapted to perform a variety of tasks or work with a variety of materials.

Bounties for certain metal working machines were introduced by the Metal Working Machine Tools Bounty Act 1972, which followed recommendations contained in a 1972 Tariff Board report. Maximum bounty assistance was set at 33 1/3% of the factory cost for certain metal removing and special purpose tools. The bounty was also related to Australian content, with assistance falling by 1% for each 1% by which the Australian content was below 85%.
Assistance was not available for machines with less than 55% Australian content. The scheme was examined by the Industries Assistance Commission (IAC) in 1977 and its recommendations were incorporated in the Bounty (Metal Working Machine Tools) Act 1978. This Act introduced metal shearing and forming tools to the scheme and re-defined the method of calculating the rate of bounty. While maintaining the 55% Australian content threshold, assistance was now payable at 33 1/3% of the factory cost less the cost of imported materials or components. Consequently, the rate of assistance was no longer directly related to the Australian content. As well, a bounty of 25% was introduced for design costs. This followed submissions by the Department of Defence.

The Defence forces have maintained a continuing interest in this area. Defence submissions to the various IAC hearings on this area have stressed the need to maintain a nucleus of metal machining tools, preferably of the high technology type, that could be adapted for defence needs should the need arise. Such machines would be needed for the maintenance of defence equipment and the expansion of defence industries in times when supplies from overseas could be cut. In response to the Department of Defence's submissions to the 1977 IAC inquiry, the Commission concluded that 'the defence nucleus requirement would be met if the overall size of the industry was not substantially reduced'.[1]

The most recent inquiry into this area was conducted by the IAC in response to a Ministerial request of 1982. The report, titled Computer Hardware and Software; Typewriters, Calculating and Other Office Machines; Parts and Accessories; Recording Media; Metal Working Machine Tools; Robots (No. 338), was delivered on 7 February 1984. The report examined the changes in the industry since the 1977 inquiry and made the following observations:

- the industry has become more fragmented with a number of new entrants who produce only a few machine tools a year;[2]
- sales of locally produced tools have varied considerably in these years, ranging from $51m in 1980-81 to $38.7m in 1982-83;[3]
- exports were minimal and accounted for approximately 4% of total sales;[4]
locally produced tools accounted for 21% of the total market in 1982-83;[5]

there was insufficient data to determine the extent of local production of programmable machine tools;[6]

that the Department of Defence would like to see a continuance of assistance and concentrated on the high technology machines;[7]

that in the absence of defence considerations, the high level of assistance conferred by the bounty was not warranted on efficiency grounds.[8]

Based on its findings, the IAC made the following recommendations:

- assistance would be more efficient if based on a value-added rather than factory-cost basis;[9]

- the level of assistance should be set at 50% of the value-added from 1 July 1984, reducing to 45% from 1 July 1985, and to 40% from 1 July 1986, and that assistance should continue at this rate for the next 3 years;[10] (The Government's decision to extend the previous scheme to 1 July 1985 while it considered this report has postponed this recommendation.)

- there are no grounds for extending the scheme to exports or to laser cutting tools;[11]

- the scheme should be extended to parts and accessories.[12]

The 1984 IAC report also considered, for the first time, the position of industrial robots in Australia. The Commission noted the infant state of the industry in Australia and went on to consider the current available protection. The IAC concluded that while robots were liable to nominal rates of excise of between 15% and 25% 'regardless of their rates of duty, imported robots have generally been entered at 2 per cent under by-law as Customs considered that no suitable equivalent robots were produced in Australia'.[13] The Commission noted the close
relativity between robots and metal working tools and concluded that 'robots should be afforded about the same long term level of assistance'.[14] However, as the Commission had not been advised of any defence use for robots, it recommended that the production of robots should be assisted by a 30% bounty on the value-added in production as compared to the long term rate of 40% for machine tools.[15] It also recommended that this scheme be maintained for 6 years.[16]

Outline

The Bill will alter the method for calculating bounty payments to a value-added basis as well as introducing differing rates of bounty for high and low technology machines and extending the bounty to robots, exports of high technology machines, modifications and retrofitting, flame and laser cutters and programmable control panels.

Main Provisions

For a detailed analysis of the Bill, refer to the Explanatory Memorandum.

By clause 2, the Bill is deemed to have taken effect from 1 July 1985.

Clause 4 defines equipment that is eligible for bounty assistance and breaks such equipment into groups. One group, "bountiable equipment AA", contains the high technology equipment such as computer controlled machines and robots. Other groups, such as "bountiable equipment AB" and "bountiable equipment B" (which includes modifications and retrofitting) relate to low technology machines. These categories are necessary to allow differing rates of bounty (see below). This clause also defines the commencement date of the scheme namely, 1 July 1985, and its termination i.e., 30 June 1991 or not later than 30 June 1992. In addition, the clause defines a number of terms used in the Bill, such as 'flexible manufacture system' and 'robotic machines'.

Clause 5 will protect manufacturers, who have commenced to make eligible goods, from changes in the Customs Tariff Act 1982. If the goods being manufactured cease to be bountiable by an amendment to that Act, this clause will deem them to have been completed so that goods under manufacture will remain eligible for the bounty.
Clause 6 will allow the Minister to define eligible equipment and the equipment category by declaration. Again, goods under manufacture will be protected from any change in assistance. The Minister will also be empowered to make declarations in relation to the value-added and eligibility criteria (clause 7) and to adjust the rates of assistance (clause 8).

The methods for calculating the value-added are contained in clauses 10 and 11. Clause 10 defines value-added in manufacture as the factory cost less cost incurred outside the factory such as parts and materials used in the manufacturing process. Clause 11 defines "value-added" for modifications to ensure that the bounty is paid only on the cost of modification.

Factory cost is defined by clause 12 and includes wages, salaries, the cost of parts and equipment, production costs and research and development costs. If these costs cannot be determined or are incorrect, the Comptroller-General may determine the cost. Such a decision is reviewable by the Administrative Appeals Tribunal (clause 13).

Eligibility criteria for the payment of bounty and the rates of bounty are contained in Part II of the Bill.

Bounty will be payable on eligible goods produced at registered premises during the bounty period so long as the value added is at least 20% of the factory cost of the equipment. Bounty will not be payable for modifications or retrofittings if the factory cost of such actions is less than $20,000 or for low technology equipment that is exported (clause 16).

The rates of bounty are set by clause 17. The rates for high technology equipment (e.g. robots, laser cutters etc.) will be:

- 40% of the value added for the period 1 July 1985 to 30 June 1986; and
- 35% for the period on or after 1 July 1986.

For low technology equipment, modifications and retrofitting the rates will be:

- 30% of the value added for the period 1 July 1985 to 30 June 1986; and
25% for the period on or after 1 July 1986.

Clause 18 provides that bounties are not payable in any year if Parliament has not appropriated money for that purpose.

Part III of the Bill concerns the methods of payment of bounties. Advances of bounty are allowed (clause 20); producers are required to furnish returns of their costs (clause 24); and payments may be adjusted in accordance with the returns (clause 25).

Administration is covered in Part IV.

The requirements for the registration of premises are listed in clause 28, as is the power to cancel such registrations.

By clause 30 the Comptroller-General may require security to be lodged to ensure compliance with the Bill.

Clause 33 requires persons to answer questions or produce documents on request.

Clause 35 makes it an offence to fail to answer questions or produce documents, to obtain a bounty that is not payable or to make false statements.

In the Miscellaneous provisions, Part V, the Minister is required to table returns in Parliament (clause 38). Provision is made for appeals to the Administrative Appeals Tribunal by people whose rights or entitlements under the Bill are affected by administrative decisions (clause 40).

Remarks

The Bill differs from the IAC recommendations in a number of ways, such as:

- the creation of separate rates for high and low technology equipment;
- the rates of bounty;
- the inclusion of export sales of high technology machines in the scheme;
- the inclusion of laser cutting equipment in the scheme;
the payment of bounty for robots at the high technology rate.

For further information, if required, contact the Economics and Commerce Group.

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References

1. Industries Assistance Commission Report on Computer Hardware and Software; Typewriters, Calculating and Other Office Machines; Parts and Accessories; Recording Media; Metal Working Machine Tools, and Robots (No. 338), dated 7 February 1984, p.175.

2. ibid, p.146.
3. ibid, p.147.
4. ibid, p.150.
5. ibid, p.154.
6. ibid, p.161.
7. ibid, p.177.
8. ibid, p.172.
9. ibid, p.174.
10. ibid, p.183.
11. ibid, p.184.
12. ibid, p.185.
14. ibid, p.221.
15. ibid, p.221.
16. ibid, p.222.

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