Bounty (Computers) Bill 1984

Date Introduced: 5 September 1984
House: House of Representatives
Presented by: Hon. J.J. Brown, M.P., Minister assisting the Minister for Industry and Commerce

Short Digest of Bill

Purpose

To introduce from 6 July 1984 a bounty scheme assisting production in Australia of computer hardware, computer sub-assemblies and electronic microcircuits by payment of a bounty of 25 per cent of value added in Australia.

Background

A bounty has since 1977 been payable on production in Australia of automatic data processing (ADP) equipment under the provisions of the Automatic Data Processing Equipment Bounty Act 1977. That bounty is to terminate on 5 July 1984 [see Bills Digest for the Automatic Data Processing Equipment Bounty Amendment Bill (No.2) 1984].

Assistance to the computer industry and several related sectors was referred to the Industries Assistance Commission (IAC), which reported on 7 February 1984.[1] The Commission reviewed recent developments in the industry, an industry noted for rapidity of change in both technological aspects and market aspects. The scope of the IAC inquiry extended to office equipment, recording media, metal working machine tools and robots. However, the definition of goods which the Bill entitles to bounty is principally in terms of the classifications of the Customs Tariff. These items cover typewriters, calculating machines and certain other office machines to the extent to which they comprise assembled "computer based machines"; ADP equipment whether a completely assembled machine or a completely assembled unit of such a machine; parts and accessories for any of these items; and electronic microcircuits. The Bill also has a facility for inclusion of equipment incorporating electronic circuitry for control etc. of machinery, by declaration of the Minister.
The IAC published in July 1983 a discussion paper on "New Technology and Industry Assistance"[2] in which the form that assistance should take, is discussed. Tariff assistance may encourage domestic producers to initiate manufacture of a new type of product or to invest in a new item of capital equipment. The IAC referred to arguments that tariff assistance to intermediate goods manufacturers is inappropriate because it raises costs to manufacturers of final goods using imported intermediate goods. Although it encourages the domestic production of such an intermediate good, the rise in price would discourage the use of the good which, by definition, is novel and still tentatively used. Bounty assistance to domestic production was argued to be more appropriate than tariff assistance. The IAC cited several considerations:

(i) where production or consumption is already distorted, a contrary tariff-induced distortion may be an acceptable, though second-best, option;

(ii) bounties for one technology may, unless closely competing technologies are available at world prices, distort production unduly towards that technology;

(iii) bounty assistance to a novel intermediate good may distort usage towards that good away from tariff-assisted, and therefore high-priced, substitute intermediate goods.[3]

The IAC in its report on the computer hardware and associated industries reviewed the development and structure of the world computer industry. Examination of the Australian computer industry was aided by statistics of entitlement under the 1977 ADP equipment bounty act and under the metal working machine tools bounty legislation. Assistance presently provided under the Custom Tariff Act 1982 comprises a 5 per cent tariff on ADP equipment falling under item 84.53 of the tariff, with other computer based office equipment (item 84.51, 84.52 or 84.54) dutiable at either 2 per cent or 5 per cent, and Cathode ray tube displays dutiable at 24 per cent. A high proportion of electronic microcircuits falling under sub-item 85.21.9 and dutiable at 35 per cent were admitted under by-law.[4] Recording media reviewed by the IAC comprised audio and video tapes, both blank and pre-recorded, in addition to computer media. Imported software is dutiable at 35 per cent and under present valuation procedures, the duty is assessed on the total price even though the value of the medium itself forms a very small proportion of the price.[5]
The IAC recommended that computers etc. falling within items 84.51 to 84.55 be generally dutiable at minimum rates except that duty treatment of computers falling within other tariff items should not alter. Electronic components duty should be reduced by 5 per cent per year to a level of 20 per cent after 3 years. Recording media (item 92.12) was recommended to be dutiable at 30 per cent on implementation, reducing to 25 per cent after 1 year and 20 per cent after two years, except that duty on rigid disk packs and cartridges would be increased to 20 per cent immediately. In any case, the notional value of software recorded on the diskette would be free of duty.[6]

In respect of metal working machine tools, the Commission noted a general rate of 25 per cent for drilling machines and machine tools, with a number of such items falling within by-laws.[7] The IAC viewed the basing of the existing bounty scheme on local content as having a number of disadvantages and recommended a change to a value added basis. The relatively high level of assistance to the industry was justified by the need to maintain a nucleus of machine tools in Australia. Although a bounty of 30 per cent would afford assistance comparable to manufacturing industry generally, the IAC recommended that a bounty be paid for the production of power-operated metal working machine tools in Australia at 50 per cent of value added from 1 July 1984, reducing to 45 per cent after 1 year, and 40 per cent thereafter.[8]

The IAC also recommended a bounty at a rate of 25 per cent of value added (defined as the difference between factory cost and the into-store cost of material inputs) for computer hardware which, if imported, would fall within item 84.53, computer based office machines within the terms of tariff items 84.51, 84.52 or 84.54; and parts and accessories within the terms of item 84.55.[9]

The report on information technology in Australia, commissioned by the Departments of Science and Technology and of Industry and Commerce, reviewed trends in the information technology industries and estimated world market growth rates to 1992 at rates ranging from 8-9 per cent for ADP hardware to 20-25 per cent for packaged software.[10] A strategy for the Australian information technology industry was presented, including programs to stimulate company growth by improving the financial position of information technology companies.

The Senate Standing Committee for Scrutiny of Bills has considered enforcement provisions in bounty legislation, including retrospectivity of bounty entitlement, although without retrospectivity in respect of penal provisions. The
Committee has taken the view generally that beneficiaries of a Government assistance scheme should be subject to "appropriate inspection and audit procedures". The Committee has expressed concern at right of entry to unregistered premises based only on the opinion of an authorised officer, and has expressed the view in other bounty situations that a power to compel "any person" to appear is too general.\[11\]

Main Provisions

Bounty is payable under the Bill on "bountiable equipment" produced in Australia which, if imported, would fall within certain items of the Customs Tariff. The categories are completely assembled machines or units of a machine falling within item 84.53, and completely assembled computer based machines falling within items 84.51, 84.52 or 84.54. The term "bountiable equipment" also includes accessories to such equipment; electronic microcircuits falling within item 85.21; and "computer equipment" used to control a machine or etc. declared under sub-clause 5(1). The declaration is limited to goods which, if imported and liable to duty at general rates, would be dutiable at minimum rates. Declarations may be made by the responsible Minister and are to be tabled in Parliament in the manner of regulations (sub-clause 5(6)).

Bounty is payable under Part II of the Bill at the rate of 25 per cent of "value added" to the equipment by the manufacturer in Australia. The term is defined in clause 6 to be the factory cost, subtracting or excluding items of expenditure in sub-clause 6(5), such as the into-store cost of parts or materials, selling costs, and profits. Expenditure on research and development (R&D), design and engineering to the extent of connection with manufacture or likely manufacture of bountiable equipment is included in the factory cost (sub-clause 6(2)). Operating and hardware-test software is bountiable; applications software is not. Bounty is not payable where the equipment has been declared not of good and merchantable quality (clause 11). Funds for payment of bounty are appropriated by clause 34.

Entitlement to bounty under clause 9 is conditional on the equipment having been manufactured at premises registered under clause 20. Clause 22 empowers the Minister to require that payees give a financial security for compliance, by bond, cash deposit or guarantee.

Clause 16 introduces a requirement for manufacturers to furnish a return of factory costs within six months of the end of each accounting period. The Comptroller-General may require a certificate evidencing the
correctness of a return, signed by an approved qualified accountant who is not "associated" with the manufacturer within the meaning of sub-clause 3(4).

The Minister is empowered under clause 12 to make an advance on account of bounty.

Collectors or authorized officers are permitted under clause 25 to require attendance and information from any person reasonably believed to have information relevant to operation of the Act. Sub-clause 25(5) excludes privilege against self-incrimination.

Powers given by the Bill may not be exercised except in a manner uniform throughout the Commonwealth, as required in respect of bounties by paragraph 51(iii) of the Constitution (clause 8). Part V of the Bill provides for administrative review of exercise of such powers, and for returns to Parliament detailing bounty expenditure.

For further information, if required, contact:

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LEGISLATIVE RESEARCH SERVICE

References

1. Computer Hardware and Software; Typewriters, Calculating and other Office Machines; Parts and Accessories; Recording Media; Metal Working Machine Tools; Robots; IAC Report No.338, 7 February 1984.
7. IAC Report, pp.325.
10. W.D. Scott & Co. Pty Ltd, Information Technology in Australia - Capabilities and Opportunities, Dept. of Science and Technology, 1984, pp.15.