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# Chapter Four

## *Measures, including Barriers, Affecting Trade and Investment between Australia and Japan*

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## 4.1 Australia's measures including barriers to trade and investment

### 4.1.1 Goods

#### Tariffs

Over the last 30 years, Australia has progressively reduced trade restrictions as well as other trade-distorting measures affecting goods. Australia's applied tariff levels have been significantly and progressively reduced over that time. The average applied MFN tariff in 2005 is 3.5 per cent, down from 4.4 per cent in 2000 (table 4.1.1). More than 47 per cent of tariff lines are duty free, with another 39 per cent of tariff rates at 5 per cent or below. The highest tariffs apply mainly to textiles and clothing and to passenger motor vehicles and related items.

Some 96.5 per cent of tariff lines are bound. This imparts a high degree of predictability to the tariff regime, although a number of Australia's bound rates are higher than the applied duties. Reductions in applied MFN tariffs since the completion of the Uruguay Round have widened the gap, and planned tariff cuts on certain items in 2005 will further increase the disparity.

Over 99 per cent of tariff rates are ad valorem, a feature that contributes to the transparency of the regime. The structure of the tariff regime was simplified considerably during the 1990s, and now involves nine rates (six ad valorem, one specific, one compound, and one alternate). The six ad valorem rates are, in order of frequency of use, zero, 5 per cent, 10 per cent, 17.5 per cent, 7.5 per cent and 4 per cent. The specific rate applies only to cheese and curd, the compound rate applies to used cars, while the alternate rate applies to some fruit juices.

**Table 4.1.1 Australia's Tariff structure, 2000 and 2005 (per cent)**

	2000	2005
Bound tariff lines as a percentage of all lines	95.4	96.5
Duty-free applied tariff lines as a percentage of all lines	45.2	47.6
Preferential tariff lines as a percentage of all lines	54.7	52.4
Ratio of tariff lines with quotas to all lines	0.1	0.1
Simple average bound tariff rate <sup>a</sup>	11.0	10.3
Simple average applied tariff rate <sup>a</sup>	4.4	3.5
Average applied tariff rate for all lines subject to duty <sup>a</sup>	8.1	6.8
Import-weighted average applied tariff rate <sup>b</sup>	4.4	4.1 <sup>c</sup>
Import-weighted average bound tariff rate <sup>b</sup>	11.8	9.3 <sup>c</sup>

a Averages exclude non-ad valorem lines.

b Free-on-board

c 2004

Source: APEC Individual Action Plans, 2005 (yet to be released), 2004 and 2000.

#### Nuisance Tariffs

In July 1998, the then Australian Department of Industry, Science and Tourism undertook a review of "nuisance" tariffs - i.e. items that attracted a duty of 5 per cent or less, raised less than \$A100,000 in

revenue a year (in 1996-97), and were applied to items where there were no local producers. Following industry consultation, tariffs on 267 lines across the manufacturing sector were reduced to zero in December 1999.

### *Tariff concession system*

Australia's tariff concession system provides free or concessional entry to imports which do not have locally produced substitutes. It provides for duty free entry for goods specifically listed as consumption goods in the Customs Tariff<sup>8</sup> and a 3 per cent duty for all other eligible goods. Concession orders are made for a limited period based on applications made by importers. The sole criterion for granting a tariff concession order is that substitutable goods are not produced in Australia at the time the application is lodged.

### **Tariff rate quotas**

Tariff rate quotas are used for only 0.1 per cent of tariff lines, applying only to tobacco and certain types of cheese and curd. However, the tariff rate quota on tobacco is not implemented, while those on cheese and curd have not been filled in recent years.

### *Non-tariff measures*

Australia imposes non-tariff measures on imports strictly in accordance with its rights and obligations under the WTO, whether for reasons of human health, hygiene and sanitation, protection of animal and plant life, environmental conservation, essential security, or in compliance with domestic legislative/policy requirements (including revenue objectives) or international commitments.

Australia's import licensing procedures are fully consistent with the WTO Agreement on Import Licensing Procedures.

Standards and technical regulations are implemented in accordance with international obligations. A 1992 Commonwealth/State Agreement on Mutual Recognition allows a product that is in conformity with requirements of at least one State or Territory (i.e. legally saleable) to be sold throughout Australia. At the Commonwealth level, Food Standards Australia New Zealand is responsible for mandatory standards for food available in Australia and New Zealand. The Therapeutic Goods Administration is responsible for developing standards for pharmaceuticals and therapeutic goods. The Department of Transport and Regional Services is responsible for developing national standards covering safety and emission requirements for vehicles. The Consumer Affairs Division of the Department of the Treasury develops Commonwealth mandatory safety and information standards for selected consumer products. (Section 4.3.1.5 provides more detail on standards and technical regulations.)

## **4.1.1.1 Primary industry**

### *Agriculture, fisheries and forestry*

Australia has a very open agriculture, fisheries, forestry and food tariff regime. Australia has progressively reduced its tariffs on agricultural and food products since the early 1970s through a series of across-the-board measures and as the result of independent reviews of particular industries and commodities. In 2005, the simple average applied MFN tariff rate on agricultural imports, excluding fish, was 1.4 per cent.

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<sup>8</sup> Item 50A of Schedule 4.

All agricultural tariffs are bound at rates from zero to 29 per cent, while aquaculture and fishery products are tariff free except for a 5 per cent tariff on canned tuna. Forestry and wood product tariffs range from zero to 5 per cent. Products with zero tariffs include beef, wheat, wool, sugar and cotton. Table 4.1.2 summarises tariffs on selected agriculture, fisheries and forestry products.

**Table 4.1.2 Australia's Tariffs on Selected Agricultural and Fisheries Products**

	<i>Applied Rate (per cent)</i>	<i>WTO Bound Rate (per cent)</i>
Live animals	0	0-1
Meat, fresh, chilled or frozen	0	0-1
Seafood (except canned tuna)	0	0-5
Canned tuna	5	10
Milk, milk and other dairy powders, butter	0	0-1
Cheese	\$0.096/kg (within-quota) \$1.22/kg (out-of-quota)	\$0.096/kg (within-quota) \$1.22/kg (out-of-quota)
Vegetables, fresh or chilled (except mushrooms)	0	1-5
Vegetables, frozen or dried (except peas and beans)	5	1-29
Vegetables, canned (except potatoes, shelled beans)	5	5-11
Fruit, fresh (except almonds, grapes)	0	0-1
Almonds, grapes, fresh	5	5-10
Fruit (grapes, apples, apricots), dried	5	5-10
Fruit juice (except lime juice)	5	5-24
Grains (inc wheat and rice)	0	0-1
Wheat flour, starch, gluten	0	1
Potato flour, starch	5	8-29
Peanuts	5	5
Vegetable oil (except olive, palm, crude maize oil)	5	8
Sugar	0	\$0.07/kg
Sugar and chocolate confectionery	5	10-17
Pasta and noodles	5	8
Cotton	0	0
Rice	0	1
Skim/Whey Milk Powder	0	1
Butter	0	1
Soybean Oil	5	8
Palm Oil	0	0
Potatoes	0	5
Potatoes - Frozen	5	11
Potato flour	5	29
Cocoa powder	0	17
Frozen concentrated orange juice	5	24

Australia's FTAs with New Zealand and Singapore both provide duty free and quota free access for all agricultural goods from those countries. Australia's FTAs with Thailand and with the United States, which entered into force on 1 January 2005, provide duty free access for all agricultural goods from those countries. The FTA with Thailand, however, includes a 2.5 per cent rate of duty on canned tuna, which will phase to zero on 1 January 2007.

The major non-tariff measure affecting agricultural (and food) products is Australia's strict quarantine and inspection regime, based on rigorous science-based import-risk-analysis requirements (see section 4.3.1.3).

### *Tariff rate quotas*

Australia's WTO commitments provide for tariff rate quotas on only two products: tobacco and certain types of cheese and curd. The tariff quota on imports of tobacco has not been implemented since 1995, as the applied above-quota tariff is zero. Levels of imports of cheese since 1988 have remained below the level of the quota, which is set at 11 500 tonnes per annum. Quota allocations to individuals or companies are based on historical trade performance in the importation of cheese. New importers are able to acquire quota on transfer from an existing quota holder. Quota is freely tradeable. The administration of Australia's tariff rate quota on cheese is transparent with legislation requiring all transactions to be published in periodicals, extracts from which are on the Customs web site.

### *Domestic support*

Total support to agriculture amounted to only 0.3 per cent of GDP in 2001, the lowest percentage among all OECD countries, while Australia's producer support estimate, as measured by the OECD, was estimated at only 4 per cent. Around 90 per cent of all domestic support involves 'green box' subsidies that have no or minimal distorting effect on production or trade. Such support is predominantly on general services (for example, R&D services, infrastructure, pest and disease control, extension and advisory services).

### *Export Competition Measures*

State Trading Enterprises (STEs) are granted exclusive or special rights or privileges to influence through their purchases or sales the level or direction of exports of certain agricultural products. These STEs are statutory authorities or firms operating under single desk arrangements. Australia has six STEs – one national and five sub-national: AWB (International) Limited (AWBI), NSW Grains Board, Queensland Sugar Limited, NSW Rice Marketing Board, ABB Grain Export Limited (South Australia), and Grain Pool Limited (Western Australia). Australia does not provide any export subsidies and only provides export credits in exceptional circumstances on strictly commercial terms.

Australia adopted single desk marketing arrangements for wheat in 1939 as a strategic wartime emergency marketing measure. For the following 60 years, the Australian Wheat Board managed the single desk. Since 1 July 1999, AWB (International) Limited (AWBI), a private company, owned and controlled by Australian wheat growers, has managed the single desk. AWBI and its related body corporate do not receive any special financing privileges, including government grants, loans, loan guarantees, or underwriting of operational costs. Since privatisation, AWBI has directly financed its pooling and commercial activities using commercial company capital to secure its borrowing arrangements. The AWB Group is subject to normal Australian company and Corporations Law with no Government guarantees, either actual or implied, and no Government financial exposure.

The domestic market for wheat has been deregulated since 1989. Commercial grain traders and users have full access to the domestic market and growers have the choice of a wide range of marketing and financing options. While AWBI is the manager of the wheat single desk, other persons can export under consent issued by the independent Wheat Export Authority (WEA).

The WEA was established on 1 July 1999 as an independent statutory authority under the *Wheat Marketing Act 1989*. The WEA operates independently from AWB Limited and its subsidiary AWBI, and has responsibility for controlling the export of wheat from Australia, monitoring AWBI's performance in relation to the export of wheat and for reporting on AWBI's performance to growers.

AWBI does not need to apply to the WEA for consent to export wheat. All other wheat exporters must apply for written consent from the WEA. Exports of wheat in bulk, containers or bags by exporters other than AWBI, are subject to WEA approval following consultation with AWBI. The WEA must have AWBI's written agreement before issuing consent to export wheat in bulk but it does not need AWBI's agreement to approve non-bulk wheat exports.

### Forest Products

Exports of native forest hardwood woodchips have been prohibited since 1 April 2000 unless they are sourced from a region covered by a Regional Forest Agreement (RFA), in which case there are no export licence requirements, or are exported under a restricted shipment licence (which allows the export of such woodchips in one shipment from a region not yet covered by a RFA). However, as RFAs are now in place with all relevant States and Territories, there are currently no effective export prohibitions in place for these products. Exports of plantation-sourced material (both native and exotic species) are not subject to any Australian Government export controls where State Governments' Codes of Practice have been approved as satisfactorily protecting environmental and heritage values.

### *Minerals and energy*

#### *Tariffs*

Australia's minerals and energy industry receives very little assistance from import tariffs. Chalk, slate, marble, granite, sandstone, mica, steatite, other monumental and building stones, and some cements are subject to a 5 per cent import tariff, as are phenols, coal gas and bituminous mixtures; all other products are free of import duties.

#### *Other assistance*

#### Coal

The Australian Government provides no assistance to the Australian coal industry in the form of subsidies or export controls (coal exports account for 10 per cent of Australia's total exports). There is an agreement between the Australian Government and the Australian coal producers where a levy is imposed on producers to fund the Australian Coal Association Research Program (ACARP); the levy raises around \$US7 million per year.

#### Other minerals and energy

There is no specific assistance in the form of subsidies or export controls for any minerals or energy sector.

### 4.1.1.2 Manufactures

Since the 1970s, Australia has pursued successive rounds of unilateral tariff reductions, such that Australia's simple average applied MFN tariff rate for industrials (covering all non-agricultural products) in

2005 was just 3.8 per cent. More than 85 per cent of tariff lines are now at a rate of 5 per cent or less, including around 48 per cent that are tariff free. Nevertheless, tariffs remain the most significant form of effective assistance received by the manufacturing sector.

Australia's tariff regime for manufactures is currently characterised by general tariffs at 5 per cent or zero, with the exception of passenger motor vehicles (PMVs), including parts and components, for which tariffs are currently 10 per cent, and textiles, clothing and footwear (TCF), for which tariffs range from 5 to 17.5 per cent. Australia is currently implementing a further program of significant tariff reductions for these industries through to 2015, as outlined below.

Australia's FTAs with New Zealand and Singapore provide for duty free access for all manufactured products, while those with Thailand and the United States provide duty free access by 2015 at the latest.

Table 4.1.3 sets out Australia's weighted average applied tariffs for Japan's major export items to Australia at the six-digit HS level. Average tariffs are based on the current (2005) tariff schedule, while export values are from 2004. The average tariff on medium sized PMVs with petrol engines, Australia's largest single import from Japan, is 7.9 per cent (table 4.1.3). Average tariffs on other categories of PMVs reflect different proportions of off-road vehicles, which attract a lower tariff than on-road vehicles (see next section for more details). Australia's other major imports from Japan, including goods vehicles, digital and video cameras and self-propelled machinery have relatively low average tariffs of 5 per cent or less. No tariffs apply to computer peripherals, parts and accessories and colour monitors. Automobile components such as gearboxes, car and truck tyres and other parts attract higher tariffs averaging between 8.4 and 10 per cent while tyres for construction machinery stand at 5 per cent. Tariffs on steel products such as line pipe used for gas and oil pipelines and zinc-coated steel sheeting are 5 per cent. Television sets, including liquid crystal televisions, also attract a 5 per cent tariff. There is no tariff on photocopier parts or on cellular mobile phones.

### *Automotive sector*

The automotive sector is one of Australia's major manufacturing industries. It accounts for over 6 per cent of total value added in manufacturing, and almost 0.7 per cent of Australia's gross domestic product. Nearly one third of the 410,000 vehicles manufactured in Australia in 2003 were exported. The Australian automotive manufacturing industry comprises four vehicle manufacturers and more than 200 automotive component manufacturing firms and around 500 tooling, design and engineering firms. The four car manufacturers are subsidiaries of overseas parents. Many, but not all, of the supplier companies are subsidiaries of global corporations. The industry employs over 62,000 people.

The current tariff rates for imported motor vehicles are 10 per cent for PMVs and for their parts and components, 5 per cent for commercial vehicles and 5 per cent for off-road vehicles. Sparking plugs, an item in which Japanese industry has indicated a particular interest, also attract a tariff of 10 per cent, although they are currently subject to a tariff concession order (see above), which brings the tariff down 3 per cent. Imported second hand vehicles are subject to the standard *ad valorem* tariff of 10 per cent plus a fixed duty of \$A12 000 per vehicle.

Australian tariffs on PMVs have fallen over the past decade. In 1996, both imported PMVs and their components attracted a 25 per cent tariff. This was reduced to 15 per cent at the rate of 2.5 percentage points per year from 1997 to 2000, then again to 10 per cent on 1 January 2005. The general tariff rates for PMVs are scheduled to fall again to 5 per cent on 1 January 2010 (table 4.1.4). The tariff for commercial and off road vehicles will remain unchanged at 5 per cent.

Table 4.1.3 Weighted Average Tariffs for Japan's Major Exports to Australia

HS Category	Description	Weighted average applied tariff, 2005	Value of Imports, \$US million, 2004
870323	Passenger motor vehicles with a petrol engine of capacity 1500cc-3000cc	7.9%	2,960
870333	Passenger motor vehicles with a diesel engine of capacity >2500cc	5.0%	882
870324	Passenger motor vehicles with a petrol engine of capacity >3000cc	5.3%	605
870422	Goods vehicles with diesel engine, 5-20 tonnes	5%	405
870431	Goods vehicles with petrol engine, <5 tonnes	5%	350
870322	Passenger motor vehicles with a petrol engine of capacity 1000cc-1500cc	9.4%	299
852540	Digital cameras and video camera recorders	1.9%	296
870421	Goods vehicles with diesel engine, <5 tonnes	5%	267
842952	Self-propelled machinery with a 360 degree revolving superstructure	1.2%	245
998888	Combined miscellaneous and confidential items	n/a	148
847330	Certain parts and accessories of computers	0	124
870840	Gear boxes for passenger and goods vehicles & special purpose vehicles	9.9%	120
852821	Colour video monitors	0	117
730410	Line pipe, seamless, of iron or steel, used for oil or gas pipelines	5%	117
842720	Self-propelled trucks (excl. those powered by an electric motor)	5%	105
870899	Vehicle parts and accessories nes for passenger or goods vehicles & special purpose vehicles	8.4%	103
401110	New pneumatic rubber tyres for motor cars	10%	98
852812	Colour television receivers	5%	97
900999	Photocopier parts and accessories	0	94
401194	New pneumatic rubber tyres for construction vehicles with a rim size exceeding 61cm	5%	90
401120	New pneumatic rubber tyres for buses or lorries	10%	89
852520	Cellular mobile telephones	0	88
721049	Flat-rolled steel, width >600mm, zinc-plated (excl. electrolytically), not corrugated	5%	83
840721	Spark-ignition marine outboard motors	0	83
841430	Refrigeration compressors	5%	79
870210	Buses with diesel engines (to carry 10 or more persons)	5%	75
847160	Certain personal computer peripherals	0	74
870423	Goods vehicles with diesel engine, >20 tonnes	5%	74
871120	Motorcycles with engine of capacity 50cc-250cc	0	67
842951	Self-propelled mechanical front-end shovel loaders	4.9%	66

Source: DFAT trade data.



**Table 4.1.4 Australia's Tariffs on Motor Vehicles, Parts and Components**

	2000 (per cent)	2005 (per cent)	2010 (per cent)
PMVs and components	15	10	5
PMV replacement parts	15	10	5
Light commercial vehicles	5	5	5
Off-road vehicles	5	5	5

Imports of PMVs, including parts and components, from least developed countries enter tariff free provided they meet the rules of origin, while those from Pacific Islands currently receive a preference margin of 5 percentage points.

Preferential tariffs for automobiles and parts have been extended to Thailand and the United States under free trade agreements. Tariffs on autos from Thailand were eliminated at entry into force in January 2005, while those on autos from the United States and auto part imports from both countries will be phased out by 2010. Tariffs on imports of tyres and sparking plugs from the United States were reduced to zero from entry into force of the AUSFTA, and those on imports of these products from Thailand 5 per cent at entry into force of TAFTA, phasing to zero by 2010.

Australia's standards and design rules for motor vehicles are consistent with its international obligations (see section 4.3.1.5 for more details on Australia's technical regulations and standards.)

#### *Other Specific Assistance*

The major industry-specific assistance measure provided to Australia's passenger motor vehicle industry is the Automotive Competitiveness and Investment Scheme (ACIS). The objective of the Government's automotive policy is to enhance the long term sustainability and international competitiveness of the Australian automotive industry in the context of falling tariffs on passenger motor vehicles and automotive components. ACIS is a transitional assistance scheme which encourages new investment and innovation through the quarterly issue of import duty credit to registered participants. These credits can be used to discharge customs duty on eligible automotive imports, or alternatively, can be sold or otherwise transferred. To assist the automotive industry in adjusting to the lower tariff regime, ACIS has been extended until 2015.

#### *Textile, clothing and footwear*

The Australian textile, clothing and footwear (TCF) industry is diverse and covers all stages of production – from the processing of raw materials such as cotton, wool, leather and synthetics, through to design, pattern making, cutting and assembly of final goods, such as clothes, shoes, household linen, carpets and industrial textiles. Increasingly, however, the industry specialises in higher value-added products for niche markets. Typically the success of TCF firms is built on moving away from low-value production to securing their position by providing value-adding services, technology and developing strong brands. In recent years, a great deal of emphasis has been placed on developing design and R&D capability.

Australia's industry has undergone fundamental change since the 1970s. As a result of liberalisation of the economy, structural adjustment and increasing international competition, Australia's TCF manufacturing output and employment has continued to decline. Imports have increased rapidly over recent years and now have more than 50 per cent of the domestic TCF market. Nevertheless, Australia's

TCF industry remains an important source of economic activity and employment, particularly in some regional areas.

Australia is continuing a program of unilateral reductions in tariffs for the TCF manufacturing sector, as set out in table 4.1.5.

**Table 4.1.5 Australia's Tariffs on Textile, Clothing and Footwear**

	1 July 2000 (per cent)	1 Jan 2005 (per cent)	1 Jan 2010 (per cent)	1 Jan 2015 (per cent)
Apparel and certain finished textiles	25	17.5	10	5
Cotton sheeting and woven fabrics	15	10	5	5
Textile Yarns	5	5	5	5
Sleeping bags, table linen, tea towels	10	7.5	5	5
Footwear	15	10	5	5
Footwear parts	10	7.5	5	5
Carpets	15	10	5	5

Australia also has a number of preferential tariff arrangements that are significant for the TCF sector. Tariffs do not apply to TCF imports under the least developed country (LDC) preference arrangements, South Pacific Regional Trade and Economic Cooperation Agreement (SPARTECA), Australia-New Zealand Closer Economic Relations Trade Agreement (ANZCERTA), Canada-Australia Trade Agreement (CANATA) and Singapore-Australia Free Trade Agreement (SAFTA) – provided these imports meet the relevant rule of origin. In addition, TCF products from LDCs and Forum Island Countries that do not meet the LDC or SPARTECA rule of origin may still meet the developing country (DC) preference rule of origin, and receive a 5 percentage point preference. Concessions have also been agreed under the ATFTA and the AUSFTA, under which tariffs will be eliminated by 2015.

#### *Other Specific Assistance*

Currently, there is a range of industry-specific assistance measures provided to Australia's TCF industry. These measures are:

- Textile, Clothing and Footwear Strategic Investment Program (TCF (SIP)) Scheme. The TCF (SIP) Scheme is an entitlement program which provides incentives in the form of reimbursement grants to promote investment and innovation in Australia's textile, clothing, footwear industries; and
- Expanded Overseas Assembly Provisions Scheme. The EOAP enables participants to convert predominantly Australian fabric or leather into finished clothes or footwear offshore. The assembled goods can then be imported for local consumption with duty payable only on the cost of the overseas processing and content.

There is also a Post-2005 Assistance Package that will be dedicated to assisting Australia's TCF industry. The package includes:

- an extension of TCF (SIP) to 2015, commencing 1 July 2005. Until 2010, the TCF (SIP) will be redirected towards activities within those TCF sectors which employ most of the TCF workforce and face the greatest tariff adjustment (i.e. clothing and finished textiles). Between 2010 and 2015, the program will be available only for clothing and certain finished textile activity (i.e. related to those products facing a further tariff reduction in 2015);

- a product diversification scheme offering import credits to clothing and finished textile firms which achieve growth in their production; and
- a structural adjustment fund to provide support to assist workers displaced by large plant closures.

*Information technology products*

Australia is a party to the WTO Information Technology Agreement, which was agreed at the Singapore Ministerial Conference in 1996. The agreement provided for the elimination of customs duties and other duties and charges on computers, telecom equipment, semiconductors, semiconductor manufacturing equipment, software, and scientific instruments, on an MFN basis by 2001. It does not cover consumer electronic goods.