

Lloyd, P. J.

Article — Digitized Version

Australian tariff preferences for LDCs

Intereconomics

Suggested Citation: Lloyd, P. J. (1972) : Australian tariff preferences for LDCs, Intereconomics, ISSN 0020-5346, Verlag Weltarchiv, Hamburg, Vol. 07, Iss. 11, pp. 339-341, <https://doi.org/10.1007/BF02929664>

This Version is available at:

<https://hdl.handle.net/10419/138731>

Standard-Nutzungsbedingungen:

Die Dokumente auf EconStor dürfen zu eigenen wissenschaftlichen Zwecken und zum Privatgebrauch gespeichert und kopiert werden.

Sie dürfen die Dokumente nicht für öffentliche oder kommerzielle Zwecke vervielfältigen, öffentlich ausstellen, öffentlich zugänglich machen, vertreiben oder anderweitig nutzen.

Sofern die Verfasser die Dokumente unter Open-Content-Lizenzen (insbesondere CC-Lizenzen) zur Verfügung gestellt haben sollten, gelten abweichend von diesen Nutzungsbedingungen die in der dort genannten Lizenz gewährten Nutzungsrechte.

Terms of use:

Documents in EconStor may be saved and copied for your personal and scholarly purposes.

You are not to copy documents for public or commercial purposes, to exhibit the documents publicly, to make them publicly available on the internet, or to distribute or otherwise use the documents in public.

If the documents have been made available under an Open Content Licence (especially Creative Commons Licences), you may exercise further usage rights as specified in the indicated licence.

ments. This mentality leaves little room for hope that a free upward surge will occur similar to that which was experienced in EFTA as long as the power to bring about a drastic change of direction continues to lack.

□ Whereas conflicts in EFTA used to be settled between more or less equal partners, they will be faced in the bilateral free-trade zones by partners of enormously unequal economic weight. The rules according to which this game is to be played—and this applies to the protective clauses in particular—involve the inevitable danger that in case of conflicts the greater economic power will impose its own terms all the more so as it is not subject to direct parliamentary control.

These are the problems which already appear in clear outline even before the start of the new free-trade agreements, but they must not be allowed to obscure the chances which have been opened up by the Brussels treaties. These

chances lie not so much in the economic advantages which will accrue not only to those directly concerned as Western Europe progressively overcomes its economic division. Rather do they lie in the "development clause" which has been incorporated in the bilateral treaties. This clause is in a way an invitation to go beyond the creation of unhampered trade relations and to continue the cooperation thus begun in what is called "integration areas of the second generation", and these are in particular the areas of general economic and monetary policy and those of industrial, research, regional and ecological policies.

Whether, and if so to what extent, this chance to further Western Europe's economic and political integration will be seized should primarily depend on conditions inside the European Communities. A decisive impulse in this direction could be given by direct elections to the European Parliament which in any event is a step long overdue.

Australian Tariff Preferences for LDCs

by Dr P. J. Lloyd, Canberra *

In the course of the discussion of the tariff preferences granted by various developed nations to less developed countries (LDCs) it should be noted that it was Australia which first set up a comprising preference scheme. The author of this article outlines the scheme and appraises the Australian experience.

Australia's unilateral decision to introduce its own limited preference scheme for imports from the less developed countries (LDCs) was announced in May 1965 and these preferences first came into effect in April 1966. While the Australian scheme¹ was actually the very first country scheme to grant preferences in selected commodities to *all* developing countries², it is now much smaller in scope and importance than the preference schemes of the EEC, USA, Japan and other countries which were introduced in 1971 and 1972.

Australia has accepted as LDCs in this scheme all UNCTAD members, Papua-New Guinea, the British territories and former British territories and all other LDCs that have applied for inclusion. The current list is more comprehensive than that of some of the schemes now operated by other developed countries, such as the EEC, as it in-

cludes Israel, Greece, Spain, Turkey and Yugoslavia as well as 130 LDCs from Asia, the Americas, Africa and island groups.

The Principle of Competitive Need

Imports from the developing countries under the scheme consist of two broad groups: specified manufactures and semi-manufactures admitted at

* Research School of Pacific Studies, Australian National University.

¹ Detailed features of the scheme, such as the documentation requirements and the method of allocating quotas among importers, can be found in a booklet published by the Commonwealth Department of Trade and Industry, "The Australian System of Tariff Preferences for Developing Countries", Third Edition; Canberra, July 1, 1971. The author has previously considered some aspects of the scheme in greater detail, including an estimate of the net effect of the scheme on Australian imports from the preference-receiving countries; "The Value of Tariff Preferences for the Developing Countries: Australian Experience", *Economic Record*, March 1971, pp. 1-16.

² There were of course preferences in the EEC, British Commonwealth countries and in other developed countries to limited groups of developing countries.

preferential rates but subject to quotas, and specified traditional hand-made products of cottage industries which are admitted duty-free and without quota limitation. There is no time limit on either group.

The principal feature of the Australian scheme is that it is highly selective with respect to product coverage and commodity preference margins; in a few cases it is also highly selective with respect to countries. It is much more selective than the schemes of the EEC and Japan. These features are based on the principle of *competitive need*. Commodities such as agricultural products and some manufactures where LDCs are already competitive in international trade under existing tariff structures were considered not to require a preference. Similarly, where a particular LDC is already competitive in international trade in a particular item, this country is excluded from the preference in that item. To date, only Hong Kong and Taiwan from among the 135 countries now eligible have been excluded from the preferences for a very limited range of products (principally furniture and toys) which are unimportant in the aggregate quotas. The quotas were designed as an additional safeguard for Australian industry and to ensure that the preferences did not cause serious damage to third parties. Quotas have generally been set at levels equivalent to less than 10 p.c. of actual imports in the corresponding year, except for a few goods supplied predominantly by LDCs such as hand-made carpets and cricket bats.

Steady Increase of Quota Values

The scope for preferences that do not cause serious loss of sales to either domestic or third-party producers of substitute goods is clearly very limited. This cautious approach was partly due to the uncertain effects of introducing this new kind of preference and partly to Australia's reliance on the tariff to develop its own rapidly growing *infant industries*³. However, the number of commodities in the quota section has been extended from the original 60 to currently more than 450 (defined as 4-, 5- or 6-digit items of the Brussels Tariff Nomenclature-BTN). The values of the annual quotas have been progressively increased (see Table), and the range of commodities admitted as duty-free cottage industry products has been considerably broadened.

Quota items have been widely distributed among manufactures and semi-manufactures within chapters 25–99 of the BTN. In the quota period for 1969–70, the aggregate value of quotas for processed and semi-processed commodities in the first 24 chapters of the BTN was only \$ 290,000.

Most of the major commodity groups of quota commodities cover relatively unsophisticated manufactures such as cotton piecegoods and woollen carpets. But the quotas do include some

Table
Australian Imports under the Preference Scheme
(in mn \$, f. o. b.)

	1966–67	1967–68	1968–69	1969–70	1970–71
Total LDCs preferential quotas available	13.3	20.4	30.1	36.2	47.0
Total imports under LDCs tariff quotas	1.7	5.0	7.6	9.8	11.9
Handicrafts imported under preference	0.6	1.3	2.1	2.5	4.2
Total LDCs preferential imports	2.3	6.3	9.7	12.3	16.1
Total Australian imports from LDCs	436.9	463.4	489.4	524.2	467.6

capital-intensive products requiring quite advanced technological processes such as punched cards and accounting equipment, steel ball-bearings and newsprint. More than half are admitted duty-free.

Preference Margins

Preference margins vary greatly as between commodities. In an earlier study the author found that, in 1967–68, the unweighted average of the margins of preference, defined as the difference between the general tariff rate plus primage and the preferential rate available to the LDCs, was over 20 p.c. for quota items and approximately 32 p.c. for the handicraft cottage industry items⁴. However, these average margins exaggerate the extent of the preferences for two reasons. First, the margins of preference for commodity groups with the largest quotas are generally lower than those for the items with smaller quotas. For example, the margin in ad valorem terms for newsprint (which has the largest quota) was approximately 6 p.c. and that for cotton piecegoods (the largest single commodity group imported under the new scheme) was 1.5 p.c. Second, the value of these new preferences was partially reduced by the existence of tariff rates below the general rate for some imports from the developed countries. Similarly, certain imports from the LDCs

³ See the statement by the Minister for Trade and Industry in the House of Representatives on May 19, 1965, reprinted in J. G. Crawford, *Australian Trade Policy, 1942–46*; Canberra, 1968, pp. 192–8. The limited initial scope of the scheme was also a deliberate strategy on the Government's part to gain acceptance for the scheme.

⁴ See P. J. Lloyd, "The Value of Tariff Preferences", op. cit.

themselves, both before and during the operation of the scheme, were eligible for these lower rates. These lower rates apply to government imports and by-law entries⁵.

Other Concessional Rates

The existence of other concessional rates of duty which cut across the LDCs preferences for the items included in the scheme, and the continued growth of Australian total imports of most of these commodities make it difficult to gauge the net effect of the granting of these new preferences. On the basis of a trend model it was earlier estimated⁶ that nine-tenths approximately of the preferential imports in 1968–69 would have been imported in the absence of the preferences. If this proportion is applied to the total preferential imports in 1970–71, we find that the scheme has increased the Australian imports from the developing countries by about \$ 15 mn in that year. Thus the scheme has led to a small but useful increase in the exports of the LDCs to Australia.

The increase in trade due to the introduction of these preferences can be put in perspective by comparing it with total Australian imports of all commodities from the same countries. These totals are given in the last row of the Table. Total preferential imports into Australia under the scheme were only 2.5 p.c. of these countries' total exports to Australia in 1970–71. The Table also shows that total imports from the LDCs in 1970–71 were less than in the preceding two years, despite the increase in quotas and in realised preferential imports. An increase in preferences does not ensure an increase in total imports because other policies may be adopted which simultaneously decrease imports from the preference-receiving countries, either intentionally or unintentionally. In this case the decrease in total imports from the LDCs is largely the result of reduced imports of crude petroleum and petroleum products which in turn resulted from the increase in the share of Australian indigenous crude in the feedstock of the Australian petroleum refineries under the "Indigenous Crude Oil Absorption Scheme" begun in 1970.

Slight Reduction of Discrimination

In the context of the whole Australian tariff structure, the granting of preferences to LDCs has merely served to reduce slightly the overall dis-

crimination in favour of the developed countries resulting from the product-bias of the by-law system of imports and the country-bias of the British preferences which generally favour the developed countries. (Papua-New Guinea is the only one of the LDCs whose exports qualify, where appropriate, for the Preferential Tariff rates going to certain British Commonwealth countries.)

The quotas on non-handicraft preferential imports have also imposed restrictive limits on many of the items, including some of the more important in the scheme in terms of the value of the preferential imports such as hand-made carpets and cotton piecegoods. This occurred despite the increase in quotas for these items. One indication of the restrictiveness of these quotas is that only one quarter of the total Australian imports of the items on the preference list and from the preference-receiving countries actually entered at preferential rates; preferential imports were \$ 11.9 mn compared to \$ 40.1 mn total imports of these commodities from the LDCs⁷.

Cautious Expansion in the Future

Another result is that the benefit of the preferences has been largely concentrated in only four of the LDCs. In 1970–71 four countries accounted for over 70 p.c. of total preferential imports under the scheme: India with 28 p.c. of the total, Hong Kong 17 p.c., Taiwan 14 p.c. and Spain 13 p.c. As several commodities have been added to the tariff-quota and handicraft lists in response to specific requests from countries other than these four, it seems probable that to some extent the dominance of these four countries reflects their greater elasticities of supply and abilities to take advantage of the preferences.

In view of the small coverage of the scheme and the lack of any serious market disruption so far from the increased imports, several economists and other advocates of increased aid to the LDCs in Australia have suggested that the commodity coverage of the scheme be widened and that the tariff quotas be greatly extended or removed. At UNCTAD III in Santiago the Minister for Trade and Industry announced the addition of more than 200 new items to the tariff quota list and expansion in the handicraft products covered by the scheme. However, the Government decided not to participate in the preference schemes of the OECD countries which were announced in October 1970. It appears that it will proceed, cautiously as in the past, to expand the preference scheme initiated in 1966.

⁵ Between them by-law imports (which are mainly sophisticated machinery, materials and components used in the manufacture of other goods and imported from the technologically advanced developed countries) and Government imports accounted for more than one third of total import clearances by value in 1971–72.

⁶ see footnote 1

⁷ In addition to the quotas, some of this discrepancy is accounted for by rules of origin and other preferences received by the Developing Countries.