REVIEW OF AUSTRALIA'S GENERAL TARIFF ARRANGEMENTS BY THE PRODUCTIVITY COMMISSION:
SUBMISSION BY THE SCOTCH WHISKY ASSOCIATION

Preamble

The Scotch Whisky Association (SWA) is the industry's officially recognised representative body. Its 64 member companies, all of whom are distillers, blenders, owners of proprietary brands, brokers or exporters of Scotch Whisky, together comprise 95% of Scotland's distilling and blending capacity.

The aim of the SWA is to protect and promote Scotch Whisky at home and abroad. In this regard, one of its foremost functions is to ensure that Scotch Whisky can be sold without restriction and on equal terms with all other spirit drinks in all world markets, and in particular

- to promote, support or oppose legislative or other measures affecting Scotch Whisky, and

- to pursue the removal of tariff and non-tariff barriers to trade.

Scotch Whisky is exported to more than 200 markets world-wide. During 1998 SWA members exported Scotch Whisky to the value of $91 million to Australia, thereby making it the industry's 13th most important export market.

In light of the above, the SWA welcomes the opportunity to submit its views to the Productivity Commission's inquiry and review of Australia's general tariff arrangements.

Aim of the Review

Our understanding is that the aim of the review is to assess the scope for a post-2000 reduction in the general tariff, covering only rates of 5% or less, and excluding PMV and TCF sectors. In reaching its conclusions, the inquiry will take into account a range of factors including the relative costs and benefits of tariff reductions to Australian consumers, industries and their employees and the general community, together with the implications for future trade negotiations.

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We also note the Australian Government's desire to:

- improve the overall efficiency of the Australian economy;
- encourage the development of sustainable, prosperous and internationally competitive industries in Australia;
- promote the provision of high quality, competitively priced goods and services to Australian businesses and consumers;
- abide by Australia's international commitments, including the commitment under APEC to review its post-2000 general tariff arrangements by 2000, and
- participate in a new round of multilateral trade negotiations, in which bound tariff reductions will be considered by Australia and other WTO members.

The SWA will argue that early elimination of the 5% import tariff currently applied to distilled spirits meets all the Australian Government's policy objectives outlined above.

'Nuisance' Tariffs

When considering the potential for tariff reductions, it is appropriate to consider the rationale for applying tariffs in the first place.

Governments generally impose import tariffs in order to protect their domestic industries against competition from imported goods and services. Tariffs may also provide an important source of revenue, particularly for developing or transition economies.

In the case of Australia, the SWA contends that the 5% tariff applied to imported whisky is neither necessary nor appropriate for the following reasons:

♦ <u>Australian industry is principally concerned with the processing, bottling and distribution of whisky</u>

Some 99% of the whisky consumed in Australia is imported from the EU and the United States. There is thus no domestic production to protect with tariffs.

It should be further noted that over 60% of the Scotch Whisky sold in Australia is imported in bulk for local bottling. This business makes a significant contribution to the Australian economy, not least in terms of employment, and would thus benefit directly from the early elimination of the tariff on whisky.

♦ <u>No significant revenue issues</u>

It is clear that the revenue raised from the 5% tariff applied to imported whiskies is insignificant in comparison with the amounts raised from Excise ($37.58 per litre of pure alcohol) and General Sales Tax (37%). Indeed, it will be noted from the hypothetical price chain/...

chain for a litre bottle of Scotch Whisky with an fob value of US$4.50 (attached) that the import tariff expressed as a percentage of the total duty/tax burden is only 1.35%, and as a percentage of the retail price is a mere 0.84%.

By contrast, the costs associated with the collection of revenue from such low tariffs **are** significant, both to the government and to the spirits industry. From the government's point of view, the elimination of 'nuisance' tariffs would permit the redeployment of resources into areas of higher priority, while the industry would benefit not only from a welcome reduction in direct costs but also from a reduced administrative burden.

International Precedent for Tariff Elimination

During the latter stages of the GATT Uruguay Round the SWA, in concert with other spirits interests in Europe and North America, pressed for signatories to participate in the so-called 'Zero for Zero' initiative and to eliminate their tariffs on all distilled spirits.

In the event, only the 'Quad' countries (Canada, the EU, Japan and the US) ultimately agreed to eliminate their tariffs on brown spirits, ie brandy and whisky. However, at the WTO Singapore Ministerial Conference in December 1996, the EU and US further agreed to extend their tariff elimination commitments to encompass all spirits, and to accelerate the timetable so that all spirit drinks (except rum, for which separate arrangements apply) would benefit from tariff-free access to their respective markets with effect from 1 January 2000.

Subsequently, Japan agreed to eliminate its tariffs on all other spirits, except shochu, by 1 April 2002, while New Zealand, on a unilateral basis, has also eliminated its tariffs on most categories of spirits with the remainder due to be eliminated by July 2001. Similarly, in the context of its WTO accession negotiations, Taiwan has agreed to grant tariff-free access for all distilled spirits.

There is thus a strong nucleus of international support for the principle of free trade in spirit drinks, which the SWA hopes to consolidate in the new WTO round when it is eventually launched.

Wider Policy Considerations

There is a substantial body of evidence to the effect that trade liberalisation increases national wealth by lowering costs to the most efficient and competitive sectors of the economy, thereby encouraging growth. The exposure of domestic producers to international competition is also beneficial because is causes them to innovate in order to remain in business. The elimination of tariff and non-tariff barriers to trade is therefore emphatically in the national interest from a macroeconomic perspective. Consumers also benefit through lower prices as well as improved and more varied products and services.

Impact on Future Tariff Negotiations

As regards the effect of unilateral tariff liberalisation within the context of any further round of multilateral trade negotiations, Australia's bargaining collateral would not be reduced because:

- The tariffs under consideration are very low at 5% or less: their value as bargaining counters is therefore relatively small.

- Where tariffs are eliminated unilaterally it provides a strong argument, based on both principle and equity, for seeking reciprocity.

- The more heavily protected sectors of the economy, where higher tariffs apply, are likely to be of greater interest to other WTO members in the negotiations.

Summary

The Scotch Whisky Association feels strongly that there are no grounds for retaining the 5% tariff on whisky imports into Australia for the following reasons:

- Its elimination would meet the Australian Government's policy objectives as outlined by the Productivity Commission.

- There is no local whisky production in Australia. However, there is a processing, bottling and distribution industry for whisky, which would stand to benefit from tariff elimination.

- The principal sources of revenue from whisky sales in Australia are the Excise and General Sales Taxes. By contrast, the tariff imposes a significant administrative burden on both the Customs Service and industry without providing any substantial return by way of government revenue.

- Elimination of the tariff on whisky would bring Australia into line with commitments already made by five of its leading trading partners, ie Canada, the EU, Japan, New Zealand and the United States.

- The tariff is not significant enough to have an impact in any future bilateral or multilateral tariff negotiations.

The Scotch Whisky Association
Edinburgh

January 2000

ATTACHMENT

AUSTRALIA: HYPOTHETICAL PRICE CHAIN FOR SCOTCH WHISKY

Chain	Price in A$
Fob	6.89
Customs (Import) Duty	
i. 'Protective component' (Tariff)	0.34
ii. 'Excise Equivalent component'	15.03
Importer's Margin	3.34
Wholesaler's Margin	0.77
General Sales Tax	9.76
Retailer's Margin	4.52
Price to consumer	40.65
Total duty/tax	25.13
Total duty/tax as percentage of fob	364.73
Total duty/tax as percentage of retail price	61.82
Import Duty as percentage of total duty/tax	*1.35*
Import Duty as percentage of retail price	*0.84*

Note: The assumed variables are as follows:

- litre bottle (bottled-in-Scotland)
- @ 40% vol
- assumed Importer's Margin 15%
- assumed Wholesaler's Margin 3%
- assumed Retailer's Margin 12.5%