CEPS

Confédération Européenne
des
Producteurs de Spiritueux

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REVIEW OF AUSTRALIA'S GENERAL TARIFF ARRANGEMENTS BY THE PRODUCTIVITY COMMISSION: SUBMISSION BY THE EUROPEAN CONFEDERATION OF SPIRITS PRODUCERS

Introduction

The European Confederation of Spirits Producers (CEPS) is the officially recognised representative body of the European Spirits industry. Its membership comprises 36 national associations of spirits producers from 20 European countries, including all 15 Member States of the European Union (EU) and from the Czech Republic, Hungary, Russia, the Slovak Republic and Switzerland. It also has 'partner' spirits associations in Australia, Canada, Japan, Mexico, the United States, New Zealand and the West Indies.

One of its principal objectives is to secure the removal of all tariff and non-tariff barriers to trade confronting the European spirits industry in its more than 200 world markets.

During 1998 the EU exported spirits valued at $158 million to Australia, thereby making it the industry's 6th most important export market.

Given the importance of the Australian market to the European spirits industry, CEPS welcomes the opportunity to present this submission to the Productivity Commission in respect of its 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.

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.

CEPS believes 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 them 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.

However, the 5% tariff applied to imports of distilled spirits in Australia would not appear to be necessary on either account for the following reasons:

◆ <u>The domestic spirits industry has no need for protection</u>

Dealing first with the protection of domestic production, it should be noted that imported spirits account for some 80% of the total Australian spirits market. A high proportion is imported in bulk by Australian companies for processing, bottling and distribution to the significant benefit of the Australian economy in terms of investment and employment. These businesses would derive substantial benefit from elimination of tariffs in the spirits sector.

The 20% market share held by domestic products comprises mainly rum and brandy. Within the rum category, domestic production is predominant with some 80% of total sales, while domestic brandy sales are two times greater than those of imported brandies. The strong performance of domestically produced brands within these two categories suggests that the very limited protection afforded by a tariff as low as 5% is unnecessary – and would probably be ineffective anyway. Moreover, brandy benefits from additional protection through the application of a lower rate of Excise ($32.10 per litre of pure alcohol) than that which applies to all other spirits ($37.58 per litre of pure alcohol).

In this regard, it should be noted that the amount of import duty payable on a typical case of imported rum or brandy with an fob value of $50 is just $2.50, or 20 cents per bottle. Within the context of a retail price of some $22 per 700 ml bottle, it is clear that the protective effect of the tariff is insignificant.

◆ <u>Revenue derived from spirits tariffs is not significant</u>

In terms of revenue, the yield from the import duty (tariff) on spirits (5%) is clearly very small in comparison to the amounts generated from spirits sales by the Excise ($37.58 per litre of pure alcohol) and General Sales Tax (37%).

◆ <u>Hidden costs to government and industry</u>

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 perspective, the elimination of 'nuisance' tariffs would permit the redeployment of resources into areas of higher priority. Similarly, industry would benefit, not only from a reduction in direct costs, but also from a reduced administrative burden.

International Precedent for Tariff Elimination for Spirits

During the latter stages of the GATT Uruguay Round CEPS joined the North American distilled spirits industry in pressing for spirits to be included in the 'Zero for Zero' tariff elimination initiative.

In the event, only the 'Quad' countries (Canada, the EU, Japan and the US) 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 has also eliminated its tariffs on most categories of spirits on a unilateral basis. It should be noted that every WTO member benefits from these tariff concessions under the 'most favoured nation' (MFN) provisions of the General Agreement on Tariffs and Trade (GATT).

The European Commission has also been successful in securing tariff elimination for spirits on a bilateral basis in the framework of trade negotiations with South Africa and Mexico. Tariff elimination with MERCOSUR is the next objective. Meanwhile, 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 support for the principle of free trade in spirit drinks, which CEPS hopes to consolidate in the new WTO round when it is eventually launched.

Wider 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.

Effect of Unilateral Tariff Liberalisation

As regards the effect of unilateral tariff liberalisation within the context of any further round of multilateral trade negotiations, it could be argued that Australia's bargaining collateral would be reduced. We do not believe that such concerns are justified because:

- The tariffs under consideration are all 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.

Conclusions

- Imported spirits account for some 80% of the total Australian spirits market, with a high proportion imported in bulk by Australian companies for processing bottling and distribution to the benefit of the Australian economy in terms of investment and employment. These businesses stand to benefit from tariff liberalisation.

- However, within certain spirits categories, notably rum and brandy, domestic Australian producers hold dominant market shares. These are competitive and viable businesses and do not require tariff protection, although brandy is already protected against other spirits through a preferential rate of Excise.

- Revenue from the tariff on spirits is insignificant. The overwhelming majority of revenue derived from spirits is attributable to the Excise and General Sales Taxes. By contrast, the administrative burden arising from the nuisance tariff on these products is considerable for the Australian companies that import them.

- The elimination of nuisance tariffs in the spirits sector would be in line with commitments already made by Australia's principal trading partners, and would not undermine Australia's negotiating position in future tariff negotiations.

European Confederation of Spirits Producers

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