

Compliance Costs of Nuisance Tariffs

Submission to the Productivity Commission
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Introduction

The Australian Chamber of Commerce and Industry strongly support the Productivity Commission's inquiry on the costs and benefits associated with 'nuisance tariffs'. Nuisance tariffs – that is tariffs which produce negligible revenue for the Australian Government and minimal benefit to Australian producers, impose significant compliance burdens on Australian importers. The Australian Chamber recommends removal of these harmful and unnecessary tariffs as a step towards trade liberalisation through the abolition of all tariffs.

Cost of Compliance on Business

Abolish Nuisance Tariffs

As pointed out by the OECD, the customs tariff is Australia's main trade policy instrument.¹ The administration of this tariff regime requires a certain level of operational costs which historically have been viable given the revenue generated by tariffs. It is increasingly more difficult however to justify the application of tariffs where the administrative costs and compliance burden outweigh revenue generation. Nuisance tariffs by definition do not generate a level of fiscal benefit that exceeds the cost of administration or cost of compliance and liability to penalties which is borne by industry. Nuisance tariffs therefore provide no benefit to government and industry.

For businesses, the cost of tariffs is not solely monetary. The cost of getting the tariff classification wrong can be devastating - especially if you are a small business. If for example, a product was accidentally misclassified resulting in a loss of customs duty revenue, the duty would usually pale in comparison to the cost of non-compliance, infringement notice or prosecution. For a small business the dumping duties generated from misclassification could mean the end of the business. The cost of getting it wrong could also extend to other regulators and agencies, who rely on correct classifications to identify community protection risks and impose extreme penalties for noncompliance. Industry therefore reports less focus about fear of paying underpaid revenue and more about the cost of compliance action. In 2017 ACCI undertook an internal research review of civil and criminal liabilities of proving origin in international trade which found that at all stages of the trade process, persons can be liable for a range of civil offences with significant financial penalties, and in some cases even criminal liabilities with custodial penalties. Thus, persons engaging in trade face a significant and growing set of risks associated with proving origin for international trade.

The abolishment of nuisance tariffs would be a welcome initiative for industry to remove some of the compliance and liability costs. However, it is important this is done cautiously and with the aim of

¹ OECD Trade Policy Working Paper No. 33 THE AUSTRALIAN PREFERENTIAL TARIFF REGIME

reducing compliance. Removal of unnecessary tariff codes must take into consideration the reassignment of products allocated to these codes. Should products traditionally allocated to nuisance tariff codes be reassigned to more productive codes, business must be adequately notified and supported to avoid further complication of the already complex compliance system and risk of non-compliance or prosecution fees for misclassification.

Abolish all tariffs

Once the trade agreements with the EU and UK are completed there will be virtually no tariffs applied to imports in Australia. This is acknowledged in the 2019 Budget with forward estimates showing that revenue collection after drawbacks will be little more than \$500 million. However, both industry and government remain saddled with administrative compliance costs for preferentially applied tariffs which are little more than protectionist red tape and a tax burden on industry.

The outdated tariff regime's administration costs are extreme when weighed against the small amount of tariff revenue collected.² These costs are a particularly destructive part of any tax system as they are hidden, fall hardest on small businesses, and are difficult to quantify. Moreover, the Australian government has succeeded in making the current tariff regime as administratively complex as possible by creating a tariff schedule with more than 6,000 different product categories and over 84,000 lines of tariff schedule. Even if importing from only one country, businesses may have to wade through multiple tariff schedules and trade preference agreements. For example, imports from Malaysia can enter Australia under three alternative preferential tariff schedules.

Where there is not a preferential trade agreement the customs duty applied is typically 5% of the customs value. For example, the automotive industry has 2-5% tariffs on the imports of vehicles and parts from countries with whom we don't have free trade agreements including the luxury car tax. As a stand-alone cost, this may not be a deterrent to importers or a protective mechanism for domestic industry, but it is a compliance burden for business. Further, these remaining 5% tariffs represent an increase in the cost of inputs for Australian businesses — which are passed on to us all as consumers whilst inflicting substantial administrative costs and indirectly reducing worker wages. An ANU working paper estimated Australia's GDP could increase by around 0.4% to 0.6% (or around \$7 billion) over time once all remaining tariffs are abolished.³ There is no fiscal case to keep the remaining tariffs, as they no longer raise significant revenue. Gross tariff revenue in 2017-18 was reported as just \$1.9 billion — less than 0.5 per cent of total federal government revenue. In the long run, it is also likely that abolishing Australia's tariff regime would largely pay for itself. A boost to Australian GDP from tariff reform would flow through to higher income tax and GST receipts for the government. Removal of tariffs also removes a lot of other red tape: tariff classifications, tariff concession orders, duty drawbacks, etc. Australia should reduce the administrative cost on Government and compliance cost on business to a minimum by simply offering WTO Most Favoured Nation terms (ie no tariff) to all comers. There is already precedent for this approach in Singapore's tariff regime which applies MFN terms to almost all tariff lines with the exception of few lines on environmental and social grounds. Harmonised system (HS) codes are used by a number of agencies and industries and classification of goods will continue to be necessary — as is continued in the Singapore tariff schedule, however the unnecessary burden on business, Government and the economy should be reduced as much as possible.

The unilateral removal of Australia's remaining tariffs is well overdue: it would sweep away the last vestiges of our protectionist past and put an end to a complex and costly bureaucratic system. But

² This does not apply to anti-dumping duties which serve a different purpose and justification from standard tariffs given dumping duties don't apply unless the goods are being sold from overseas at a price deemed below market value and injurious to the Australian economy.

³ Paul Gretton; Bilateral and Regional Trade Agreements: Detangling the Noodle/Spaghetti Bowl; <https://crawford.anu.edu.au/publication/crawford-school-working-papers/11707/bilateral-and-regional-trade-agreements-detangling>

more importantly, removal of tariffs would generate shared benefits for our local businesses and ordinary Australians – a win-win reform that we can all get behind.

Summary

The Australian Chamber strongly supports the Productivity Commission's inquiry on the costs and benefits associated with 'nuisance tariffs' which impose compliance costs on businesses yet produce negligible benefits to the Australian Government or producers. Even with 0% tariffs, there is still a cost on Government and industry and an unnecessary burden of Government is a dead hand on the economy. We support continued action through the Trade and Assistance Review to review and remove these tariffs and recommend the removal of nuisance tariffs as step towards removal of all tariffs and easing of the compliance burden on businesses.

About the Australian Chamber

The Australian Chamber of Commerce and Industry speaks on behalf of Australian Businesses at home and abroad. The Australian Chamber represents hundreds and thousands of businesses in every state and territory and across all industries. Ranging from small and medium enterprises to the largest companies, our network employs millions of people. The Australian Chamber membership list can be viewed at www.australianchamber.com.au/membership/current-members/

Telephone | 02 6270 8000 Email | info@australianchamber.com.au Website | www.australianchamber.com.au

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