

# BCA submission to Treasury consultation on Tariff Reform: removal of nuisance tariffs

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# 1. Overview

The Business Council of Australia (BCA) welcomes the opportunity to make this submission to the Treasury consultation on Tariff reform: removal of nuisance tariffs. The BCA has a long history of advocating for freer trade and lower tariff barriers and has previously called for the removal of all remaining tariff barriers. The BCA has consistently argued that the compliance burden associated with remaining tariffs is a significant cost burden on industry, exceeding any benefit to industry and revenue raised.

The BCA accordingly welcomes the proposed abolition of 460 nuisance tariffs. This is the most significant tariff reform since the Howard government removed 400 nuisance tariffs in 1999 following a review by the Productivity Commission.

However, the BCA notes that the estimated benefit from the abolition of these tariffs is only \$30 million per year relative to an estimated compliance burden on business from Australia's overall remaining tariffs of \$1.2 billion to \$3.6 billion, pointing to much larger potential benefits from more comprehensive tariff reform. A comprehensive repeal of all of Australia's remaining tariffs could raise Australian GDP by up to \$15 billion, benefiting Australian business and consumers. The *Customs Tariffs Act 1995* imposes a significant burden on industry, even when tariffs are not imposed, due to the need to ensure compliance with the Act.

Complete abolition of Australia's remaining tariffs would be a landmark economic reform and would help cement the government's economic reform credentials.

## 2. Key recommendations

- The BCA supports the proposed abolition of nuisance tariffs.
- The BCA recommends that the government extend this reform to all remaining tariff barriers in order to secure the even larger net benefits available from reducing compliance and collection costs.

## 3. Benefits of proposed tariff reform

The proposed reform would abolish around 460 nuisance tariffs that currently offer little by way of effective assistance to Australian industry and raise relatively little revenue for government, and yet impose a significant compliance cost on Australian business. The estimated reduction in compliance costs is equal to around \$30 million per annum to Australian business and consumers.

Around 90 per cent of Australia's imports enter the country duty-free due to Australia's free trade agreements that have extended preferential treatment to Australia's major trading partners.<sup>1</sup> However, for goods on which tariffs still apply, there is a significant compliance burden associated with establishing eligibility for duty-free imports under the terms of preferential trade agreements and domestic tariff concessions.

The Productivity Commission estimates that these compliance costs amounted to between 0.9 per cent and 2.8 per cent of the value of imports that benefited from a trade preference or tariff concession (between \$1.2 billion and \$3.6 billion in 2021-22).<sup>2</sup> At the same time, Australia's remaining tariffs raised only \$1.8 billion in revenue. The Productivity Commission no longer quantifies the effective rate of assistance Australia's remaining tariffs provide to local industry because of the tariff as such, but instead calculates the associated compliance burden.

When importers face compliance costs, their domestic competitors are less exposed to competition from those imports. Compliance costs, rather than the direct import price effect of now very low tariff rates, are more economically significant. Tariff rates have declined in economic significance in both absolute terms and relative to other forms of industry assistance. Whereas tariffs applied at rates in excess of 50 per cent of import value across a wide range of goods in the 1970s, unilateral tariff reductions over many decades have seen most tariff rates decline to a statutory rate of five per cent applied to a smaller number of imports.<sup>3</sup>

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<sup>1</sup> Productivity Commission, Trade and Assistance Review 2021-22.

<sup>2</sup> Productivity Commission, Trade and Assistance Review 2021-22. pp. 5 and 16.

<sup>3</sup> Productivity Commission, Trade and Assistance Review 2021-22. p. 71.

The estimated \$30 million reduction in the annual compliance burden from the proposed tariff reform relative to the overall compliance burden measured by the Productivity Commission highlights the scope of the proposed reform. A broader abolition of tariffs would secure larger benefits, but only the abolition of all remaining tariffs could be expected to secure the large potential gains identified by the Productivity Commission.

Compliance costs arise because businesses devote resources to accessing preferential and concessional rates of customs duty. These compliance costs are due to:

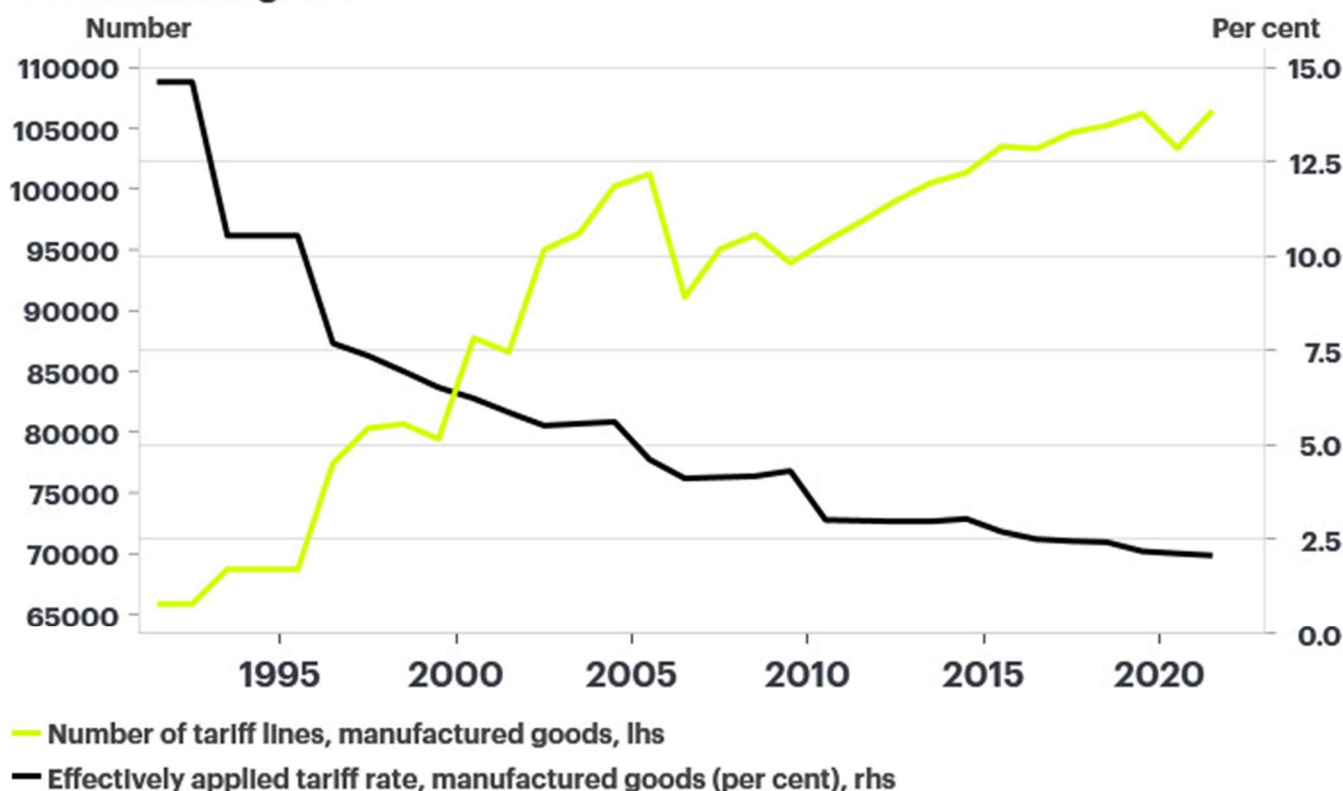
- the costs of administration needed to demonstrate eligibility for a preference or concession; and
- the costs that foreign producers incur in adapting their production to make the imports eligible for a preference.

These costs are passed on along the supply chain to Australian consumers in the form of increased prices, adding to cost of living pressures.<sup>4</sup>

The compliance burden on Australian business can also be illustrated with reference to the size of the *Customs Tariff Act 1995*. The current Act is comprised of seven volumes, organised into 21 sections and 97 chapters, totalling almost 2,000 pages which businesses need to review to determine whether they can avoid a five per cent duty if the product satisfies preferential treatment. Only the *Income Tax Assessment Act 1997* and *Corporations Act 2001* would rival the *Customs Tariff Act 1995* in terms of the volume of legislation that needs to be complied with.

The compliance burden can be visualised with respect to the number of tariff lines for manufactured goods imports to Australia, as measured by the United Nations Conference on Trade and Development, which have risen over time to around 106,000 in 2021 from around 66,000 in 1991, even as the effectively applied tariff rate has declined from around 15 per cent to as little as 2.1 per cent over the same period (Figure 1).

**Figure 1. Effectively applied tariff rate (per cent) and number of tariff lines, manufactured goods**



Source: UNCTAD

Even where imported goods benefit from trade preferences or concessional treatment, it is often necessary to consult the Act and the rules of origin in trade agreements to determine whether a good qualifies for such treatment. The full benefits of tariff reform thus require the complete abolition of Australia’s remaining tariff schedule.

<sup>4</sup> Productivity Commission, Trade and Assistance Review 2021-22.

## 4. Benefits of broader tariff reform

In 2020-21, international trade already supported around 1 in 4 jobs (or 2.8 million Australian full-time equivalent (FTE)) jobs in the Australian economy.<sup>5</sup> There is a strong case for a much more ambitious reform of the tariff system to remove red tape at the border. At least one study suggests that Australia's GDP could increase by around 0.4 per cent to 0.6 per cent (or around \$10.3 billion to \$15.4 billion) over time once all remaining tariffs are abolished.<sup>6</sup>

According to the Productivity Commission, around 30 per cent of imports from countries with a preferential trade agreement with Australia continue to attract a tariff because importers found the administrative costs of accessing the preferential rate excessive.<sup>7</sup> Abolition of Australia's remaining tariffs would help progress the Simplified Trade System ambition to develop a Single Trade Window to reduce overall cross-border trade compliance costs.

Abolition of Australia's remaining tariffs would also set a positive example to the rest of the world and enhance Australia's free trade credentials in multilateral, plurilateral, regional and bilateral trade negotiations. While Australia's remaining tariffs are sometimes viewed as potential bargaining chips in free trade negotiations, these tariffs are of limited value in trade negotiations, with modern trade agreements typically focused on behind-the-border trade barriers and issues such as cross-border investment and migration rights, where the potential gains from increased trade are much larger than from further reducing already low tariff rates.

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<sup>5</sup> The Hon Don Farrell, 'Trading our way to greater prosperity and security,' speech to Australian APEC Study Centre, RMIT, 14 November 2022.

<sup>6</sup> Paul Gretton, 'Bilateral and Regional Free Trade Agreements: Detangling the Noodle/Spaghetti Bowl,' East Asian Bureau of Economic Research, Australian National University, 2017.

<sup>7</sup> Productivity Commission, Trade and Assistance Review 2015-16.

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