
A Trade in goods

Trade in goods was the initial focus of the Closer Economic Relations (CER) agenda and significant progress has been made in reducing barriers to the flow of goods across the Tasman. However, as indicated in the main report, there remains some scope for reform in relation to tariffs and rules of origin, and biosecurity issues. This supplementary paper sets out the Commissions' analysis of these areas.

A.1 Tariffs and rules of origin

The current situation

General tariffs

Following programs of reform in both Australia and New Zealand dating back to the 1980s, quotas have (all but¹) been eliminated and general 'most-favoured-nation' (MFN) tariffs in both countries are low — generally 5 percent or less. The key exceptions are:

- second hand cars in Australia — which attract a flat rate A\$12 000 duty
- various textiles, clothing and footwear (TCF) items in both Australia and New Zealand, which attract tariffs of 10 percent — although in Australia these are scheduled to fall to 5 percent on 1 January 2015.

In both Australia and New Zealand, there are duty drawback schemes which provide refunds of tariff revenue collected on imports that are subsequently re-exported, including as components of other products.

¹ While Australia and New Zealand have abolished virtually all of their import quotas, a minor exception is that Australia retains a cheese and curd quota scheme. Under the scheme, which was introduced in 1987, up to 11 500 tonnes a year of certain types of cheese and curd can be imported at a concessional rate of duty; prohibitive duties apply thereafter (ACS nd).

Preferential trade agreements

Under the Australia New Zealand Closer Economic Relations Trade Agreement (ANZCERTA), imports from the partner country enter duty free, provided they are deemed to have originated in the partner country under the CER rules of origin (RoO).

Both countries also have a range of bilateral preferential trade agreements (PTAs) with other countries (with some overlaps, but also some differences — box A.1) and are also joint members of some regional agreements. As a result, a sizeable proportion of imports into both countries enter duty free.

Box A.1 Australian and New Zealand PTAs: overlaps and differences

Along with the trans-Tasman trade agreement (ANZCERTA), both countries have separate PTAs with Thailand, Malaysia and Singapore. However, there are differences in Australia and New Zealand's PTAs with each of these countries, in matters such as the preferences offered and rules of origin. Both countries are also members of the ASEAN (Association of Southeast Asian Nations) Australia New Zealand Free Trade Agreement (AANZFTA).

Australia and New Zealand also have some different PTA partners — most notably, Australia has a PTA with the United States (whereas New Zealand does not), while New Zealand has a PTA with China (whereas Australia does not).

In addition, Australia has a PTA with Chile and is negotiating bilateral PTAs with China, Indonesia, India, Japan and South Korea.

New Zealand is negotiating bilateral PTAs with India, South Korea, the Gulf Cooperation Council and Russia, Belarus and Kazakhstan.

New Zealand is also a signatory to the 'P4' agreement with Singapore, Brunei and Chile. Both Australia and New Zealand are currently involved in negotiations for a Trans-Pacific Partnership agreement, which would extend the P4 agreement to include a number of additional countries.

Both countries are also negotiating a Regional Comprehensive Economic Partnership Agreement with the ten ASEAN countries and China, Japan, India and South Korea.

And both countries are also negotiating an extension of the Pacific Agreement on Closer Economic Relations (PACER plus).

Cost and efficiency issues

There are three main ways in which these tariff arrangements can impose efficiency costs on Australia and New Zealand:

- non-zero tariffs can distort resource allocation and entail administrative and compliance costs
- tariff concessions in trade agreements such as CER can distort trade patterns
- RoO, which are used to delimit tariff concessions in PTAs, can add their own distortions and costs.

The nature and magnitude of these costs and distortions are discussed below.

Tariffs

Tariffs on imported goods have a range of effects. They raise the price at which those goods are sold on the local market, and thus allow scope for domestic producers of similar products to increase their prices. This allows the domestic industry to expand employment and output, displacing some imports. However, the higher prices for the products reduce consumers' spending power, which can dampen demand for other goods and services in the local economy. Where the protected products are used as inputs by domestic 'downstream' industries, their higher prices also add to the costs of those industries, which can render them less competitive and cause a contraction in their output and employment. An expansion of a protected industry can draw not just labour but also capital and other resources away from less assisted industries, including through mechanisms such as changes in wages and exchange rates. Tariffs also provide some tax revenue to the government. Collecting and administering the tariff, and operating a duty drawback scheme, also entail costs for governments and business.

An extensive body of theory, empirical research and policy experience indicates that while tariffs can assist protected sectors and provide governments with revenue, they typically entail net costs for an economy. Reflecting this, there have been significant reductions in tariffs globally over the last few decades. With these overall cuts, there have also been reductions in disparities of tariff assistance between industries. This is important as such disparities themselves distort resource allocation.

As tariffs decline, their distortionary effects become smaller. Determining the appropriate end point for tariff reductions involves weighing the benefits of reducing the remaining costs and distortions against other considerations, including the following.

- To the extent that a country enjoys a degree of market power in some export markets (as some postulate Australia may do in some commodity markets), reducing tariffs on imports in the country's own market may in theory bring about a loss due to changes in the 'terms of trade'.²
- To remain fiscally neutral, the revenue forgone from lower tariffs may need to be replaced by other taxes, and the other taxes will also have some (typically smaller) distortionary effects.
- Reducing MFN tariffs reduces their scope to be used as 'bargaining coin' in trade negotiations.

And where tariffs are reduced, governments also need to consider whether adjustment assistance, additional to generally available programs for people affected by structural adjustment, is appropriate.

The Australian Productivity Commission considered such issues in its review of Australia's General Tariff Arrangements (and more recently in its 2010 report on Bilateral and Regional Trade Agreements) and made an 'on balance' recommendation that Australia's remaining general tariffs be abolished (PC 2000). The modelling exercises conducted by the Australian Commission in 2008, in relation to assistance to the Australian TCF and automotive industries, also pointed to the desirability of reducing and ultimately removing tariff assistance (PC 2008a, 2008b).

One way to gain an indication of the magnitude of the costs of Australia's and New Zealand's current tariff regimes is to assess the effects of their removal. If all tariffs in Australia and New Zealand were set to zero, tariff preferences would be rendered redundant. Imports would be sourced from the most cost-effective producers and RoO would not be required (see below). Within each country,

² When a country reduces its tariffs, resources will typically flow from import-competing activities to other activities including those with an export focus, thus leading to greater supply of those commodities onto the world market. Theory suggests that, if the country has market power in relation to a particular commodity, increasing the volume of the commodity exported could cause unit returns to fall, leading to a net loss. Were this the case in practice, a further question for policy makers would be whether this potential loss is best addressed by retaining tariffs, or by applying targeted instruments, such as export levies on the commodities deemed to have market power.

resources would typically be reallocated towards their most economically valuable uses.

The Australia New Zealand Economic Analysis model (supplementary paper E) has been used to illustrate some of these effects. In the simulation of removing all remaining MFN tariffs in the two countries, gross domestic product (GDP) in both countries is estimated to increase, by 0.3 percent in Australia and 0.4 percent in New Zealand. To these results need to be added the potential gains associated with eliminating the CER RoO, which in an earlier study were assessed to range between 1.5 and 6 percent of the value of relevant imports (PC 2004). Also, the results do not include the effects of removing the specific rate tariff on second hand car imports into Australia. Nor does the modelling seek to capture any gains from expansions in global capital availability or dynamic gains from increased competition and pressure to adopt cost-reducing technologies that might arise from tariff reductions.

Merchandise trade diversion

A second source of efficiency costs potentially arises from the 'preferential' nature of ANZCERTA. As discussed in chapter 3, whereas non-preferential reductions in tariffs (which can be initiated unilaterally, or multilaterally through the World Trade Organisation (WTO) or non-discriminatory regional processes) are unambiguously welfare enhancing, preferential reductions may be either welfare enhancing or welfare reducing, depending particularly on whether on balance they cause net trade creation or diversion.

Econometric studies have been used to help assess the impacts of CER on trans-Tasman trade. Some early studies found that the CER may have been, on balance, trade creating. More recent studies, and in particular the Australian Commission's 2010 study, have benefitted from developments in data and statistical methods, and these studies suggest that CER has been net trade diverting (box A.2).

Over time, however, the potential for trade diversion has been greatly reduced (as recognised by a number of study participants, including Lloyd (sub. DR62) and Greig (sub. DR123)). Both countries have substantially lowered their MFN tariffs and entered into agreements that extend preferential tariff rates to other countries. CER tariff preferences are now low and would be expected to provide only a small ongoing boost to trans-Tasman trade as well as minimal incentives for trade diversion.

Box A.2 Past analyses of CER's impact on merchandise trade

The estimation of the impacts of preferential trade agreements, such as CER, has a long history. Assessing whether a particular agreement is trade creating or trade diverting is not straightforward, because there are often difficulties in isolating the impacts of trade agreements on trade flows from those caused by growth, changes in market conditions and other policy settings. Further, most studies do not account for potential scale effects associated with access to larger markets or productivity improvements that might arise from greater import competition (although such effects will normally be correlated with the net trade creating effects of the agreement, positive or negative).

Against that background, past studies of CER (and other preferential trade agreements) have yielded a range of results.

- In 1989 the Australian Bureau of Industry Economics (BIE) examined the impact of CER on Australian manufacturing industry, and concluded that CER likely had had a small trade creating effect in affected sectors. It noted that any trade diversion effects of CER were likely outweighed by the separate trade creation effects of simultaneous general reductions in tariffs. The benefits of CER were attributed principally to rationalisation within industries, and specialisation across industries.
- A 1995 study by the BIE undertook modelling that indicated CER had a small positive impact on GDP and welfare in both countries.
- Adams et al. (2003) found that a large number of trade agreements were net trade diverting, including CER. However, the authors noted that the results were less robust for agreements with a small number of members, such as CER, and that their treatment of transport costs was likely to have underestimated the increasing attractiveness of Australia and New Zealand trading with other countries.
- DeRosa (2007) found that most preferential trade agreements have had net trade creating effects, but results for CER were often negative although they varied with model specification.

In a more recent (2010) study of the impacts of trade agreements, including CER, the Australian Commission introduced a number of methodological innovations to address deficiencies identified in earlier studies. While recognising the need for careful interpretation of the results, the Commission estimated that CER had had a small positive impact on trade between Australia and New Zealand, but a larger negative impact on both countries' trade with the rest of the world.

Rules of origin

RoO are used in PTAs to limit or prevent third parties shipping their products through one of the PTA partners to take advantage of the tariff preferences offered by the other.³

However, as the Australian Commission observed in its 2010 study (PC 2010), such re-exportation need not be welfare-reducing, and RoO can introduce their own allocative distortions — for example, by having more ‘stringent’ origin requirements for some products than for others.

RoO also entail compliance costs for entities in Australia or New Zealand trading with the partner country. Where firms want to claim a tariff preference under the ANZCERTA, they need to be able to demonstrate that the products meet the RoO requirements, which in some cases may require changes to the product and/or the way it is made. Almost all of the documentation produced to demonstrate such compliance is retained by the trader, and held only in case of future audits. As noted above, the Australian Commission (PC 2004) assessed the cost of RoO at 1.5–6 percent of the value of affected imports.⁴ The New Zealand Customs Service (sub. DR114) noted that these estimates are now somewhat dated and that there have been revisions to simplify the CER RoO in recent years. However, the Commissions were told in roundtable consultations that RoO continue to impose compliance costs and cause difficulties, particularly for small- to-medium-sized businesses.

RoO also add to the administrative costs of the Customs Services of both countries, although these costs do not appear large. For example, the Australian Customs and Border Protection Service estimated that, in 2008-09, it spent around A\$1 million on compliance activities for all of Australia’s PTAs (PC 2010).

³ RoO can also be used in international trade for a variety of other purposes, including for trade statistics, to implement antidumping measures, to determine whether imported goods qualify for MFN treatment, and for labelling and marking requirements. (PC 2010) These RoO often differ from those in PTAs to prevent re-exportation.

⁴ The discussion draft noted that importers continue to pay duties on a small proportion of trade between Australia and New Zealand, and that this might suggest that some traders may find complying with the RoO requirements too costly to make claiming the tariff concessions worthwhile. However, the New Zealand Customs Service (sub. DR114) said that it monitors compliance costs closely, and had not received any feedback in recent years from traders to suggest that the costs of proving origin is greater than the value obtained from the RoO.

As noted, there have been recent changes to the CER RoO, in particular the move to product-specific rules principally using a ‘change of tariff classification’ method for determining origin,⁵ but various concerns remain. According to Lloyd:

Rules of origin are the most important impediment remaining to the movement of goods across the Tasman. Rules of origin are inherently trade-restricting but some rules are necessary in a free trade area to prevent trade deflection. They are also trade-distorting as they give an incentive to producers to use inputs sourced from the partner country in order to satisfy the rules. Rules of origin are recognised as a problem in all free trade areas.

Rules of origin for goods shipped across the Tasman have been amended several times. ... The rules still impose substantial compliance costs on importers. (sub 5, pp. 5–6)

Policy options

The three sources of potential cost and inefficiency mentioned above provide a focus for considering reform options. However, on present settings, the first two matters — remaining MFN tariffs and CER preferences — are of diminishing importance and, in the case of the latter, would be unlikely to warrant significant ameliorative action on its own. Reforms to address the costs and distortions associated with the CER RoO would potentially have a larger pay-off — although reforms such as the elimination of all remaining Australian and New Zealand tariffs could potentially address all such problems simultaneously.

In the context of this study, the Commissions have examined a range of options that are consistent with that goal, but with a focus on the trans-Tasman relationship and in particular on the CER RoO. As discussed in chapter 4, the Commissions are recommending a waiver of the CER RoO requirements for items in Australia and New Zealand with MFN tariffs of 5 percent or less (option 1 below), and also see potential merit in reducing the small number of MFN tariffs above 5 percent to that level, thereby allowing the remaining RoO to also be waived (option 2).

In considering possible reforms in this area, another set of considerations is whether there would be benefits in Australia and New Zealand ‘joining forces’ to negotiate future trade deals with third parties, for example in Asia; and, if so, whether certain options might facilitate or necessitate this. This argument has been advanced in support of the formation of a CER customs union (option 3), although, as indicated in chapter 4, the Commissions do not favour this option.

The three options are discussed in more detail below.

⁵ The Australian Commission commented on the revised CER RoO in PC (2007).

Option 1 Waive CER RoO

Under this option, RoO requirements for gaining CER tariff preferences would be waived for items traded between Australia and New Zealand for which the countries' MFN tariff rates are 5 percent or less.

The Australian Commission recommended a similar waiver in its 2004 CER RoO study for items deemed to wholly originate from or be 'manufactured' in Australia or New Zealand (using a simple test) for which the difference between the two countries MFN tariffs was 5 percentage points or less. In devising the waiver proposal, the Commission calculated that, while freight costs vary from product to product, the additional costs of re-exporting a product of a third country from one of the partners to the other partner were, on average, around 5 percent of the value of imports. Where MFN tariffs are less than the additional costs of re-exporting, RoO are unnecessary to discourage it.

It should be noted that (re-)exporting costs can vary over time. In the Australian Commission's 2010 report, average freight (and insurance) costs across the Tasman between 2002 and 2009 were calculated as exceeding 5 percent of the value of imports, whereas in the three years to 2011-12 they have averaged around 4 percent. When items for which the MFN rate is zero are excluded, the average freight-plus-insurance cost during this period was around 4.5 percent of the value of imports. The full cost of re-exportation would exceed this share.⁶

Given the low MFN tariff rates that currently apply in Australia and New Zealand, almost all items traded could qualify for such a waiver. This option could therefore eliminate most of the distortions, and also the red tape and other compliance costs emanating from the CER RoO currently incurred by trans-Tasman exporters and importers.

Some firms on each side of the Tasman would lose the small protective effect that the RoO provide (by increasing costs for competitors from the other CER partner). However, the Commissions consider that such effects would be minor, particularly relative to other economic forces (such as exchange rate shifts) that affect the competitiveness of firms. Moreover, such protection distorts trans-Tasman resource allocation and is contrary to the overall objectives of CER.

⁶ Using detailed import clearance data from the Australian Bureau of Statistics, average freight costs for imports into Australia were estimated as the difference between the 'free-on-board' and 'cost-insurance-freight' values as a proportion of the customs value. These estimates do not include any re-exporting costs incurred prior to the 'fob' point.

Concerns about transshipment and re-exporting

In its submission following the discussion draft, the Australian Customs and Border Protection Service stated:

The proposed waiver of RoO for all items for which tariffs in Australia and New Zealand are at 5 percent or less would allow goods falling under that category to be transhipped through New Zealand to gain preferential tariff treatment upon entry into Australia. This may in turn result in trade diversion in the region and may affect the trade patterns in other countries. Due to the possible trade distorting effect of the above proposal, Customs and Border Protection is of the view that the above proposal warrants careful reconsideration. (sub. DR127, p. 1)

The New Zealand Customs Service also raised concerns about the proposal:

If RoO are removed from CER, the likelihood increases that third-country goods will benefit from CER's tariff-free entry. A process would then be required to ensure that third-country goods do not transit Australia to benefit from CER preference into New Zealand (and vice versa). This concern is diminishing as we work on more Free Trade Arrangements but will remain an issue while some notable exceptions continue (for example, goods from the United States entering New Zealand through Australia or goods from China entering Australia through New Zealand). (sub. DR114, p. 2)

The Commissions note that part of the underlying logic for the proposed waiver is that, where tariff concessions are generally less than the costs of re-exporting,⁷ firms would have little incentive to engage in exporting and then re-exporting products from a third country through one of the partner countries to avoid the other partner's tariffs. At the extreme, if there is no incentive to engage in that practice, there would be no point in requiring trans-Tasman traders to be able to demonstrate compliance with the CER RoO. Nor would there be any benefit in requiring the customs service in either country to monitor compliance with the RoO or to follow an alternative process to prevent re-exporting. As the Australian Food and Grocery Council said:

⁷ In the discussion draft, the Commissions used the term 'transshipment' in discussing the waiver proposal. In subsequent discussions, it has emerged that this term is sometimes used to describe goods being shipped (or 'transiting') through a third country without necessarily entering into 'home consumption' in that country. The Commissions' waiver proposal would not cover goods that simply transit one of the partner countries on their way to the other partner, as these goods would still be deemed to have originated from, and have been shipped from, a country outside the CER zone. Rather, under the Commissions' proposal, any goods from a third country that were shipped to one of the partner countries would only be eligible to obtain duty concessions under the ANZCERTA were the goods to clear the customs barrier and enter 'home consumption' in one of the partners, before being exported to the other partner. The Commissions has thus used the term 're-exporting', which involves its own costs, to describe this process in this final report.

Given the Australian Productivity Commission's previous findings with respect to the cost of transshipment, and the fact that most tariffs are negligible in both Australia and New Zealand, there appears a low likelihood of third countries using transshipment through either Australia or New Zealand to enter the other Tasman market.

It would therefore be a burden to Australian and New Zealand businesses, with no offsetting policy benefits, to continue to require all exporting businesses to provide evidence of their origin. The Commissions' proposed initiative would facilitate greater trans-Tasman trade flows by reducing the administrative and compliance costs of such trade. (sub. DR119, pp. 6–7)

Some participants argued, however, that even though the average cost of (re)exporting products across the Tasman may be around 5 percent of the value of affected imports, it would be less than 5 percent for some items. This would mean that there could be incentives for re-exporting some items under the waiver proposal. In this context, the Australian Department of Innovation, Industry, Science, Research and Tertiary Education stated that it has:

... received representations from Australian industry groups to indicate that a 5 per cent tariff is commercially meaningful, particularly for manufacturers of high value-added products and traders of bulk, homogenous commodities. (sub. DR73, p. 1)

The Australian Commission recognised that transport and related costs as a share of product value, and thus incentives for re-exporting, would vary between products when it first proposed the option (PC 2004).

However, it considered that the advantages of waiving the RoO requirements, and thereby avoiding their compliance costs and distortionary effects, outweighed such concerns. It was also cognisant of the requirement for a product to wholly originate from or be manufactured (using a simple definition, drawn from the Singapore-Australia Free Trade Agreement) in one of the partner countries to qualify for tariff concessions under CER. This would mean, among other things, that these concessions could be withheld for finished products from third countries that were simply re-exported, with little or no transformation of those products, from one CER partner to the other.

While an option would be to replace the current product-specific RoO with such a test, normal customs protocols may already provide an avenue for addressing clear cases of simple re-exporting — that is, without some re-processing — were any cases to occur. Customs officials have indicated that, even without formal CER RoO, importers into a CER partner country would be legally obliged to specify the appropriate country-of-origin of the goods being imported, on the relevant customs declarations. For goods re-exported from one of the partner countries without any transformation in that country, the Commissions understand

that the relevant country would be the initial, originating country rather than the CER partner. This would technically rule out eligibility for CER duty concessions for, for instance, motor vehicles that were shipped from a third country to New Zealand, driven across the wharves and cleared by New Zealand customs and then reloaded, and re-exported to Australia. Likewise, bulk commodities from a particular country would remain a product of that country, even in the hypothetical case where they were unloaded, cleared by customs and then re-loaded in another country's port. This should provide a means to sanction any simple re-exporting, were it to occur. That said, the Commissions recognise that, without specific RoO requirements, it would generally be more difficult and costly for the customs services of the two countries to verify the status of imports from the partner country, were there a need to do so.

However, given the costs entailed in re-exporting products and the potential to sanction simple re-exporting, the Commissions consider that there would probably be little incentive for re-exporting for the purposes of gaining CER concessions under the waiver option.

Were such re-exporting to nonetheless occur, the options available to governments would include to introduce a simple but explicit origin test (along the lines of the Australian Commission's 2004 proposal); to reapply the current RoO procedures to the items in question; to reduce the MFN tariffs on those items, thereby further reducing any incentive for re-exporting; or to allow such re-exporting without additional sanction. This latter course would still potentially bring benefits — as noted earlier, 'trade deflection' can be a source of lower prices and added competition in the destination country.

Impacts on other areas of government policy

Following the discussion draft, some participants expressed concern that waiving the CER RoO requirements would have adverse side-effects on the administration of other government functions, namely the application of:

- anti-dumping measures
- quarantine requirements
- local content provisions
- country-of-origin labelling requirements.

Box A.3 contains a selection of such concerns.

Box A.3 **Participants' concerns about the draft recommendation on CER RoO**

The Australian and New Zealand Councils of Trade Unions (sub. DR118) rejected the draft recommendation on trans-Tasman Rules of Origin for the following reasons.

- It would be contrary to the interests of local producers and employees, particularly in light of the consumer preference for clear labelling on the country of origin of their purchases;
- It would reduce the capacity of various levels of government to implement the local content provisions of their procurement policies around goods and services, including manufactured items;
- It would reduce the capacity to regulate quarantine and biosecurity issues between the two countries in the protection of local producers and our capacity to ensure that goods and services meet local health and safety, quality and consumer standards.

Proposals to remove Rules of Origin are further complicated by the various bilateral and multilateral trade agreements being negotiated which may result in Rule of Origin exemptions being extended to third parties not envisaged in the original proposal. (p. 11)

Winstone Wallboards (sub. DR121) raised concerns about the effects of the proposal on the administration of anti-dumping measures:

Country of origin is needed in order to impose current and future remedies under the Anti-dumping regimes of both countries. Loss of RoO would appear to compromise — perhaps make impossible — the legitimate trade remedy process which exists under the Dumping and Countervailing Duties Act 1988. (p. 1)

Heinz Wattie's Ltd (sub. DR122) was also concerned about these and other effects it saw arising from the Commissions' proposal:

The purpose of ANZCERTA is to enable preferential trade to take place between goods which are the origin of New Zealand or Australia. The Agreement specifically excludes preferences being granted to third countries.

The ability for Australian and New Zealand manufacturers to take dumping actions (but not countervailing) against goods from the other country was extinguished in 1990. This exclusion pertains to goods the origin of Australia or New Zealand only. There is no ability for third country goods to benefit from this exclusion.

It has been publicly stated on numerous occasions by government officials in recent years that the retention of tariffs in New Zealand has provided some 'negotiating coin' for use in current and future trade negotiations.

HWL is strongly opposed to the options proposed by the Commissions, which in our view are contrary to the above policy settings, which result in Rules of Origin being waived, and ultimately abolished. It is with equal concern that we see the effectiveness of anti-dumping measures being diluted or removed by these proposals. HWL has been a user of the trade remedies legislation in New Zealand and some of our products currently have the assistance of dumping measures imposed against imported goods.

Generally speaking, anti-dumping measures exceed 5% (or the threshold price effectively exceeds a 5% uplift), and this provides a real incentive for suppliers whose goods are subject to anti-dumping measures to take steps to avoid these costs. The proposals recommended by the Commissions will simplify these techniques by enabling third country goods, trans-shipped through Australia, to defeat dumping measures by virtue of achieving Australia origin through trans-shipment. (pp. 1–2)

However, the CER RoO are either not necessary for these other purposes, or waiving them in relation to providing tariff concessions need not prevent their use for the other purposes.

- Customs services' decisions as to whether a particular import qualifies for the application of **anti-dumping** duties are normally based on general product classification and source country information that is separate to information about whether the import complies with PTA RoO. Goods shipped through a third country are typically treated as exports from the source country for the purpose of considering anti-dumping measures. While under CER, anti-dumping measures cannot be applied to goods deemed to originate in the partner country, it is not clear that legislative amendments would be required to enable such measures to be applied to third party goods that were simply re-exported across the Tasman, were the CER RoO to be waived for the purposes of providing tariff concessions. In its submission following the discussion draft, the Australian Customs and Border Protection Service stated:

The proposal ..., as we understand it, does not appear to have any implications for Australia's anti-dumping and countervailing regime. The RoO under ANZCERTA are used to determine whether imported goods originate from the ANZCERTA trading partners for preferential duty purposes. Those RoO are not used to determine, for anti-dumping or countervailing purposes, the origin of the particular goods subject to the measures.

Further, transshipment is an issue already experienced in the anti-dumping and countervailing system. The proposal to change the CER RoO should not have any implication for the way we deal with transshipment cases, as long as all relevant shipping records remain available under any new proposal i.e. records that would be available to determine where the goods originated. (sub. DR127, p. 2)

- A related concern may be that a firm whose products are subject to anti-dumping duties in one of the CER partners, say New Zealand, might ship them to Australia, and at that point make minor changes to the product sufficient that it no longer qualifies for anti-dumping measures in New Zealand. It could then export the product to New Zealand. However, the firm could make the same change in any third country, or indeed when it manufactures the product, and legitimately avoid the application of the anti-dumping measure.
- Regarding the application of **quarantine** requirements, the Commissions were advised by officials in both countries that quarantine authorities use other information from cargo reports and import declarations, together with import permits where these are required, to identify goods requiring quarantine attention. For example, an official from the New Zealand Ministry of Primary Industries advised:

For plants and plant products, the important document for risk screening is the phytosanitary certificate issued in compliance with the International Plant Protection Convention's International Standards for Phytosanitary Measures (ISPMs). The relevant measure is ISPM 12: Guidelines for Phytosanitary Certificates. This document requires 'place of origin' as part of the description of the consignment. If the origin of the product is not the same as the country issuing the phytosanitary certificate, then a phytosanitary re-export certificate is used. This re-export certificate includes a country of origin statement and accompanies the original phytosanitary certificate from the country of origin. (pers. comm., 6 November 2012)

- In relation to **local content provisions** in government procurement policies, the Commonwealth, State and Territory Governments of Australia and the Government of New Zealand have undertaken to provide a single government procurement market. Thus, under the *Australia New Zealand Government Procurement Agreement 1997*, Australian and New Zealand suppliers are treated equivalently for the purposes of determining local content. Under clause 1(f), 'Australian and New Zealand suppliers' are defined as suppliers of goods or services who meet the requirements of the CER RoO. The Commissions note, however, that waiving the CER RoO for the purposes of determining whether imported goods warrant tariff concessions would not preclude their ongoing use for decisions about government procurement, where procurement schemes include local content provisions. Indeed, many goods already enter Australia and New Zealand from the partner country without needing to be able to demonstrate adherence to the RoO at the border, simply because the importing country's MFN tariff rate for the good is zero. For those goods to be considered eligible for government procurement, their producers would still need to be able to demonstrate compliance with the CER RoO.
- Regarding **country-of-origin labelling**, the CER RoO are neither necessary nor often used for determining the accuracy of labelling claims in either Australia or New Zealand. For example, under the Australian Consumer Law, there are no general requirements for goods sold in Australia to specify the country of their origin, but the law includes 'safe harbour' defences which outline when certain country-of-origin claims can be made. To attract a 'made in country X' claim, a good must be 'substantially transformed' and incur at least 50 percent of total production costs in the country. Information relevant to demonstrating compliance with the CER RoO may thus also be used for the purposes of supporting country-of-origin claims, were producers to choose to make them. But the Commission understands that there have not been any instances where authorities have had to rely on the current CER RoO in relation to a country-of-origin claim.

Option 2 Reduce MFN tariffs to a maximum of 5 percent

The first option could be extended by reducing MFN tariffs to 5 percent on the few remaining items, in the two countries, that currently exceed that level (by, say, 2015). With a RoO waiver in place, the RoO on these items would also be rendered redundant for the purposes of obtaining CER tariff preferences.

In New Zealand, the main products that would be affected by this change would be TCF for which MFN tariffs are currently 10 percent. Reducing the tariff would be expected to benefit New Zealand consumers of TCF products and other industries, and would also bring pressures for productivity improvements or adjustment within the New Zealand TCF sector. Were this option pursued, it may be appropriate for the New Zealand government to first review the assistance arrangements for the industry and to consider, among other things, whether to provide any adjustment assistance additional to generally available programs for people affected by structural change.

With the scheduled reduction in Australian TCF tariffs due in 2015, all *ad valorem* tariffs in Australia will by then be 5 percent or less and so would be unaffected.

However, the initiative could be extended to the automotive sector which, as well as being assisted via a 5 percent tariff on imported vehicles (and substantial budgetary assistance), is also protected by a specific rate duty on second hand imports of A\$12 000. The A\$12 000 per unit tariff, in *ad valorem* terms, is far higher than a 5 percent tariff for most second hand cars.

The Australian Commission considered the matter of the tariff on second hand car imports as part of its 2002 review into automotive assistance. That review recommended a program of assistance reductions to extend from 2005 to 2015. It did not at that time recommend removal of the tariff on second hand car imports, but said that the issue would need to be revisited following completion of the broader assistance reduction program (PC 2002a).

Were second hand cars able to be imported into Australia without the specific rate tariff, and provided that other regulations did not unduly inhibit such imports,⁸ the price of used cars would be expected to fall. There would also be downward

⁸ At present, some second hand vehicles can be imported into Australia under schemes such as the Specialist and Enthusiast Vehicle Scheme. Importation requires that a vehicle import authority first be obtained, and that imported cars be modified where necessary to meet safety and design standards. While these schemes provide an opportunity for some second hand vehicle imports, the effect of the regulatory regime is to prevent the importation of mainstream second hand vehicles on a commercial scale. Liberalisation of the market would require both the removal of the tariff on second hand vehicles and reform of the accompanying regulations.

pressure on new car prices, to the extent that second hand cars are substitutes for new cars.

This was the experience in New Zealand, where there were in fact substantial quantities of second hand cars imported and significant reductions in new and used car prices, following the liberalisation of the New Zealand car market which commenced in the latter half of the 1980s (box A.4).

Box A.4 Imported second hand cars in New Zealand

Commencing in the latter half of the 1980s, the New Zealand government took a series of steps to remove tariffs and import quotas on motor vehicles, including on second-hand cars. Tariffs on imported cars had been as high as 55 percent immediately prior to the reforms. The reform process was completed in 1998 when remaining tariffs on cars were abolished.

Facilitated by the reforms, used vehicle imports to New Zealand increased from fewer than 3000 in 1985 to 85 000 in 1990 and 150 000 in 2005, or almost two thirds of the 230 000 cars newly registered in that year (SNZ 2012). Almost all had previously been registered in Japan, where registration renewal requirements often lead to the rapid depreciation of vehicles.

The influx of imported used vehicles, many specified at least as well as new New Zealand-assembled vehicles, was accompanied by large falls in the real price of both new and used vehicles (Condor 2009).

The lifting of restraints on new and used car imports had been prompted in part by concerns about the economic effects of protecting high cost vehicle assembly in New Zealand. Vehicle assembly and associated components manufacture subsequently ceased, although because many used imports, on being landed in New Zealand, required preparation for re-sale, some facilities previously used for assembly were adapted for that work (Ministry for Culture and Heritage 2012).

With lower real car prices and the availability of high quality second hand imports, car ownership rates increased. New Zealanders now own more cars on average than Australians, although their light motor vehicle fleet is comparatively old, with an *average* age in 2011 of about 13 years, compared with about 10 years in Australia (MoT 2012).

In the early years after the reforms, there were concerns about aspects of the quality of some used imports where, for example, odometers had been 'wound back'. Quality and safety issues have been addressed through the entry certification process. For example, frontal impact standards were prescribed in the early 2000s, and higher emission standards have been phased in from 2008. The latter now largely preclude the importation of pre-2005 models, and have been ascribed as one of the main reasons why there has since been a large fall in the number of used car imports. However, the number of used car imports still exceeds the number of new cars being sold in New Zealand (SNZ 2012).

However, the Australian automotive industry and market in today's economy differs markedly from New Zealand's automotive sector when its reform program commenced. Among other things, Australia's tariffs on new cars are far lower than New Zealand's had been. Australia also has a younger vehicle fleet. This suggests that Australia could experience less substitution towards second hand cars were it to reduce barriers to importing such vehicles, even though some reductions in car prices could still be anticipated.

Lower prices on the domestic market, while benefitting car buyers, would also bring pressures for productivity improvements or adjustment within the Australian automotive production sector. Were this option pursued, the Australian Government could first review the likely effects and the broader assistance arrangements for the industry, including whether there is a need for any adjustment assistance, additional to generally available programs for people affected by structural change. It may also need to consider whether there are safety or other issues surrounding cars initially sold in foreign markets that would warrant regulation of the trade, and how that should be done.

In its submission following the draft report, the Australian and New Zealand Councils of Trade Unions said:

We reject proposals to reduce all tariffs to 5% or less without a full public inquiry into the impact such a move would have on specific industries and employment.
(sub. DR118, p. 10)

These matters would indeed be relevant to the reviews the two Governments could undertake. It would also be appropriate for such reviews to consider the effects of reducing tariffs on employment and output in other industries and, particularly importantly, on each economy as a whole.

Option 3 Customs union

Under this option, Australia and New Zealand would need to adopt a common external tariff covering substantially all trade in goods, and comply with the other WTO requirements for forming a customs union. These are set out in GATT Article XXIV and related agreements. While the precise meaning of 'substantially all trade' and other terms and provisions in these agreements is not always clear cut, in broad terms Australia and Zealand would generally be expected to:

- align their MFN tariffs
- renegotiate the preferences and/or rules of origin that each partner currently provides and applies to their respective (non-CER) PTA partners with a view to aligning them

-
- seek to align other domestic (non-tariff) border regulations that apply to merchandise
 - undertake negotiations jointly in future trade negotiations.

Revisions to tariffs and RoO

Forming a CER customs union would require adjustments to the tariffs applying to the many items in Australia and New Zealand for which the countries' MFN tariffs differ. This process, together with the need to negotiate common preferences and rules with existing PTA partners, could be time consuming and administratively costly.

The effects on average MFN tariff levels and disparities within each country are difficult to foretell. Adopting a common external tariff would provide scope to reduce average tariff levels and disparities in each country if, for example, the common tariff were set at the lower of the two countries' existing tariffs applying to each item. However, there would be a risk that, in the process of negotiating the details of the arrangement, sectoral interests might lobby to seek increased protection. GATT XXIV(5) requires only that 'the [applied] duties and other regulations of commerce shall not *on the whole* be higher or more restrictive [than prior to the formation of the Customs Union]' (emphasis added). The Commissions understand that this would not necessarily prevent a mix of lower protection in some sectors and higher protection in others, thereby potentially increasing disparities in industry assistance.

Further, even if a rule of adopting the lower of the partners' tariffs as the common tariff were agreed (and adhered to), the resultant changes would be somewhat arbitrary. Producers of some items in a country would find their MFN protection reduced (because of lower tariffs in the partner country), while other producers would incur no change.

Another effect of the customs union option is that it would provide a greater degree of 'lock-in' of the common tariff. That is, any subsequent moves to reform the tariffs would require the agreement of both partners.

That said, with applied tariffs already low in both countries, the efficiency costs and benefits associated with possible outcomes identified above may not be of major proportions.

With respect to rules of origin, the adoption of a common MFN tariff, and common preferences, would do away with the need for CER RoO, and the costs they entail,

as producers in other countries would have no incentive to tranship their wares through one of the CER partners.

In total though, option 1 would achieve the benefits of reforming the CER RoO, and with option 2 could also close the key remaining MFN tariff disparities, at less cost and with less risk than undertaking to form a customs union.

'Strategic' considerations

Some consider that the focus of future CER policy should not be on what they see as the now diminishing gains to be obtained through trans-Tasman reform, but rather by 'leveraging' the CER to help Australia and New Zealand integrate further with Asia. The Auckland Chamber of Commerce (sub 42, p. 4) stated:

[I]nstead of the CER focus going into efforts to squeeze out more micro bilateral benefits, should the primary focus go into an all-out campaign to develop a joint approach and strategy in third countries? In essence both countries either have agreements or are negotiating them with the same partners. Both have successfully completed an ambitious agreement with ASEAN ... which creates a combined market of 600 million people. In the ASEAN and China markets there is a rapidly rising middle class, and associated demand for high quality products and tourism experiences. ... [Australia and New Zealand both have] a significant tier of experienced but mid-sized service and manufacturing businesses that *might* benefit from a joined up approach to get into Asia.

A related view put to the Commissions by a New Zealand trade negotiator was that a customs union between Australia and New Zealand could act as a vehicle to help the two countries engage in and shape a regional integration strategy. The strategy would be intended to run in parallel to, and build on, existing initiatives such as AANZFTA, the Comprehensive Economic Partnership for East Asia (CEPEA) (at the border arrangements) and the CER-ASEAN Integration Partnership Forum (a behind-the-border initiative). Forming a customs union would necessitate a joint approach in future trade negotiations and, it was contended, strengthen the two countries' leadership credentials and bargaining clout within the region. It would also ensure that neither country could be omitted from any trade negotiation opportunities in which the other was engaged.

In assessing the value of any measures to enhance or constrain countries' ability to pursue and shape trade deals, one consideration is that the Australian Commission (PC 2010) has previously found that the potential benefits of many PTAs have been oversold. Australia and New Zealand are a party to several regional trade agreement negotiations including the TPP and ASEAN-based ventures. It is a matter for judgment as to whether such negotiations are likely to generate significant integration, and the magnitude and timing of any gains that

Australia, New Zealand or other parties might enjoy. The 2010 report (PC 2010) sets out a range of views on these matters, and the value of other avenues for pursuing genuine liberalisation such as APEC-style non-discriminatory processes.

A further consideration is that requiring a joint approach via a customs union would reduce the agility of each partner to pursue the trade deals most appropriate to its economic circumstances and would make negotiating future trade deals more complex, due to the need to develop a joint position.

In any case, were potentially worthwhile trade or integration deals identified, Australia and New Zealand would not need to form a customs union to be able to take a joint approach to them or to both get a seat at the table — as evidenced by their involvement in the AANZFTA and TPP negotiations.

The Commissions consider it preferable for Australia and New Zealand to ‘join forces’ for future trade negotiations, whether in Asia or elsewhere, only when and if they see particular benefits in this. This more targeted and selective approach would reap the advantages of joint action while avoiding the costs and drawbacks entailed in forming a customs union.

A.2 Biosecurity

Biosecurity has been defined as ‘the exclusion, eradication or effective management of risks posed by pests and diseases to the economy, environment and human health’ (New Zealand Government 2003, p. 5).

While potentially having very broad impacts, biosecurity measures are a particular focus of the agriculture, forestry and fishing industries, which in Australia and New Zealand account for 3 percent and 6 percent of GDP, respectively (ABS 2010; SNZ 2011). Measures are also important for the preservation of the environment and biodiversity.

Australia and New Zealand’s geographical isolation has produced in each country unique flora, fauna, and natural environments. This isolation has helped the two countries remain relatively free from harmful pests and diseases found in other countries, but also makes them particularly susceptible to new and invasive species (Thresher 1999).

The potential costs of biosecurity ‘breaches’ vary. Towards the high end, The Reserve Bank of New Zealand (2003) estimated that a foot-and-mouth disease outbreak could cost the New Zealand economy NZ\$10 billion over two years, while

the Australian Commission (PC 2002b) estimated that an outbreak of the same disease in Australia would cost A\$8–13 billion over 12 months.

There are also costs in implementing, enforcing and complying with biosecurity measures, some of which ultimately impact on consumers and ‘downstream’ industries in the form of higher prices or reduced value or product choice. If biosecurity policies unduly restrict competition from imports or alternative domestic sources, overall community wellbeing can be adversely affected. Biosecurity policy thus needs to balance the ‘costs and benefits of travel, trade and consumer interests arising from the movement of people and goods with the risk to human health, businesses and the environment resulting from the introduction of pests and diseases’ (Beale et al. 2008, p. 104).

Current biosecurity arrangements in Australia and New Zealand

General arrangements

The biosecurity functions of Australia and New Zealand are currently administered by the respective primary industry agencies, and include various border controls to screen goods (and people) entering the countries. This includes goods from across the Tasman. Australia also has some internal biosecurity zones.

Both countries are signatories to the WTO Agreement on the Application of Sanitary and Phytosanitary Measures (the ‘SPS agreement’). The agreement encourages members to undertake scientific risk-based assessments of disease importation threats and states that ‘[M]embers should ... take into account the objective of minimizing negative trade effects’ (WTO 1995, p. 72). That is, biosecurity policies should not be used as a form of ‘disguised protection’. The agreement also specifies that member states should ensure that biosecurity measures do not arbitrarily or unjustifiably discriminate between different countries where similar conditions prevail.

Available evidence suggests that neither Australia nor New Zealand have applied their respective quarantine and biosecurity regimes in a discriminatory fashion through treating imports with equivalent risks from other countries (or each other) differently. Further, both countries currently develop and review biosecurity policy using a risk management approach. Their risk analyses take account of similar factors such as the likelihood of the risk incident occurring and assessment of the potential damage in terms of loss of production or sales that this might cause (DAFF 2011; Biosecurity New Zealand 2006a).

However, complaints have been made against both countries that risk assessments for some products have applied a higher standard than available scientific evidence would indicate is necessary. This has also been an issue between the two countries. The highest profile example is New Zealand's dispute with Australia over the latter's refusal to allow imports of New Zealand apples due to a perceived risk that Fire Blight would infect Australian crops. The case was eventually resolved by the WTO Dispute Settlement Body in New Zealand's favour, although stringent controls remain. Similar concerns have been raised against New Zealand regarding the import of honey from Australia. And both countries have been accused of placing unnecessary restrictions on the import of raw salmon products (Cutbush and Bosworth, sub. 51; MPI 2010).

Trans-Tasman arrangements and cooperation

Biosecurity measures were excluded from the original CER agreement and the Trans-Tasman Mutual Recognition Arrangement.

However, in 1988 Australia and New Zealand agreed to a Protocol on the Harmonisation of Quarantine Administrative Procedures which established a basis for closer collaboration. The Protocol recognised that further progress towards harmonising Australia and New Zealand's processes would bring benefits to both countries. The protocol also committed to the principle that biosecurity should not be used as a means of creating a barrier to trade where this is not scientifically justified (Australian and New Zealand Governments 1988).

In 1999, a Consultative Group on Biosecurity Cooperation comprising officials from Australia and New Zealand was established to provide impetus and direction for trans-Tasman biosecurity harmonisation (CGBC 1999). The group meets at least annually and reports to the relevant Australian and New Zealand Ministers. It focuses on streamlining approaches towards risk analysis, ensuring that biosecurity requirements are based on sound science, and reviewing the mechanisms for trans-Tasman information exchange and other interaction on biosecurity issues (Ministry of Foreign Affairs and Trade 2010).

In addition, there are extensive ministerial and government agency interactions between the agencies with primary responsibility for border security in both countries (see boxes A.5 and A.6).

Noting these cooperative mechanisms, the New Zealand Ministry of Foreign Affairs and Trade (2010) has stated that 'the overwhelming majority of trans-Tasman biosecurity/quarantine issues have been resolved, with few remaining outstanding'.

Box A.5 **Trans-Tasman biosecurity collaboration**

There are strong links between the agencies responsible for biosecurity in Australia and New Zealand. Examples of initiatives already underway include the following.

- The Australia Centre of Excellence for Risk Analysis was established in 2006 to enhance the practice of biosecurity risk analysis through the development of testing methods, protocols, analytical tools and procedures (ACERA 2012). The Australian and New Zealand Governments have agreed (in principle) that New Zealand will make an annual funding contribution to the Centre in return for some access to its work and facilities.
- The two countries have recently finalised an Information Sharing agreement (MAF 2011) which supports what is already a very open communication dialogue.
- The two countries have cooperated on some aspects of risk analysis and import assessment.
- Having recognised that Australia and New Zealand share many marine biosecurity challenges, the two governments jointly developed a targeted marine pest surveillance manual to help inform marine biosecurity in both countries (Biosecurity New Zealand 2006b).
- A Mutual Recognition Framework was signed in August 2010 to guide development of mutual recognition operating arrangements between the Australian and New Zealand biosecurity agencies. Several initiatives to recognise the other country's processes and systems are underway, such as New Zealand implementing the Australian Fumigation Accreditation Scheme, and Australia adopting and jointly managing New Zealand's Sea Container Hygiene System (MAF 2011; ACTU and NZCTU, sub. DR89).

Box A.6 **Trans-Tasman customs integration**

Australian Customs and Border Protection Service (ACBPS) and New Zealand Customs Service (NZCS) are primarily tasked with intercepting illegal goods, such as proscribed drugs and weapons. For both countries, close collaboration between customs and biosecurity agencies will help ensure a coherent approach to border security.

During the study, a number of examples of such collaboration were identified:

- NZCS has reported that it is continuing to identify ways to streamline goods movement across the Tasman while maintaining security, and providing assurance, over the supply chain. A recent joint trans-Tasman study between NZCS and the ACBPS found that 85 percent of exports to New Zealand from Australia were cleared for release prior to the arrival of the vessels on which the cargo was transported (NZCS 2012).

(Continued next page)

Box A.6 (continued)

- In 2011, NZCS and ACBPS undertook a joint live exercise which simulated a coordinated response to illegal drug importations to New Zealand and Australia (NZCS 2011).
- Following a regular trans-Tasman meeting of Customs' Chief Executives, an agreement was reached which enables NZCS to select a number of Australian detector dogs each year to bring to New Zealand. Key benefits from the program for NZCS include access to high quality dogs (ACBPS' dog breeding program is one of the best in the world), and greater reliability of supply — meaning dogs are available on demand if required. ACBPS also benefits as NZCS provides statistics on the performance of its dogs and training techniques and shares information on training methods. Australian breeders are able to see how their dogs perform in different systems (and in other countries) and this helps them to refine their breeding program.

Is there scope for further biosecurity integration?

Limits to alignment

While Australia and New Zealand have benefited from cooperation on biosecurity issues, there are limits to which the two countries should align their biosecurity policies.

This is principally because of differences in the environment and disease profiles of the two countries. For example, species like the Painted Apple Moth (a pest which causes damage to crops), Fruit Fly (which attacks various fruit crops) and Cane Toads (which damage crops and are poisonous if eaten by other animals) are common in parts of Australia, but not New Zealand. Likewise, Didymo (a type of freshwater algae), Varroa Mite (a parasite of bees), and Fire Blight (an infectious disease which is particularly harmful to apples and pears) are all present in New Zealand but are not present in Australia. Meanwhile, Brushtail Possums are considered a serious pest in New Zealand, but are a protected species in parts of Australia. Such differences can warrant different biosecurity settings.

In addition, even where risks are assessed to be the same, the two countries may wish to determine independently the appropriate level of risk that they are prepared to accept. Australia's 2008 biosecurity review (the Beale Review) found that determining the appropriate level of biosecurity protection depends heavily on local preferences:

[Determining the appropriate level of protection] is quintessentially an Australian Government responsibility. It is not primarily a technical or scientific matter. Rather, it is a matter of values, which involves considering and articulating the Australian community's interests and thereby the national interest, balancing the advantages of trade and international travel with the risks to biosecurity which trade and travel may entail. (Beale et. al. 2008, p. xxv)

Opportunities for collaboration

While there are thus limits to biosecurity integration, there are also fruitful opportunities for joint action and/or cooperation. As noted earlier, there are already strong links between the agencies responsible for biosecurity in Australia and New Zealand.

As illustrated through the examples above (box A.5), trans-Tasman biosecurity is currently characterised by formal and informal cooperation, information sharing, shared resources, and some collaboration (where practical) on risk analysis. While the Commissions consider that to be an appropriate approach, biosecurity risks and methods for responding to risks are constantly evolving and changing. As such, the trans-Tasman relationship needs to remain current and flexible.

Along with maintaining the existing relationship, the Commissions have identified two areas where there may be scope for both countries to benefit from further collaboration.

First, trans-Tasman cooperation might help domestic border agencies to enhance the implementation and operation of a risk-based biosecurity system. While both countries conduct risk assessments independently in light of their distinct geographic environments, a cooperative approach could improve the quality of risk analyses and reduce costs. The two countries have recently begun to undertake some aspects of risk analyses jointly. In most cases, any findings from joint analysis will need to be applied separately to each country, although in some cases risks may be deemed sufficiently similar that this is not necessary. While Australia and New Zealand view certain threats differently, some aspects of risk analysis may still be generic and suited to a combined effort. In addition, there is scope for the two countries to conduct peer review and evaluations of risk assessments carried out by their opposites.

Second, trans-Tasman biosecurity agencies could mutually benefit from further sharing of the purchase, use and maintenance of expensive technologies, such as biosecurity testing facilities. The existing agreement for New Zealand to provide funding for Australia's Centre of Excellence for Risk Analysis illustrates the potential benefits.

More generally, quarantine and biosecurity agencies in both Australia and New Zealand would benefit from continuing to develop common systems and processes and to enhance their joint approach towards risk analysis, where that is cost effective.

Future biosecurity reforms

While Australia and New Zealand have made headway in terms of biosecurity integration, both countries are also pursuing separate biosecurity reform agendas.

The Beale Review proposed several reforms to Australia's biosecurity arrangements including 'targeting resources to the areas of greatest return from a risk management perspective; sharing responsibility between government, businesses and the community; and improving transparency, timeliness and operations across the continuum' (DAFF 2012, p. 3). The review noted complaints from Australia's trading partners and importers that the Australian Import Risk Analysis process is unnecessarily trade restrictive and lacking in transparency (Beale et al. 2008). The review recommended changes to the risk analysis process such as enhancing the assessment of the consequences of incursions, as opposed to their likelihood, and including the use of economic analysis in assessments. The review also noted that good strategic intelligence on the pest and disease status of neighbouring countries and trading partners is vital to the successful implementation of a managed risk process.

The Australian Government has agreed in principle to the recommendations in the Beale Review and has begun work to implement reforms such as the development of new biosecurity legislation which simplifies and clarifies biosecurity regulatory requirements (DAFF 2012). (While acknowledging that the Beale Review exposed a number of flaws in Australia's quarantine policy, one submission (Cutbush and Bosworth, sub. 51) suggested that the review was unduly limited and called for more far-reaching reform in this policy area.)

New Zealand's border security agencies are also undertaking reforms to improve coordination and improve efficiency. A Joint Border Management System is currently being developed by the New Zealand Customs Service (NZCS) and the New Zealand Ministry for Primary Industries, which will replace the present, outdated systems. The first stage of the initiative is the introduction of a 'Trade Single Window' which will provide a single electronic point of access to border agencies. This aims to reduce duplication of paperwork and allow exporters and importers to submit information once, rather than to multiple agencies (NZCS 2011).

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