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ABSTRACT: Preferential tariff rates are often not utilized by qualified beneficiaries. Two reasons are complex rules of origin and erosion of preference margins as a result of multilateral trade liberalization. Our paper contributes to this research by providing evidence from high-quality disaggregated customs data of the utilization rate for Australia's preferential trading arrangements in the period 2000-9. A pattern of low ratios of imports receiving preferential tariff treatment to the total value of bilateral imports applies to all six of Australia's PTAs. Over half of Australian imports from New Zealand, the Pacific Island Forum economies, Thailand and Chile claimed preferential treatment in 2000, but all had lower utilization rates by 2009. This is primarily because of the increasing number of zero MFN tariff lines. Where MFN tariffs are positive, preferential tariffs are utilized and preferred trading partners pay lower customs duties. Positive utilization rates indicate that tariff preferences do have an impact, and at a minimum the exporters claiming the preferential tariff rate are better off than they would be in its absence, but by themselves utilization rates shed no light on the size of the impact on trade flows or on economic well-being.

JEL codes: F13, F15, F53

Key words: preferential tariffs - trade liberalization - preference erosion

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ARE PREFERENTIAL TARIFFS UTILIZED? EVIDENCE FROM AUSTRALIAN IMPORTS, 2000-9

Regional and bilateral trading arrangements have proliferated since the turn of the century. Where the agreements include preferential tariff treatment, an important empirical issue is the utilization rate of the preferential tariffs. Our paper contributes to this research by providing evidence from high-quality disaggregated customs data of the utilization rate for Australia's preferential trading arrangements in the period 2000-9.

In earlier waves of preferential trading arrangements, such as the customs union introduced in Western Europe in the 1960s, utilization rates were not an issue because all trade was covered by the agreement and intra-union trade automatically entered partner countries duty-free. Analytical tools assumed a lower tariff on preferred imports than on non-preferred imports, and applied studies assumed that all imports eligible for the lower tariff utilized it. During the 1980s and 1990s, however, there was growing concern that preferential trading arrangements (PTAs) were becoming more complex. UNCTAD (1981) observed low utilization rates under the Generalized System of Preferences: around 50% for the GSP schemes of the USA, EU and Japan. This was widely ascribed to exclusions and restrictions on GSP schemes, but analysts also pointed to preference erosion as MFN tariffs fell and to restrictive rules of origin (Grossman and Sykes, 2005). Concerns were also voiced that rules of origin were being used as a policy, in some cases preventing beneficiaries from utilizing PTAs.¹

In East Asia concerns about utilization rates were highlighted by the operation of the ASEAN Free Trade Area (AFTA) during the 1990s. There were many agreement-specific reasons for low utilization: tariffs on intra-ASEAN trade would be reduced to five percent or less over fifteen years, preferential tariff reductions were back-loaded to take effect as late in the transition period as possible, and lengthy lists of commodities were excluded. At the

same time, ASEAN countries (the Philippines and Thailand in particular) unilaterally cut tariffs on a large range of goods, reducing the margin of preference (Ando and Kimura, 2005). The net result was that AFTA's preferential tariffs had a very small impact on trade in the 1990s (Manchin and Pelkmans-Balaoing, 2008).²

There is no single right answer to the question of what is the minimum effective preference margin, because the net monetary benefit of claiming preferential treatment will differ by the size of shipment and the cost of claiming preferential treatment as well as by the preference margin. With the proliferation of PTAs in Asia, it has become commonplace to blame low utilization rates on the complexity of the "noodle bowl" of overlapping trade agreements with their varied tariff rates and rules of origin. Compliance with rules of origin typically involves a trader obtaining a certificate of compliance, which requires information gathering before filling out the application form and in some countries paying an application fee. When trade between parties to an agreement is conducted under low or zero MFN tariffs, few traders bother to avail themselves of preferential tariff rates.³

Empirical studies of PTAs have assumed threshold preference margins of four (Francois et al., 2005) or five (Amiti and Romalis, 2006) percentage points, below which preferential access is not worth claiming. Others have backed out higher implicit thresholds from a gravity model (e.g. Manchin and Pelkmans-Balaoing, 2008). For countries' with average MFN tariff below five percent (including Australia), such thresholds imply little scope for effective preferential tariffs.

The empirical literature on utilization rates and threshold preference margins is, however, based on indirect measures or on surveys with limited sample size and potential selection bias. This paper draws on Australian administrative records, which identify at a disaggregated level whether imported goods entered at a preferential rate or did not claim preferential treatment. The data allow direct calculation of the utilization rate under different

PTAs and analysis of which goods did or did not claim preferential treatment. Customs revenue data provide a measure of the average (import-weighted) applied tariff under which imports from a preferred partner entered Australia.

1. Australia's Preferential Trading Arrangements

Australia was in 1966 the first country to offer preferential tariffs on imports from developing countries. The scheme was simplified in 1986, applying to all dutiable goods. The Australian scheme is based on a five percentage point margin of preference: when the Australian MFN tariff is 5% or higher, the tariff is reduced by five percentage points on products from beneficiary countries, and the preferential rate is zero when the MFN rate is 5% or less (UNCTAD, 2000, 5). Since 1991 countries have been graduated and some goods have been removed from the scheme, and the government has indicated an intention to restrict beneficiaries to the least developed countries and some Pacific island territories.

In 1981 more generous unilateral tariff preferences were offered in the South Pacific Regional Trade and Economic Cooperation Agreement (SPARTECA), which covered specified products originating from the developing island member countries of the Pacific Islands Forum.⁴ The Pacific Agreement on Closer Economic Relations (PACER), a framework agreement to deepen trade and investment liberalisation in the Pacific Island Forum countries, Australia and New Zealand, was signed in 2001 and came into force in 2002, committing all members to begin negotiations towards a free trade agreement by 2011. In August 2008, Australia advocated a "PACER-plus" agreement, in lieu of the originally envisaged FTA, and PACER-plus negotiations were launched in October 2009.

Australia's deepest preferential trading arrangement is with New Zealand. Bilateral agreements date back to a first agreement signed in 1922.⁵ The limited 1965 New Zealand-Australia Free Trade Agreement was extended in 1983 to the much deeper integration of Closer Economic Relations (CER).

Since the turn of the century bilateral agreements have proliferated. The Singapore-Australia Free Trade Agreement (SAFTA) was negotiated in 2001-2 and entered into force in July 2003. The Thailand-Australia Free Trade Agreement (TAFTA) and the Australia-United States Free Trade Agreement (AUSFTA) both entered into force in January 2005, although implementation is phased in. The Australia-Chile Free Trade Agreement (ACFTA) entered into force in March 2009. Free Trade Agreements were, as of March 2010, under negotiation with China, the Gulf Cooperation Council, Japan, South Korea and Malaysia. Free Trade Agreements with India and Indonesia are under consideration, with feasibility studies being prepared.⁶

The remainder of the paper analyses imports into Australia by countries and territories covered by PTAs between 2000 and 2009: New Zealand and the Pacific Island Forum countries for the entire decade, Singapore since 2003, Thailand and the USA since 2005, and Chile in 2009. Our principal dataset consists of quarterly import data for 2000-9 at the HS6-digit level, collected by the customs office and made available by the Australian Bureau of Statistics. Using imports from a preferred trading partner, we define the utilization rate as:

$$\frac{\text{Value receiving preferential treatment}}{\text{Total value of imports}}$$

Table 1 presents data on imports from Australia's PTA partners in 2009, dividing the total between imports paying a preferential tariff and imports not claiming preferential treatment; the ratio of the former to total imports is the raw utilization rate. With the disaggregated data we can dissect the raw utilization rates to establish whether non-utilization is due to the

existence of zero MFN tariffs or whether non-utilization is concentrated in specific HS6 categories, which might have been excluded from the PTA, subjected to onerous rules of origin, or have some other commodity-specific explanation for non-utilization.

We also compute average (import-weighted) actual tariff rates:

$$\frac{\text{Total customs revenue collected from preferred trading partner}}{\text{Total imports from preferred trading partner}}$$

The ratio of duties collected to the value of imports provides an indicator of the extent to which goods entering Australia from the preferred trading partner are actually subject to low average tariffs. Table 2 indicates that none of the agreements provides full duty-free entry into Australia.

2. Evidence

For each of the six sets of PTA partners, Figures 1 present the two measures using the data for 2000-9. The solid line is the utilization rate as a percentage of all imports from the preferred partner. The dashed line is the percentage of imports entering under either the preferential tariff or a zero MFN tariff; the gap between the dashed line and 100% is the share of imports entering at a non-zero MFN tariff.⁷

The CER represents the deepest integration, but even this is not a complete free trade area. The raw utilization rate was around 90% between 2000 and 2004, after which it fell between 2005 and 2008 and was only 50% by 2009. The dotted line highlights that much of the non-utilization was by exporters of zero-duty goods; in the first half of the decade the utilization rate for imports with a positive MFN tariff was close to 100%, and although this rate falls after 2005, it only falls to 95%. At the same time tariff revenue collected on

imports from New Zealand increased after 2003, implying that not all of the fall in utilization rates is explained by elimination of MFN tariffs.

The Pacific Island Forum countries also should have benefited from wide-ranging tariff-free entry over the entire decade. However, the utilization rate was in a range of 40-60% until 2005, and after that fell to below 5%. In 2004 and later years, the utilization rate plus the share of imports with zero tariff was close to 100% of imports; the raw utilization rate has fallen to a low level because virtually all Forum countries' exports to Australia are products facing zero MFN tariffs. Australian tariff revenue on imports from the Pacific Island economies has increased slightly, but even in 2009 the amount is small (i.e. \$4 million of customs duties collected on imports worth over \$3 billion).

Utilization rates on imports from Singapore peaked at over 40% in 2002, and then fell precipitously to less than 5% by 2006. This is at first surprising because the Singapore-Australia agreement entered into force in 2003, and Figure 1(c) implies that SAFTA had virtually no impact through preferential tariffs. The zero-tariff-adjusted utilization rate was, however, high, 90% or more, throughout the decade. At the same time, the average applied tariff on Australian imports from Singapore was small, between 0.6% and 1.4%, suggesting that the commodity composition of Singaporean exports is such that they face low MFN tariffs and tariff preferences are of little significance.

Thailand's raw utilization rate hovered around 50% before the PTA came into force in 2005 and then spiked at 70%, before dropping back to pre-PTA levels and lower (42% in 2009). This suggests a publicity effect from TAFTA, but no long-run impact on utilization rates. The post-2005 decline is, however, entirely explained by more imports becoming zero-tariff-rated because the zero-tariff adjusted utilization rate is higher after 2005. The tariff-duty ratios indicate a positive impact of the PTA, as Australian customs revenue on imports from Thailand, which had been about 3% of the value of imports before 2005 fell to below

1% after 2005.⁸ The 10-20% "non-utilization rate" since 2005 in part reflects the staged introduction of Australia's preferential tariff cuts under TAFTA; 83% in 2005, 96% in 2010 and 100% in 2015.

The utilization rates for imports from the USA in Figure 1(e) exhibit the clearest evidence of a PTA effect. The raw utilization rate was zero before the AUSFTA came into force in 2005 and immediately increased to 30% in 2005, before dropping to 20-25% in 2006-9. The zero-tariff-adjusted utilization rate is, however, about twenty percentage points higher after 2005, and stable. Australian tariff revenues on imports from the USA fell, although this may be part of a longer-term trend rather than a PTA-related drop.

Chilean utilization rates were high before 2003, but dropped below 10% by 2006, and show little impact of the FTA which came into force in 2009. The zero-tariff-adjusted utilization rate is, apart from a temporary drop in 2006-7, over 90%; in 2009 virtually all imports from Chile either claimed the preferential tariff rate or entered duty-free. Average tariff revenue collected on imports from Chile was fairly low throughout the decade, and already less than 1% after 2007.

3. Analysis

Both the Closer Economic Relations Agreement with New Zealand and SPARTECA offer wide-ranging tariff free access. The apparent anomaly of the utilization rate falling from very high levels in the early 2000s to around half for New Zealand and close to zero for the Pacific Island Forum countries in 2009 is largely explained by the share of duty-free imports. Whether duty-free imports are recorded in column 2 or 3 of Table 1 is irrelevant to anything but calculation of the raw utilization rate.

The imports from New Zealand that account for non-utilization and for the apparently high average applied tariffs on imports from New Zealand come from a small number of commodity groups. Cigarettes and tobacco paid \$344 million and beer and spirits at least \$52 million in duty in 2009 out of the total duty collected on imports from New Zealand of \$403 million (Table 3).

A surprising feature of panels (c), (d) and (f) in Figure 1 is that they show positive utilization rates before the PTAs with Singapore, Thailand or Chile came into force. The principal explanation appears to be that, despite statements in the 1990s about graduating more affluent beneficiaries, the Australian system of preferences for developing countries continued to have broad coverage in the early twenty-first century. In classifying countries and territories to which special rates apply the *Australian Customs Tariff Act 1995 [Section 12]* distinguishes between Pacific Island Forum countries, least-developed countries and places to be treated as least-developed territories, developing countries and territories to which DC rates of duty apply, countries and territories subject to DCS rates (including Chile and Thailand), and countries and territories subject to DCT rates (including Singapore). Figures 1(c) and 1(f) suggest that imports from Singapore and Chile may have received broader preferential tariff coverage up to 2002-3 than they received later, including after their PTAs came into effect, while Thailand's utilization rate differs little between the pre-PTA and post-PTA quinquennium.

Thus, the before-and-after evidence from SAFTA, TAFTA and ACFTA shows little impact because the PTA offered no better, and for Singapore and Chile probably worse, preferential tariff access than the countries had previously received under Australia's system of preferences for developing countries. This does not mean that the PTA's tariff preferences were valueless. A better comparison than before-and-after would be with-and-without the PTA. For Thailand, even if access conditions remained the same, the PTA provided an

insurance contract insofar as preferential tariffs in a trade agreement with treaty status could be less easily rescinded by Australia than the same preferential tariff treatment granted unilaterally to a beneficiary of the Australian system of preferences for developing countries. Singapore (with a higher per capita income than Australia at the turn of the century)⁹ and Chile (an OECD member in 2010) were already being graduated out of Australia's system of preferences for developing countries by the early 2000s. The average applied tariff on imports from Singapore was less than one percent when SAFTA came into force, so preferential tariffs would not have been of much interest to the majority of Singaporean exporters to Australia. Chile also saw the average applied tariff on exports to Australia plummet between 2004 and 2009 to less than 0.2%, and most of Chile's exports to Australia faced zero MFN tariffs, with preferential treatment being claimed on a trade flow of less than \$40 million (Table 1).¹⁰

The Australia-United States Free Trade Agreement which entered into force in January 2005 is the only one whose utilization pattern provides clear evidence of the PTA's impact. The contrast is primarily because the USA was the only one of the countries covered in this paper to be facing the full Australian MFN tariff before the PTA came into force. In 2005 there is a dramatic increase in the utilization rate from zero to 30%, but this is not a large percentage (and it fell back to 20-25% after the first year of the PTA) and there is little evidence of a decline in the average applied tariff on imports from the USA after 2005 (if anything the trend is upwards!). Nevertheless, it is surprising to see *any* evidence of preferential tariffs having an impact, given that the AUSFTA was criticized for the absence of meaningful tariff reductions and for its focus on issues such as Australian copyright rules and pharmaceutical patents which are only indirectly trade-related.

The zero-tariff-adjusted dotted lines in Figures 4 and 5 fall short of 100% because both agreements did not cut the preferential tariffs across-the-board. Exclusions from the

preferential tariff liberalization explain some of the non-utilization, temporarily in the case of TAFTA intrinsically in the case of the AUSFTA.

4. Conclusions

Australia's six preferential trading arrangements indicate that traders do utilize well-publicized tariff preferences. Over half of Australian imports in 2000 from each of New Zealand, the Pacific Island Forum economies, Singapore, Thailand and Chile claimed preferential treatment. For the last three countries, this was associated with the Australian system of preferences for developing countries. Despite signing bilateral PTAs all three had lower utilization rates by 2009. For Thailand the PTA may have roughly retained the range of developing country preferences from which its exports to Australia benefitted, while for Singapore and Chile net loss of preferential access was probable given their economic status as a high-income country and an OECD member respectively.

There are some apparent anomalies in the data which have to be explained by specific features. Most obviously the declining utilization rates and relatively high average applied tariff rates on dutiable imports from New Zealand, despite the deep integration of the CER agreement, are due to a handful of tobacco and alcohol products which are subject to high 'sin taxes'. There may be some administrative discretion on whether to call these revenues customs duty or not, and recording practice appears to have changed over the decade. Similarly, decisions about how to record duty-free imports from partners with PTAs seem to have shifted away from reporting them as imports under preferential rate. On the whole, however, the Australian evidence is of preferential tariffs being utilized and of preferred trading partners paying lower customs duties.

Declining aggregate raw utilization rates of PTAs was primarily due to ongoing multilateral trade liberalization in Australia. By 2008 95% of Australian tariffs on non-agricultural imports were 10% or less, and these tariffs covered over 97% of non-agricultural imports (Table 4). On agricultural imports over 99% of tariffs were 5% or lower. The increasing number of zero MFN tariff lines reduced the utilization rate of PTAs, and it is likely that reduction of other tariffs to low, but non-zero, levels made preferential treatment not worth troubling over. Chilean utilization rates, for example, dropped primarily because the applied tariff on most of Chilean exports to Australia was zero. When the Australia-Chile Free Trade Agreement came into force in 2009, the preferential tariff rates were utilized by Chilean traders supplying over half of imports which faced non-zero Australian tariffs, but this was a tiny volume.

Because the gaps in the raw utilization data can be accounted for, there is little scope in the Australian data for rules of origin or other adverse noodle-bowl-type effects to have reduced the trade impact of tariff preferences by encouraging traders to enter goods under the MFN tariff rather than claiming the preferential tariff. We cannot exclude the possibility that onerous rules of origin or other administrative burdens discouraged some exports to Australia which could have been profitable under a PTA. However, very few actual imports can have opted to forego preferential treatment in favour of paying MFN duties because of the cost of claiming the former. Furthermore, given that Australia's average tariff is in the order of 5%, this paper's findings cast doubt on the idea of a universal threshold preference margin below which tariff preferences will not be claimed. For imports into Australia such a threshold appears to be very low, reflecting the ease of claiming preferential treatment by eligible traders. This does not exclude the possibility that the threshold is higher in other PTAs or indeed that rules of origin may be used as a policy instrument. The Australian approach of reducing MFN tariff rates so that any remaining discriminatory benefits for PTA partners are

limited is, however, likely to involve fewer distortions, less rent-seeking and little deadweight loss compared to using administrative barriers to protect domestic producers from competition within a PTA.

Measures of preference utilization and of reductions in average applied tariffs may only provide a partial indication of a PTA's impact. A feature of the post-2000 proliferation of trade agreements is that most do not aim to create traditional free trade areas with zero tariffs on trade among members. They are not even centred on preferential tariff reduction, but are more often concerned with specific obstacles to bilateral trade, which may involve regulatory regimes or administrative procedures.¹¹ Thus, if we wish to identify the benefits from, say, SAFTA, we need to examine the detailed terms of the agreement, because an agreement between a virtually tariff-free entrepot city state and a low-tariff trading nation is unlikely to be about preferential tariffs.

Finally, it should be emphasised what this paper's analysis does not do. Positive utilization rates indicate that tariff preferences have an impact, and at a minimum the exporters claiming the preferential tariff rate are better off than they would be in its absence. However, by themselves utilization rates shed little light on the size of a PTA's impact on trade flows or on economic well-being.

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Table 1: Raw Utilization Rates, Australia's Imports from PTA Partners, 2009

	(1) Imports (million A\$)	(2) Imports under preferential rate (million A\$)	(3) Imports not claiming preferential treatment (million A\$)	(4) Utilization rate (2)/(1)	(5) Adjusted Utilization Rate ((2) + imports paying zero MFN tariffs)/ (1)
ANZCERTA	6,588.54	3,327.00	3,261.54	50.50	95.19 – 97.60
SPARTECA	3,080.33	98.74	2,981.59	3.21	99.32 – 99.35
SAFTA	11,747.32	342.76	11,404.56	2.92	90.99 – 91.44
TAFTA	11,638.18	4,884.77	6,753.41	41.97	75.97 – 78.36
AUS-FTA	22,332.25	5,181.29	17,150.95	23.20	69.42 - 82.51
Chile/AUS FTA	612.19	39.88	572.31	6.51	96.05 - 96.33

Note: the 'Adjusted Utilization Rate' reports the lower and upper bound of imports paying zero MFN tariffs (see endnote 7).

Table 2: Average Applied Tariffs on Australia's Imports from PTA Partners, 2009

	(1) Imports (million A\$)	(2) Total duty collected (million A\$)	(3) Average applied tariff (2)/(1)
ANZCERTA	6,588.54	403.33	6.12
SPARTECA	3,080.33	4.01	0.13
SAFTA	11,747.32	147.41	1.25
TAFTA	11,638.18	50.05	0.43
AUS-FTA	22,332.25	635.44	2.85
Chile/AUS FTA	612.19	0.98	0.16

Table 3: Duty Collected on Imports from New Zealand, 2009 (million dollars)

HS	Commodity	Value of Duty
240220	Cigarettes	169.11
240310	Tobacco	175.12
220860	Vodka	19.20
220890	Other distilled alcoholic beverages	17.88
220850	Gin and geneva	7.26
220300	Beer made from malt	6.80
220870	Liqueurs and cordials	0.78
	Total of above categories	396.15
	All imports	403.33

Table 4: Australia's Applied Tariff Structure, 2008

Non-agricultural goods	MFN Tariff Rate	Agricultural Goods
44.9 (49.5)	0	74.9 (48.9)
40.5 (37.3)	$0 < t \leq 5$	24.5 (47.5)
9.9 (10.7)	$5 < t \leq 10$	0
0	$10 < t \leq 15$	0
4.6 (2.4)	$15 < t \leq 25$	0.6 (3.4)
0	$t > 25$	0
0.2 (0.1)	non-ad valorem	1.4 (3.6)

Source: World Trade Organization, *World Tariff Profiles 2009*, 34

Notes: Australia had 6002 distinct tariff lines in 2008. The numbers in the first and last column are the percentage of tariff lines falling in the indicated range of MFN tariff rates. The numbers in parentheses are the shares of imports paying the applied tariff (2007 import weights); note that for agricultural goods there is a discrepancy in the totals in the source. The simple average MFN applied tariff in 2008 was 3.5%, and the trade-weighted average MFN tariff in 2007 was 5.3%.

Figure 1: Utilization Rates

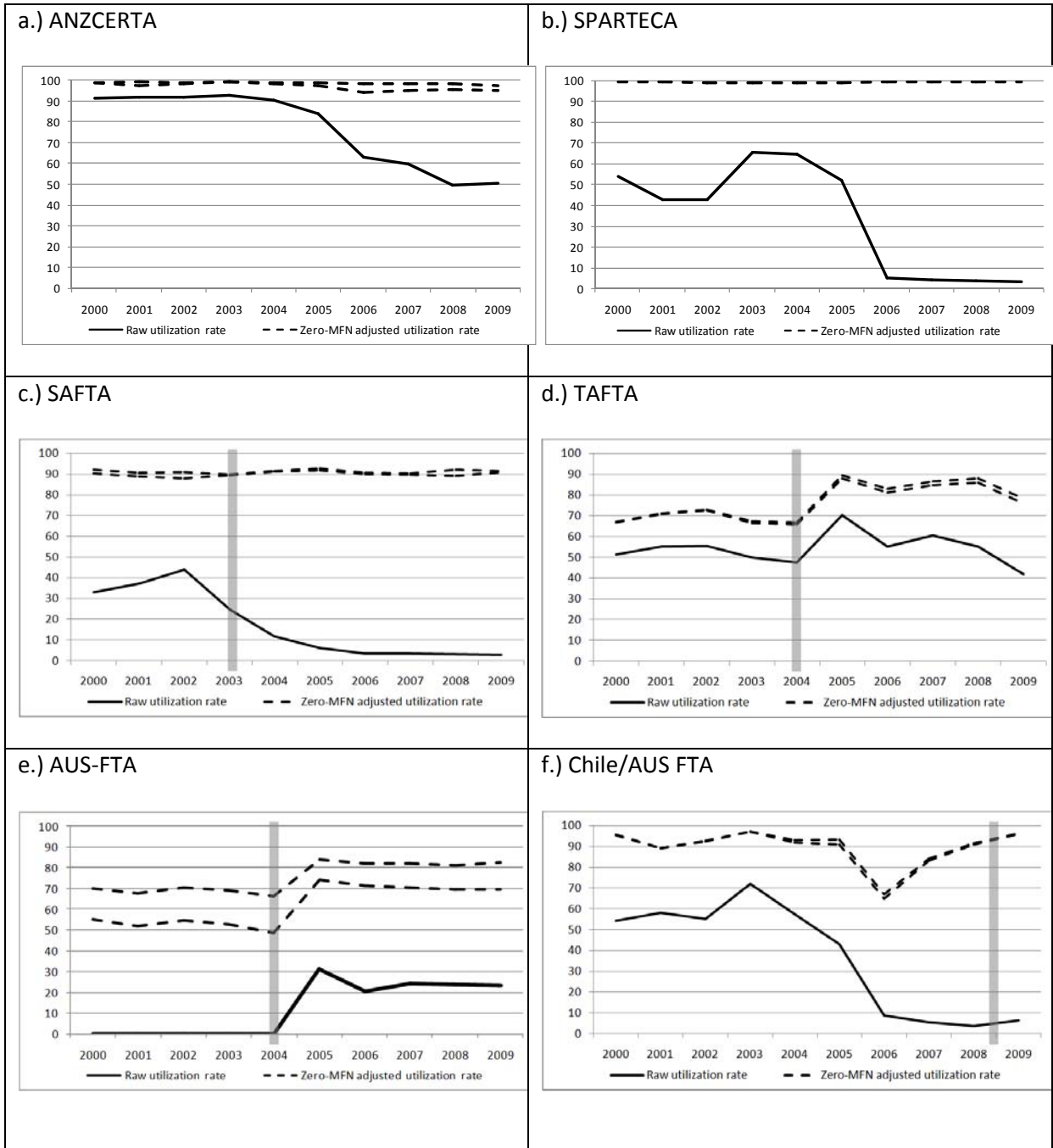
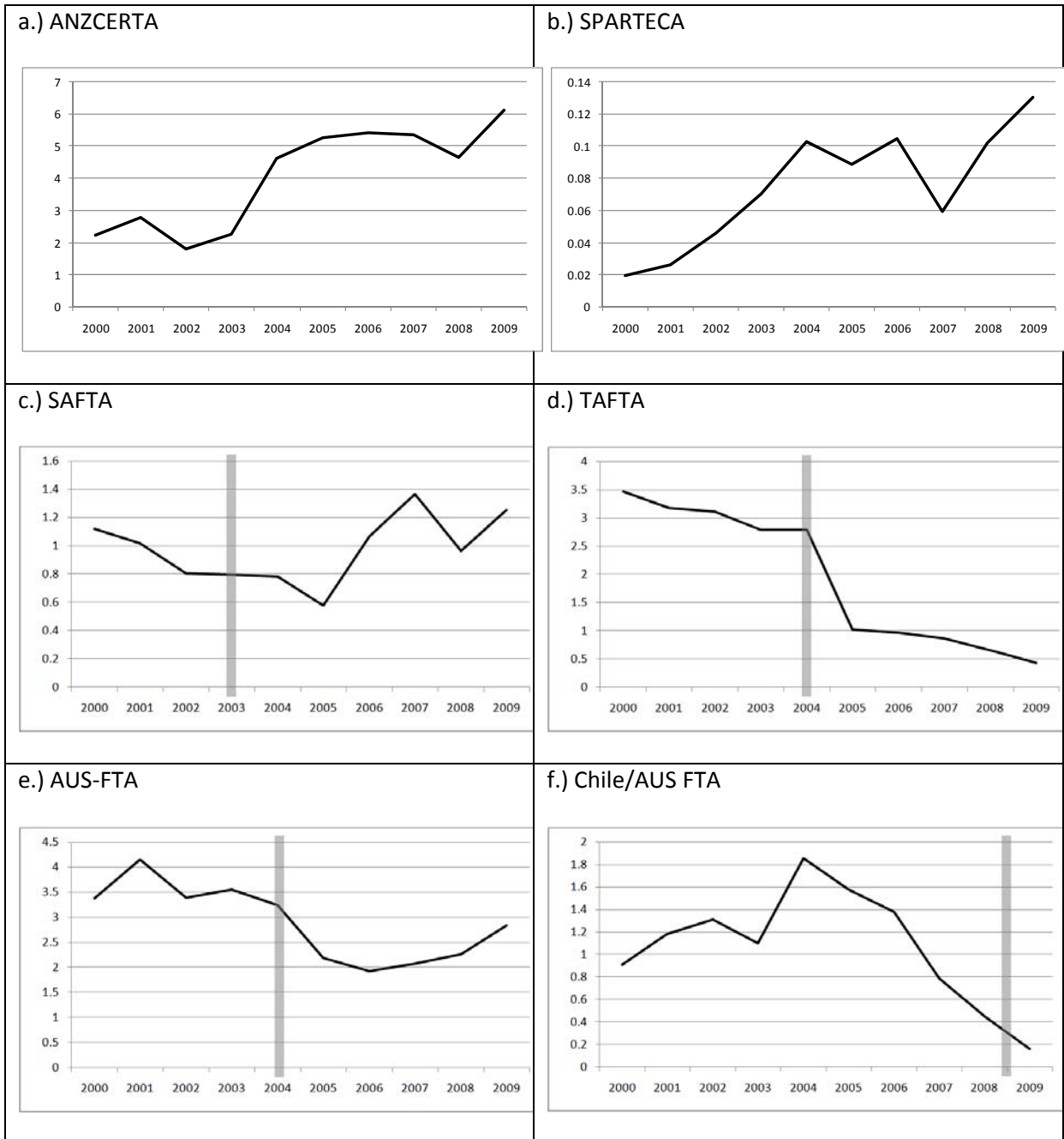


Figure 2: Average Applied Tariffs



Endnotes

¹ Vermulst and Waer (1990) made the point in connection with EU preferential tariffs. The NAFTA treaty highlighted the potential for complex rules of origins to restrict trade. Krueger (1999) and Pomfret (2001, 232-6) survey the situation at the end of the 1990s.

² After the turn of the century, utilization rates began to increase. In 2000 about one tenth of Thai exports to ASEAN partners (excluding Singapore) entered under AFTA preferential rates, but by 2008 this proportion was over a third (Ando, Estevadeordal and Volpe Martincus, 2009, 23 - based on numbers from the Japan External Trade Organization *Daily World News*, 9 March 2009 <http://www.jetro.go.jp/biznews/>). On the basis of interview data, Kawai and Wignaraja (2009) also found increasing utilization rates, and concluded that the slow take-up before the mid-2000s was temporary because it took years for traders to respond to AFTA.

³ Few Japanese firms report taking advantage of the Japan-Singapore Economic Partnership Agreement, which is unsurprising given that Singapore's tariffs are close to zero. Takahashi and Urata (2010) report a November 2006 survey of Japanese firms, in which 3.6% of firms engaged in international trade (17 out of 469 respondents) took advantage of the Japan-Singapore agreement; these low utilization rates are similar to those in earlier surveys of Japanese firms. In the empirical assessment of the Japan-Singapore Economic Partnership Agreement by Hertel, Walmsley and Itakura (2001) virtually all the economic gains come from customs automation, security and harmonization measures for e-commerce, and liberalization of trade in business and construction services, and not from preferential tariff access.

⁴ The fourteen Forum Island Countries are the Cook Islands, Fiji Islands, the Federated States of Micronesia, Kiribati, Nauru, Niue, Papua New Guinea, the Republic of the Marshall

Islands, the Republic of Palau, Samoa, the Solomon Islands, Tonga, Tuvalu and Vanuatu. SPARTECA was valuable because it covered textiles, clothing and footwear goods excluded from the GSP scheme. Some tariff preferences are also granted under the 1991 Papua New Guinea Australia Trade and Commercial Relations Agreement (PATCRA II).

⁵ Australia's other preferential arrangements within the British Commonwealth lost importance in the 1960s following the UK's applications to join the European Communities. Limited tariff preferences under the 1960 Canada-Australia Trade Agreement have been superseded by multilateral tariff reductions negotiated in the WTO.

⁶ Australia is also participating in the Trans-Pacific Partnership Agreement (TPP) negotiations which will expand on the current Trans-Pacific Strategic Economic Partnership Agreement (P4) between Brunei Darussalam, Chile, New Zealand and Singapore, which entered into force in 2006. The United States, Peru and Vietnam also participate in the TPP negotiations.

⁷ The tariff data are not congruent with HS6 categories, which in a few cases contain both dutiable and tariff-free goods. These mixed categories show up in Figure 1 in the two dashed lines. The lower line assumes no imports in the mixed HS6 categories entered duty free, and is a lower-bound zero-tariff-adjusted utilization rate. The upper dashed line, which assumes all imports in the mixed HS6 categories entered duty free, is an upper-bound zero-tariff-adjusted utilization rate

⁸ If Thailand is a "small country" whose exporters face perfectly elastic Australian import demand, then a Thai supplier receives the Australian domestic price minus the tariff. Reduction in customs duty on imports from Thailand will be transferred from the Australian government to the Thai exporter, and in addition there will be producer surplus on any new exports whose magnitude will depend on the exporters' responsiveness to the higher net price.

There is, however, a small deadweight loss as the Thai exporter has to obtain a certificate of origin compliance from a Thai government agency.

⁹ In 2000 national income per head was US\$22,960 in Singapore and US\$20,710 in Australia (or \$32,880 and \$24,920 at purchasing power parity in current international dollars); World Bank data - accessed at www.worldbank.org, *World Development Indicators*, quick query 19 March 2010.

¹⁰ Most of Australian imports from Chile are unprocessed minerals. In 2009, out of total imports of \$612 million, \$413 million was unrefined copper (HS740200) and \$62 million was lead ores (HS260700).

¹¹ One of China's principal goals in its ongoing negotiations with Australia, for example, is to shed the 'non-market economy' label which distorts calculations in anti-dumping determinations. PTAs that reduce trade costs are likely to be non-discriminatory in that improved administrative procedures will be applied to all trade (Adams et al., 2003). PTAs can, however, be an effective way to facilitate trade if the negotiating parties focus on the obstacles that they find particularly burdensome; this is similar to the "principal supplier" approach in early GATT rounds, whereby tariffs were reduced in bilateral negotiations and multilateralized by the MFN clause.