

**MULTILATERAL TRADE
NEGOTIATIONS
THE URUGUAY ROUND**

RESTRICTED

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Group of Negotiations on Goods (GATT)
Negotiating Group on Tariffs
Negotiating Group on Non-Tariff Measures

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MARKET ACCESS NEGOTIATIONS

1. Australia considers that there is a need to attack the problems of protection on a broad front. It is clear that the reduction of tariffs in the context of previous rounds of negotiations has been offset by increasing reliance on non-tariff measures as a form of protection for industries "sensitive" to imports. This suggests that an attack on the problem of protection which concentrates on reducing one form of protection while failing to deal with other forms would create only the illusion of fulfilling the mandate of the Uruguay Declaration.
2. The limitations of such an approach would be magnified if the negotiations were to focus on reducing the visible protection of the tariff while leaving the field open for continued, or increased use of less transparent non-tariff measures.
3. Australia therefore proposes an integrated approach to the assessment of negotiated reductions of both tariffs and non-tariff measures including subsidies which act as barriers or disrupt trade.

4. The adoption of such a broadly based attack on protectionism requires a new approach to the measurement of both tariffs and non-tariff barriers, particularly where these measures are applied to the same product. Without a means of evaluating the protective effect of a non-tariff measure there can be no objective assessment of the success of the negotiations in meeting the goals set at Punta del Este, nor can there be any assurance of reciprocity between trading partners who employ differing measures. It is possible to calculate the protective effect of both tariffs and non-tariff measures using a single measurement technique. In Australia this is done by calculating the effective rate of assistance of such measures. This technique is explained in Attachment A.
5. In order to promote a balanced exchange of concessions on the broad basis proposed here, Australia suggests that each participating country apply such a measure of assistance to its industries, at least on a broad sectoral basis. There is a large number of countries for which such techniques and measurements are already available or can be readily developed.
6. Australia suggests that the negotiated outcomes in the reductions of both tariffs and non-tariff measures in accordance with the Uruguay Declaration should be assessed by individual countries in terms of the size of the reduction in levels of overall industry assistance.
7. Australia is not proposing that the negotiations should be based on industry assistance levels per se: the negotiations should proceed in the terms of the Punta del Este mandate which focuses on reduction and elimination of tariff and non-tariff measures. However, the contribution which participants make to achieving the broad objectives of the Uruguay Round should be assessed in a way that indicates the total reduction in industry assistance and not merely the depth of cut in the most visible measure (tariffs).

This is especially important when we consider the evidence of the growing resort to hard core non-tariff measures and subsidies to substitute for visible protection. Industry assistance levels will reveal the extent to which progress is made in reducing both tariff and non-tariff measures of protection.

8. In the final assessment the industry assistance concept outlined above can be used as a means of ensuring that "concessions" made as part of the negotiations are reasonably balanced. In addition, it would contribute to a better understanding of the trade distorting effects of the wide range of non-tariff measures that are now employed - this will be important if such measures are to be dealt with effectively in the Round.

Australia's Approach to the Negotiations

9. As confirmed by the Australian Prime Minister in Geneva on 22 October 1987, Australia is willing to negotiate a broad package of measures to reduce overall levels of effective assistance to industry as part of a broadly based multilateral approach to achieve reductions in industry assistance. This would cover tariffs and non-tariff measures including subsidies which have a trade effect.
10. As part of this package Australia is prepared to negotiate tariff formula cuts and the phase out of all quantitative import measures designed to protect domestic industry.
11. We would expect other countries to achieve similar reductions in overall levels of effective assistance to their industries, not only by reducing tariffs but also other non-tariff forms of assistance including subsidies.
12. Depending on the extent of this reciprocal action by our trading partners, Australia is also prepared to negotiate bindings in all sectors of the tariff.

The Negotiations

Tariffs

13. In most countries, particularly those that rely on the tariff for a large proportion of assistance to industry, there will be a need for tariff reductions to achieve significantly lower levels of industry assistance.
14. This could be achieved by a simple formula or fixed percentage reductions of tariffs implemented over a period of time to be fixed in advance. Australia is also prepared to consider other formulae or systematic approaches which are capable of wide sectoral and country application.

Non-Tariff Measures

15. In many countries, particularly those with a greater reliance on non-tariff measures including subsidies as a means of assisting industry there will be a need to remove or modify these barriers to reduce their protective effect.
16. Australia considers that there is an urgent need to deal with the most restrictive barriers - quantitative restrictions with protective purpose - first. In this connection, Australia is prepared to eliminate, over an appropriate implementation phase, all quantitative import measures designed to protect domestic industry. This would include tariff quotas, import licensing and embargoes.
17. We do not suggest that an identical multilateral approach involving the same formulae for cuts in tariffs can be applied generally to non-tariff measures. However a number of non-tariff measures including some of the more pernicious forms, which have a direct price or quantitative effect do lend themselves to simple formulae liberalisation.

THE EFFECTIVE RATE OF ASSISTANCE

In order to facilitate negotiations covering both tariff and non-tariff measures there is a need for a single broadly accepted "yardstick" which enables a quantitative assessment to be made of the protective effect of tariffs, non-tariff barriers and subsidies.

2. Although there are various approaches which could be taken, the most widely used technique employed to measure all forms of protection is the effective rate of assistance.

3. The effective rate of assistance measures net assistance to an activity by taking into account not only output assistance (e.g. tariffs and quotas) but also the penalties (e.g. from tariffs and excise taxes) and benefits (e.g. from input subsidies) of government intervention on inputs. It is defined as the percentage change in returns to a production activity's 'value-adding factors' (capital and labour) resulting from the assistance structure.

4. As an example, consider a product with a landed duty free import price of one dollar and a tariff, expressed as a percentage of the landed duty free price, of 50 per cent.

5. The domestically produced equivalent item has an ex-factory price of \$1.50 and the domestic price of importable inputs required to produce the items totals 80 cents (including the tariffs on inputs). The landed duty-free price of these inputs is 70 cents.

6. The effective rate of assistance is:

$$ER1 = \frac{(1.50 - .8) - (1.0 - .70) \times 100}{(1.0 - .70)} = 133\%$$

7. That is, the structure of tariffs on the inputs and the output results in the value added by the production activity to be one and a third times the value added at world prices.

8. If it were decided to increase assistance to this domestic production by means of a production subsidy of 50 cents per unit the effective rate of assistance would rise to 300%

$$ER2 = \frac{(1.50 - .80) + .5 - (1.0 - .70) \times 100}{(1.0 - .70)} = 300\%$$

9. This example is highly simplified. As a general rule, measurement difficulties increase as protection arrangements become less transparent. Particular difficulties arise when dealing with non-tariff barriers. However, these difficulties are not insurmountable. As a first approximation it is necessary

to establish the price which domestically produced goods, currently sold on the domestic market, would sell for without the assistance arrangements. For a 'small' country such as Australia, this will usually be import parity as the goods are usually import-competing but, for an export-competing good, export parity would be the appropriate benchmark. This information can be used to obtain "nominal tariff rate equivalents" which can then be used in the effective rate framework.

10. Although there are some theoretical problems associated with the effective rate concept, these do not outweigh its value as a "yardstick" of protection. The effective rate of assistance provides a single measure which can incorporate the plethora of protective devices that are currently used. Furthermore, it is a technique which has proved its value many times in "real world" uses. Effective rate studies at various levels of detail have been successfully completed (e.g. by the World Bank) for widely differing economies. Estimates for countries which have not previously undertaken this exercise could be assembled without great difficulty.

11. Finally, it may be of interest to note that the rate of effective assistance is closely related to the PSE (producer subsidy equivalent) which is being proposed as an indicator of protection in agricultural markets. There are, however, two important differences between the PSE and the effective rate. Firstly, whilst the PSE measures only gross assistance to the activity, the effective rate measures net assistance by deducting from gross assistance the penalties imposed on producers by the assistance structure e.g. the tariff inflated prices of manufactured inputs. Secondly, the PSE relates gross assistance to the assisted ex-factory value of output (or price) of the good, while the effective rate relates net assistance to the value-added of the activity without assistance.

12. In the first example above, the PSE would be calculated as 33 percent; the 50 cents increase in the ex-factory price, expressed as a proportion of the landed duty paid price of the item of \$1.50.

13. By measuring net assistance and relating it to the unassisted value added of the activity, the effective assistance measures will provide a better measure than the PSE of the actual level of assistance and the likely impact of government intervention on domestic resource allocation.