

The Australian

Gillard and Abbott build fortress Oz

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JULIA Gillard is certainly right when she says that Australia "has nothing to fear from freer and freer trade": after all, protectionism is merely a way of taxing consumers to subsidise inefficient producers, reducing incomes overall. And Gillard also deserves a cheer for pushing the G20 to revive global trade talks.

But the two cheers would turn to three if her deeds matched her words. No such luck. For when it comes to saying one thing about trade and doing another, this government's record is unblemished. Simply put, it is the first government since Whitlam that has not implemented a single measure moving us to freer trade. Rather, it has steadily undermined the legacy of trade reform.

It began when Rudd and Gillard, breaking with every government since the 1960s, chose to have protection for highly assisted industries reviewed by hand-picked insiders rather than independently assessed by the Productivity Commission. It continued with the government knocking back the PC's recommendations liberalising trade in books. Then the government provided substantial assistance to shipping, steel and exports without a reference to the PC. And now it has gone even further with the changes Gillard announced at the Future Jobs Forum .

That no good should have come of that event is hardly surprising: whatever risks may be involved in locking the nation's most hardened rent seekers in a room, an outbreak of selfless concern for the public is not among them. Usually, however, government can be counted on to merely toss a few seeds to the chooks, who, cheered by a well-lubricated lunch, go home beaming.

Not this time. Rather, the government announced important changes to the Enhanced Project by-Law Scheme. That scheme, introduced in 2002, allows customs duties to be waived on imports used in major projects. To qualify, companies have to show that the goods being imported are not available in Australia or, if available, are not of suitable quality or efficiency. They also have to file an Australian Industry Participation Plan, specifying the goods and services they hope to procure from Australian sources, and explaining how Australian producers can bid for the work.

So far, so good, especially since our general tariff, at 5 per cent, is high by international standards. The trouble is that the scheme is complex and unpredictable. An independent review of the scheme therefore recommended it be substantially streamlined and made easier to access.

But that is not in this government's instincts. Rather than heed that advice, it is making it even more discretionary whether a project qualifies for and can retain the concession. And implementation will involve a panel on which unions and local manufacturers will be well-represented. The implication is obvious: having a row with a major union? Don't count on your tariff concession being renewed.

Now, protectionism comes in many varieties. This one is the protectionism of fools. For at least tariffs generate revenues for the government. These opaque forms of administered protection don't even do that. And with Australia experiencing a burst of mega-projects, adding costs to investment programs is anything but sensible.

All of this gives Tony Abbott an ideal opportunity to shine by contrast. Unfortunately, his proposed changes to Australia's anti-dumping laws do the opposite.

Dumping is said to occur when an overseas supplier exports a good to Australia at a price below its "normal value" in the supplier's home market. If that causes, or threatens to cause, "material injury" to local producers of "like

goods", remedial action, including the imposition of special customs duties, can be taken.

The economic case for anti-dumping provisions is weak. It is, to begin with, hardly unusual for firms to expand internationally by charging less for their goods than they do at home. Indeed, Austrade recommends that very practice to Australian exporters, saying that "differential costing is a technique commonly employed in export and is particularly useful where a company needs to reduce its export prices to be competitive". Nor is the practice harmful: rather, it usually promotes competition and benefits consumers. And in the rare instances where it acts as a form of predatory pricing, it would be better dealt with through the competition laws.

As a result, the best that can be said for anti-dumping laws is that they enhance community acceptance of trade liberalisation. But even so, it is important to ensure those laws do not provide a highly tailored, barely visible form of protection that penalises importers for vigorously challenging powerful domestic incumbents.

Partly with that in mind, World Trade Organisation member countries, including Australia, are required to operate within the terms of the WTO's anti-dumping code. But that code still allows for mischief.

A recent PC review of Australia's anti-dumping laws found that while WTO-compliant, they create risks that could be reduced by tightening key safeguards and providing a test for whether imposing anti-dumping duties is in the public interest.

True to form, the government rejected that recommendation, along with several others. And it then made matters worse by proposing to legislate that "profits forgone and loss of market share" are relevant considerations in determining whether injury has occurred, even "in an expanding market".

This is a case of using the law to protect particular competitors, rather than to protect competition.

Abbott's changes would make our anti-dumping laws worse again by shifting on to importers the burden of proof.

Whether such a change complies with Australia's international trade obligations is questionable. But even if it did, it would still be profoundly undesirable.

Australia's history should make us especially wary of the protectionist temptation. And the dangers are particularly great at the moment, as the mining boom puts pressure on trade-exposed industries while creating rents governments can redistribute to favoured constituencies. Moreover, the government, as it slugs those industries through its carbon tax, will be seeking ways of offsetting the pain. With the Greens protectionist to the core and competing with the ALP for union support, the risks of further Gillard backsliding are obvious.

Faced with those risks, Abbott should ditch his anti-dumping proposal. Instead, he should come up with a credible strategy for trade liberalisation. There is certainly a lot to do. Up to Abbott to show he can do it.

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