

Australia's quarantine mess: The case of New Zealand apples

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Quarantine assistance

- **Arises in PC inquiries from time to time, but not recently**
 - in 1980s apples & pears and rice
 - determined quarantine doubled assistance, questioned whether justified
 - rice policy changed; apples & pears unchanged
- **Rarely considered outside PC inquiries**
 - not in Annual reports, T&AR, few research studies
- **Effectively excluded from**
 - trade agreements
 - NCP reviews
 - Auditor General's reviews
- **Neglect may reflect**
 - turf (DFAT, SPS, science)
 - measurement difficulties
 - free trade prices
 - protection needed to 'correct' the free rider problem

NZ apples case study

- Useful example
 - longstanding source of controversy
 - banned 80 years, several NZ applications rejected
 - fire blight always cited
 - assessment of last application took 8 years
 - imports allowed, but effective ban remains
- ANZCERTA has not addressed
 - relevant committee 'moribund'
- NZ lodged WTO appeal 2007
 - Panel reported August 2010
 - three pests, 1000 pages
 - Australia's position on each pest 'not coherent and objective'
 - Australia must bring inconsistent measures into conformity
 - 29 Nov 2010 Australia's appeal rejected

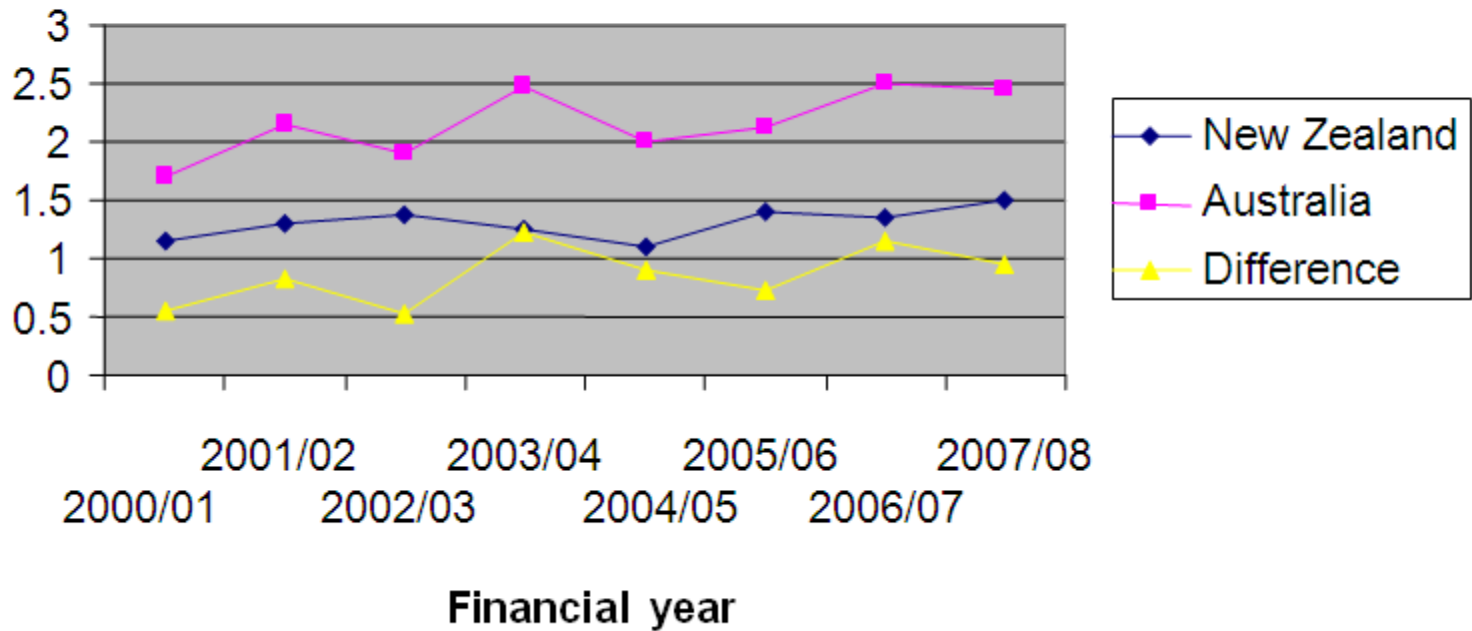
Cost benefit test

- WTO panel applies science based test
 - Heavily biased towards protecting growers
- We apply a cost benefit or national interest test
- Using traditional nominal and effective rate framework
- Key measurement variables
 - Australian prices
 - NZ export prices delivered in Australia
- Key assumptions
 - NZ and Australia both small countries
 - East coast city market prices comparable with NZ landed duty free prices

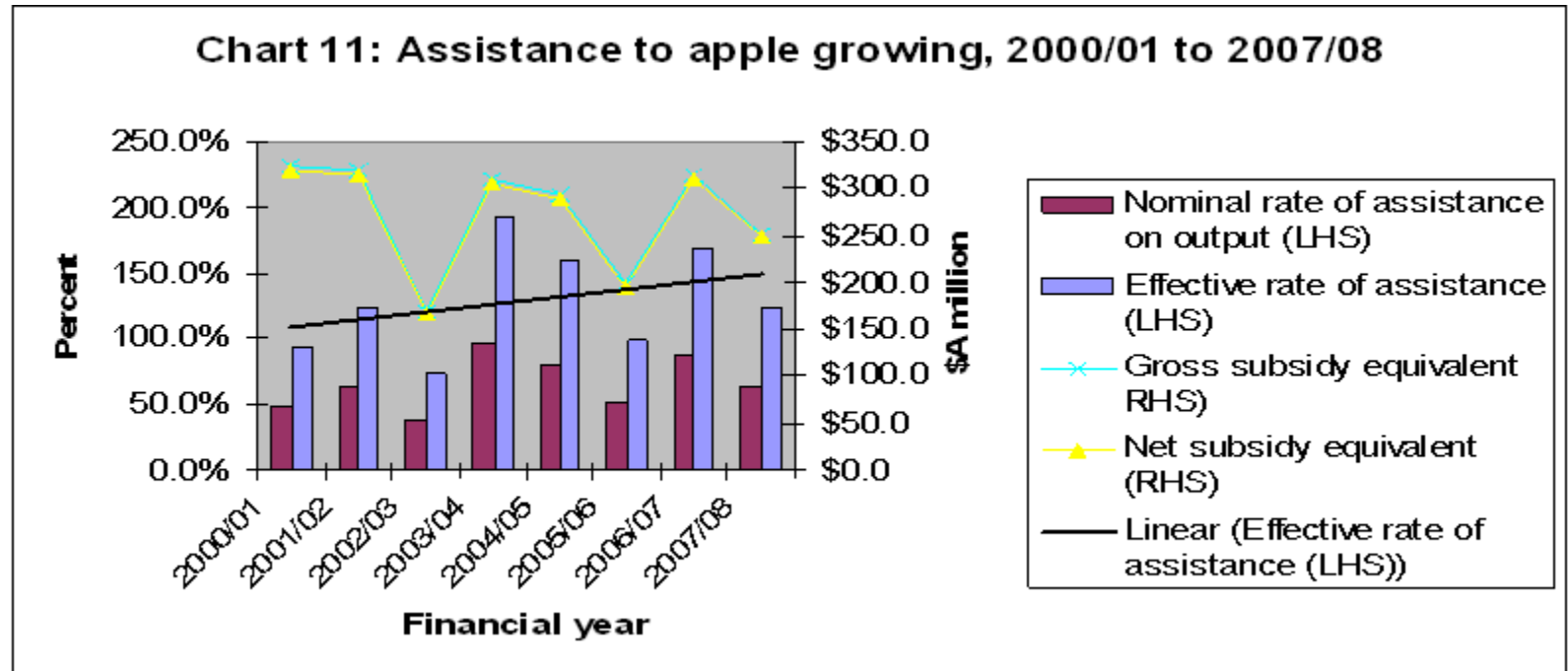
Key findings 1

Chart 10: Comparison of Australian and New Zealand apple prices, 2000/01 to 2007/08

A\$ per kg



Key findings 2



Conclusions (1)

- Quarantine adds 50%+ to local apple prices
- Australian welfare reduced through:
 - high protection to apple growing; and
 - reduced apple consumption
- Welfare cost dis-proportionate to the 'unpriced' disease risk quarantine is intended to correct
- Evidenced by NZ growers coping with the three target diseases and
 - Devote $\leq 10\%$ of costs to disease control
 - Export to sensitive markets at prices half Australian prices
- So Aus growers get a 50%+ price advantage to avoid a worst case disease problem which NZ spends $\leq 10\%$ coping with
 - 'Worst case', because in fact cheap hygiene measures would almost remove disease risk
- \$250m taken off consumers annually to fix a \$40m worst case grower disease problem

Conclusions (2)

- Australia imported no apples for 80 years
- BUT first containers of Chinese 'Fuji' apples arrived in January 2011
 - China has no fire blight
 - Can produce apples at half the NZ cost.
 - World's leading apple exporter
- Is our case for admitting NZ apples affected by Chinese imports?
 - Consumer advantage from admitting NZ apples small if Australia can already access apples at world prices
 - Yet, so far, despite Chinese imports local prices unmoved
 - Chinese effect unclear
- Instead of country-by-country reviews, should be periodic tests of access for all countries to prioritise allowed sources on a cost benefit basis

Conclusions (3)

- Apples case shows need for quarantine reforms
- Wider lessons for similar protection mechanisms
 - Known as ‘administered protection’
 - Arguably the protection ‘frontier’
 - Other examples
 - Anti-dumping
 - Tariff concessions
 - Preferential trade agreements
 - Industry plans, selective carbon abatement measures
- Measurement and exposure unduly neglected
 - USA has made a start with routine cost benefit on quarantine
 - The challenge as always is an operational methodology