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Customs Legislation Amendment Bill (No. 2) 2002

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Contents

Purpose .......................................................................................................................... 1
Background .................................................................................................................... 1
Anti-dumping .................................................................................................................. 1
Passenger Movement Charge ....................................................................................... 3
Trade Modernisation ..................................................................................................... 4
Main Provisions ............................................................................................................ 4
Schedule 1 ..................................................................................................................... 4
   Part 1: Economies in transition ................................................................................. 5
   Part 2: Cumulative effect of exports to Australia ...................................................... 6
   Part 4: Assessment of duty ......................................................................................... 7
   Part 5: Accelerated review for new exporters only .................................................... 10
   Part 6: Applying to continue anti-dumping measures ............................................... 11
Schedule 2: Air security officers .................................................................................. 12
Schedule 3: Technical amendments relating to trade modernisation .......................... 12
Concluding Comments ................................................................................................. 12
Endnotes ....................................................................................................................... 13
Customs Legislation Amendment Bill (No. 2) 2002

Date Introduced: 12 December 2002
House: House of Representatives
Portfolio: Justice and Customs
Commencement: Various dates as set out in the table in Clause 2

Purpose

The Bill has three main purposes:

• to redefine the 'normal value' of goods imported from economies in transition for use in determining whether goods are being dumped

• to amend the anti-dumping provisions in the Customs Act 1901 to align them with World Trade Organization Agreement on the Implementation of Article VI of the General Agreement on Tariffs and Trade, and

• to exempt air security officers from the passenger movement charge.

The Bill also makes minor changes to the Customs Act 1901 consequent to the commencement of the Customs Legislation Amendment and Repeal (International Trade Modernisation) Act 2001.

Background

Anti-dumping

Part XVB of the Customs Act 1901 (the Customs Act) contains provisions dealing with anti-dumping. Dumping is the sale of a good in another country for less than the price in the home country—the 'normal price'—to gain a competitive advantage over other suppliers. Consumers may benefit from dumping through access to cheaper finished goods and downstream industries may benefit when the goods are used in the production process. However, dumping can also injure domestic producers. They can apply to have retaliatory (anti-dumping) duty applied to dumped imports.
Government measures often have the effect of directly or indirectly subsidising exports. With some major exceptions—such as agricultural commodities—government subsidisation of exports is generally prohibited under the General Agreement on Tariffs and Trade (GATT) and now World Trade Organization (WTO) rules. Producers who are injured by export subsidies can apply to their relevant national authority to have countervailing duty applied to subsidised imports.\(^1\)

The ‘economies in transition’, that is, those moving from centrally-planned to market-based economies pose particular difficulties in determining whether goods are dumped. That's because such economies have both planning and market features. Under central planning, prices were set at levels that often bore little relationship to market-determined prices.

The extent to which direct price controls have been abolished in formerly centrally-planned economies varies. But even where direct price controls have been abolished, government policy can still influence prices indirectly. For example, in China, exporters buy materials from unprofitable state-owned enterprises. For political reasons, these enterprises are propped up by bank loans that the banks will never recover. Such loans can thus indirectly affect export prices. In other cases, local governments provide assistance to enterprises located in their jurisdictions.

To have anti-dumping measures taken, it has to be shown first, that the goods are dumped second, that dumping involves injury to domestic producers of competing goods and third, that the import of goods is responsible for the injury. Charges of dumping are difficult to prove. In particular, domestic producers have to show that the dumped price is lower than the normal price. Existing subsection 269TAC(1) of the Customs Act defines normal value. But in certain circumstances, this definition may not be applicable. Existing subsection 269TAC(5E) provides that where a 'price control situation' applies, the Minister is responsible for determining normal value. The situation is relatively straightforward where direct price controls are in force. But according to the Explanatory Memorandum, doubt exists as to whether a price control situation encompasses the indirect effects of government intervention:

\[
\text{It is unclear whether the current test of price control covers indirect government interference. The amendments recognise that something less than actual control may still result in significant distortion in the calculation of normal value. Therefore, the test of price control is being replaced with a test of price influence.}\(^2\)
\]

The Bill therefore proposes changes that seek to encompass the indirect effects on prices of government intervention by using the concept of price influence, which has broader application than price control.

Part of the difficulty in assessing the merit of anti-dumping applications is the lack of information. The Minister in his second reading speech made it clear that exporters are to cooperate in providing information in determining whether influence over prices exists. If
the exporter does not provide information or inadequate information, under proposed
amendments, a situation of price influence will be deemed to exist.

An analysis of trends in worldwide and Australian anti-dumping activity can be found in
Global Trade Protection and Australian Anti-Dumping Activity.

According to an Australian Financial Review article, the Industry Taskforce on Anti-
Dumping—a coalition of Australian manufacturers—has welcomed the anti-dumping
proposals. The Taskforce is concerned that countries in transition such as China and
Russia are dumping goods, and wants the onus put on exporters to show that they are
operating in a free market. On the other hand, the article also quotes a lawyer representing
importers in anti-dumping cases who warns that the legislation would increase protection
for some industries.3

Passenger Movement Charge

The Passenger Movement Charge (PMC) was introduced in July 1995 (replacing the
departure tax). The PMC is levied under the Passengers Movement Charge Act 1978 and
collected under the Passenger Movement Charge Collection Act 1978 (the Collection
Act). The PMC was introduced as a cost recovery measure to recoup the notional cost of
customs, immigration and quarantine processing of passengers entering and leaving
Australia and the cost of issuing short-term visitor visas. However, in law, the PMC is a
tax.

The PMC was levied at $30 per passenger. However, in the 2001-02 budget, the
Government announced that it would increase the charge by $8 to $38 to offset the
increased cost of inspecting passengers, mail and cargo at Australia's international airports.

Generally speaking, the PMC is payable by all passengers departing Australia by air and
sea. Section 5 of the Collection Act contains a number of exemptions such as those for
diplomats and children under 12 years. There are 12 categories of exemption in total. The
PMC is not levied on incoming passengers.

The Australian Customs Service administers the PMC legislation through arrangements
with each transport carrier and the arrangements are standardised for each type of carrier.

Following the terrorist attacks on the United States in September 2001, the Government
has taken a number of steps to enhance security at airports and on aircraft. This includes
randomly placing armed plain-clothes Australian Protective Service officers on flights
under the Commonwealth Air Security Officers program. The security officers are from
the Australian Protective Service. The Government has decided that these officers should
be exempt from the PMC and the proposed amendment to the Collection Act gives effect
to that decision.4

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While initially a cost recovery measure, the PMC became more controversial over allegations that it has become yet another general revenue raising measure. That the PMC has moved beyond cost recovery and is contributing to consolidated revenue is clear from the evidence given to the Senate Legal and Constitutional Committee (Australian Customs Service program) on 28 May 2001. An official of the Department of Finance and Administration gave the following in evidence:

Mr Woodward — In round terms, our assessment of the over-recovery—and this is revealed in answers to questions that have been asked before, on notice—is something like an $80 million collection greater than the actual costs of customs, immigration and quarantine, but the passenger movement charge is a tax. It is not a pure cost recovery arrangement, and that indication of moving away from direct relativity came out when the $3 increase was made at just about Olympics time. So that is clearly on the public record.

Trade Modernisation

The Customs Legislation Amendment and Repeal (International Trade Modernisation) Act 2001 (the Modernisation Act) was passed to modernise the way in which the Australian Customs Service manages the movement of cargo in and out of Australia. The Modernisation Act, among other things, contains provisions that allow Customs officers to exercise monitoring powers and to issue infringement notices. The proposed amendments make minor administrative changes to the Customs Act.

Main Provisions

The Bill contains three Schedules:

- Schedule 1—the bulk of the Bill—deals with anti-dumping
- Schedule 2 deals with air security officers, and
- Schedule 3 deals with technical amendments relating to trade modernisation.

Schedule 1

Schedule 1 has seven parts that deal with the following:

- Part 1: economies in transition
- Part 2: cumulative effect of exports to Australia
- Part 3: references to domestic industry
• Part 4: assessment of duty
• Part 5: accelerated review for new exporters only
• Part 6: applying to continue anti-dumping measures, and
• Part 7: reinvestigation by the Chief Executive officer (CEO) of the Australian Customs Service.

Part 1: Economies in transition

Section 269T of the Customs Act contains definitions. **Items 1-2** introduce a new definition [new subsection 269T(5C)] of an economy in transition. There are two elements to this definition:

• state monopolisation of trade, and
• substantial government influence over prices.

**Comment.** While both were features of centrally-planned economies, they had other features such as the subsidisation of unprofitable state-owned enterprises. In this sense, the definition is inadequate. However, since both elements were features of all centrally-planned economies, the definition suffices for the purposes of the legislation. The term 'before the time' in proposed subsection 269T(5C) seems to refer to the time before the Minister's determination whereas 'at the time' seems to refer to the time of the Minister's determination.

Section 269TAC of the Customs Act deals with the concept of normal value. Subsection 269TAC(5D) has a definition of an economy in transition for the purposes of assessing normal value. Subsection 269TAC(5E) defines a 'price control situation'. **Item 3** repeals these two subsections and inserts proposed subsections 269TAC(5D) and 269TAC(5E).

**Proposed subsection 269TAC(5D)** provides that in the case of exports from economies in transition, the Minister is responsible for determining normal value. The Minister may make a determination if the economy concerned is an economy in transition and at least one of four situations applies. These conditions fall into two broad categories:

• the government significantly affects domestic prices
  – in which case the domestic price is not suitable for determining normal price
• the exporter does not provide adequate information or the information that the exporter provides is inadequate. In this case:
  … the presumption, in the absence of the necessary information, will be that the domestic selling price has been significantly affected by government.⁶
New subsection 269TAC(5E) provides that in determining normal value in accordance with the conditions in proposed paragraph 269TAC(5D)(a) or (b), the Minister must have regard to matters prescribed by regulation. On 7 December 2000, the Minister issued guidelines dealing with price control in economies in transition (see Australian Customs Dumping Notice 2000/60). These guidelines are likely to be incorporated into regulations subject to amendments to take account of price influence as distinct from price control.

Comment. Note that proposed subparagraph 269TAC(5D)(a)(ii) refers to government 'at any level'. This is important in countries such as China where local governments frequently assist enterprises in their jurisdictions even to the point of preventing goods from entering from other jurisdictions; such interprovincial 'trade wars' were common in the late 1980s and early 1990s. Note, too, that the government in the economy transition must 'significantly' affect prices. While this seems to meet the intention of the legislation to encompass indirect as well as direct effects on prices, a potential stumbling block in the application of the legislation is likely to be the meaning of 'significantly'.

Item 4 repeals subsections 269AC(5G) and (5H) because with the definition of significant government effect on prices in Item 3, these two subsections are redundant.

Division 2 of Part XVB of the Customs Act deals with what the Australian Customs Service CEO must do when considering ant-dumping matters. When an applicant applies to have dumping duty applied to imports—under section 269TC of the Customs Act—the CEO of the Australian Customs Service must examine whether there is prima facie case to support the application. If the CEO does not reject the application, the CEO must issue a public notice containing the information as set out in subsection 269TC(4). Item 7 contains additional procedures—in proposed new subsection 269TC(8)—that the CEO must follow if the exporters in economies in transition have been named in the application to have dumping duties applied. This includes giving the exporters a questionnaire to complete and informing them that it has to be completed within a certain time. It also includes telling the exporters that if the information they provide does not provide a 'reasonable basis' for assessing whether the government significantly affects prices, then the Minister will determine the normal value.

Comment. Item 7 is a key amendment. The effect of this section is to put the onus on exporters in economies in transition to show that government does not significantly affect the selling price of their goods. If exporters cannot demonstrate that the government does not significantly affect prices, the Minister is responsible for determining normal value. If, on the other hand, exporters can demonstrate that the government does not significantly influence prices, then the price paid on the domestic market becomes the normal price.

Part 2: Cumulative effect of exports to Australia

As noted, for measures to be taken against dumped imports, dumping must entail injury to domestic producers. Section 269TAE of the Customs Act deals with 'material injury to industry'. Subsection 269TAE(2C) deals with the cumulative effect of exports by different exporters from the same country or from different countries, in determining whether there
has been injury. But this subsection is inconsistent with Article 3.3 of the World Trade Organization Agreement on Implementation of Article VI of the General Agreement on Tariffs and Trade 1994. Article 3.3 reads:

Where imports of a product from more than one country are simultaneously subject to anti-dumping investigations, the investigating authorities may cumulatively assess the effects of such imports only if they determine that (a) the margin of dumping established in relation to the imports from each country is more than de minimis as defined in paragraph 8 of Article 5 and the volume of imports from each country is not negligible and (b) a cumulative assessment of the effects of the imports is appropriate in light of the conditions of competition between the imported products and the conditions of competition between the imported products and the conditions of competition between the imported products and the like domestic product.

The de minimis margin is less than two per cent.

In short, Article 3.3 allows cumulative assessments only when goods are exported from 'more than one country'. Subsection 269TAE(2C), on the other hand, currently provides that the Minister should consider the cumulative effect of exports of like goods to Australia:

... by different exporters from the same country of export or from different countries of export ...

**Item 9 substitutes a proposed subsection 269TAE(2C).** It picks up the point in Article 3.3 mentioned above about 'imports of a product from more than one country' by dropping 'by different exporters from the same country of export' but retaining 'from different countries of export'. The proposed new subsection also incorporates the points about the de minimis margin of two per cent the non-negligible volume of imports and conditions of competition.

### Part 4: Assessment of duty

According to the Explanatory Memorandum, **item 12 changes 'made' to 'lodged' in subsection 269V2 to eliminate a legal distinction which came to light in a court case where it was decided that there was a distinction between when an application was made and when it was lodged.**

Division 4 (sections 269UA to 269Y) deals with dumping duty or countervailing duty assessments. Division 4 allows an importer who has paid interim duty to apply, within specified time limits, for an assessment of duty payable. Section 269W specifies the information that an application must contain.

**Items 13, 14 and 15 are related. Items 13 and 14 delete from the information required 'information to establish those amounts', that is, amounts of normal value, export price and countervailing subsidy. Item 15 contains new subsections 269W(1A) and 269W(1B). The thrust of new subsection 269W(1A) is that the application must provide evidence to**
support the claimed normal value, export price and countervailing subsidy. Alternatively, the applicant must provide evidence to support the applicant's opinion that the amounts are correct and give a commitment that someone else will provide information that supports the applicant's opinion. With respect to the latter, the Explanatory Memorandum notes:

These amendments recognise that there may be circumstances in which an applicant (who is an importer) may not have access to the necessary information to establish the amounts of normal value or countervailable subsidy as the information would usually be held by the overseas exporter who may not be willing to provide it to the importer (for commercial reasons).

To assess dumping duty that has been levied on an interim basis, it is necessary to know the export price. But where a transaction between an importer and exporter is not at arm's length—for example, where the importer is a subsidiary of the exporting company—the export price may differ from the price of an arm's length transaction. In such cases, it is necessary to 'construct' the export price as if the relationship between the importer and exporter were at arm's length. Proposed subsection 269W(1B) relates to a situation where transactions are not at arm's length, and sets out the information that applications for duty assessments must contain, including the price at which the importer sold the goods to another party not associated with importer.

The Explanatory Memorandum states that proposed new subsection 269W(1B) gives effect to Article 9.3.3 of the WTO Agreement on the Implementation of Article VI of the GATT. But this reference does not seem to be correct because Article 9.3.3 does not deal with arm's length transactions. Rather, Article 9.3.3 relates to proposed new sub-section 269X(5B) (see below) and not new subsection 269W(1B).

Section 269X of the Customs Act requires the CEO to calculate the dumping duty payable and specifies what the CEO must take into account when calculating assessments. This includes, for example, requiring applicants to supply information and informing the applicant that the CEO intends to take into account certain information that the applicant did not supply. Item 17 inserts proposed new subsection 269X(3A). It provides that the CEO cannot give to the applicant information that the exporter provided (that is, relevant to the working out of normal value, countervailing subsidy or export price) unless the exporter indicates a willingness to provide the information to the applicant. Comment. The purpose of this subsection seems to be to ensure that information that is provided commercial-in-confidence remains just that.

Item 19 inserts two new proposed subsections: subsection 269X(5A) and subsection 269X(5B). New subsection 269X(5A) provides that new subsection 269X(5B) applies when the CEO provisionally ascertains the export price as the difference between (i) the price at which the importer sold the goods to another party not associated with the importer—that is, an arm's length transaction—and (ii) the deductions—such as customs duty, GST and costs incurred after the goods were exported—as defined in subsection 269TAB(2).
Subsection 269X(5B) implements Article 9.3.3 of the WTO Agreement on the Implementation of Article VI of the GATT, which states:

In determining whether and to what extent a reimbursement [of anti-dumping duty] should be made when the export price is constructed in accordance with paragraph 3 of Article 2, authorities should take account of any change in normal value, any change in costs incurred between importation and resale, and any movement in the resale price which is duly reflected in subsequent selling prices, and should calculate the export price with no deduction for the amount of anti-dumping duties paid when conclusive evidence of the above is provided.

Paragraphs (a) and (b) of new subsection 269X(5B) are largely verbatim of Article 9.3.3. New subsection 269X(5B) also states that the definition of terms used in the provision and Article 9.3.3 are the same as those used in the Agreement.

Section 269Y of the Customs Act specifies what steps the Minister must take to implement duty assessments. These include considering the CEO's report, ascertaining the dumping duty, notifying the applicant of the duty payable and, where applicable, ordering that overpaid duty be repaid. Item 21 adds a proposed new subsection 269YA. This deals with the circumstances under which the CEO can reject an application or terminate examination of an application. New subsection 269YA(1) provides that despite sections 269X and 269Y, section 269YA has effect if an application under section 269V—which deals with the right of importers to apply for duty assessments in certain circumstances— is lodged under section 269W—which specifies what an application must contain. In other words, the requirements of sections 269X and 269Y do not prevent the CEO from rejecting an application or terminating an examination.

New subsections 269YA(2) and 269YA(3) set out the circumstances under which the CEO must reject applications. The first circumstance [new subsection 269YA(2)] is where the CEO is satisfied, within 20 days after an application is lodged, that it does not contain all the information it must contain. The second circumstance is set out in new subsection 269YA(3). This provides that where an application contains a commitment that someone else will provide additional evidence to support the applicant's claims, and the CEO considers that he or she has not received sufficient evidence from either the applicant or other persons, the CEO must reject the application.

New subsection 269YA(4) provides that the CEO may terminate examination of an application if he or she is satisfied that, after the time allowed, there is not enough information to be able to ascertain provisionally all of the variable factors needed to determine how much duty is payable.

New subsection 269YA(5) sets out what the CEO must do if he or she rejects an application or terminates examination of an application. This includes informing the applicant of the reasons for rejection or termination and that the applicant has the right to have the decision reviewed. If the applicant does not seek a review within the six months...
from when the goods were entered for home consumption, the interim duty paid becomes the duty payable [new paragraph 269YA(5)(c)].

The Customs Act provides for review—by the Review Officer—of certain decisions by the Minister or CEO. Subdivision C of Division 9 of Part XVB deals with review of the CEO's decisions ('reviewable decisions'). Under section 269ZZN, reviewable decisions fall into three categories:

- negative prima facie decision
- termination decision, and
- negative preliminary decision.

Item 23 contains proposed new paragraph 269ZZN(d) that proposes a fourth category: a rejection decision. There will be two forms of rejection decision:

- where an application does not contain everything it must contain [proposed new subsection 269YA(2)], and where an application does not contain enough evidence [proposed new subsection 269YA(3)], and
- where the CEO has decided to terminate examination of an application [proposed new subsection 269YA(4)].

Section 269ZZU deals with reviews of negative preliminary decisions. Under this section, the Review Officer must affirm or revoke the CEO's decisions that are under review. Item 25 inserts a proposed new section 269ZZUA. This section deals with reviews of the rejection decisions. Proposed new subsection 269ZZUA(3) provides that where the Review Officer revokes a rejection decision, the CEO must resume examination of the application and make a recommendation to the Minister. This does not, however, prevent the CEO from terminating an examination if he or she does not have enough information. Proposed new subsection 269ZZUA(5) provides that the Review Officer's decision must be based on exactly the same information that the CEO had.

Part 5: Accelerated review for new exporters only

Division 6 of Part XVB of the Customs Act allows certain exporters to seek accelerated review of dumping duty or countervailing duty notices. Section 269ZDC explains:

This Division provides for the early review of a dumping duty notice or a countervailing duty notice on the application of certain exporters of goods covered by the notice. The review can be sought when a review of the notice under Division 5 would not be available and is only open to new exporters or exporters whose exportations were not examined when the notice was published.

However, Article 9.5 of the WTO Agreement limits the right to review to 'new exporters'. This states in part:
If a product is subject to anti-dumping duties in an importing Member, the authorities shall promptly carry out a review for the purpose of determining individual margins of dumping for any exporters or producers in the exporting country in question who have not exported the product to the importing Member during the period of investigation …

The Explanatory Memorandum defines a 'new exporter' as follows:

A new exporter is defined as an exporter who did not export goods to Australia at any time during the period:

(a) starting at the start of the investigation period; and

(b) ending immediately before the CEO places the statement of essential acts on the public record.8

This definition reflects Article 9.5 of the WTO Agreement.

The effect of Items 27 and 29 is to limit the right to seek a review to new exporters only.

The definition of 'residual exporter' now in subsection 269T(1) includes a 'new exporter':

*Residual exporter*, in relation to a dumping duty notice or a countervailing duty notice in respect of goods, means an exporter of goods the subject of the application or like goods other than a selected exporter, and includes a new exporter of such goods.

**Item 28** repeals this definition and inserts a **proposed new subsection 269T(1)** that explicitly excludes a new exporter as well as a 'selected exporter'.

**Items 30 and 31** replace the references to 'residual exporter' in subsection 269ZE(1) with references to 'new exporter'.

**Part 6: Applying to continue anti-dumping measures**

Division 6A of Part XVB deals with the continuation of anti-dumping measures. Section 269ZHA explains:

This Division provides for the CEO to alert interested parties to the anticipated termination of anti-dumping measures and provide them with an opportunity, before those measures expire, to apply for a continuation of the measures. The Division:

sets out the consequences if no application is made;

outlines the procedure to be followed by the CEO in dealing with an application and preparing a report for the Minister;

empowers the Minister, after consideration of that report, either to decide that the measures will expire or to take steps to ensure the continuation of the measures.

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Section 269ZHB deals with applications for continuation of anti-dumping measures. Amongst other things, it provides that the CEO must give notice that dumping duties are about to expire and invite 'interested parties' to apply to have the measure continued. The definition of interested parties includes importers. Item 33 (proposed new paragraph 269ZHB(1)(b)) introduces a more restrictive measure by limiting the invitation to the person whose application resulted in the imposition of the anti-dumping measures, and to 'persons representing the whole or portion of the Australian industry producing like goods to the goods covered by those measures'. As the Explanatory Memorandum observes, importers are scarcely likely to seek the continuation of the duty.

Schedule 2: Air security officers

Item 1 adds a new paragraph 5(m) to the Passenger Movement Charge Collection Act 1978. This will have the effect of exempting Air Security Officers from the PMC while on duty as part of the Commonwealth Air Security Officer Program.

Schedule 3: Technical amendments relating to trade modernisation

The Explanatory Memorandum generally explains adequately the Items in Schedule 3. Some, for example, Items 2, 5, 7 and 10 are necessary to take account of the transition from the previous provisions of the Customs Act to those provided in the Trade Modernisation Act, particularly the move from administrative penalties to the infringement notice system.

Item 1 inserts into subsection 4(1) that contains definitions, a definition of 'monitoring powers' as defined in section 214AB. This amendment has the effect of ensuring that the definition of monitoring powers applies to all sections of the Customs Act and not just subdivision J of Division 1, which deals with powers to monitor and audit.

Item 6 inserts a proposed new subsection 71H(2A). The effect of this subsection is that even if a person has made an import entry but subsequently withdraws that entry, the person can still be served with an infringement notice.

Similarly, Item 8 adds proposed new subsection 119B(2A) that provides that infringement notices can be served in respect of an export entry, submanifest or outward manifest even if it has been withdrawn.

Concluding Comments

On balance, the provisions relating to anti-dumping probably tend to favour domestic producers in that the provisions will probably reduce the incidence of dumping. Exporters
in economies in transition may find it difficult to show that their prices are not indirectly affected by government policies. The example of China given above—where exporters buy materials from unprofitable state-owned enterprises that are propped up by bank loans that the banks will never recover—illustrates the difficulties exporters may face. The exporter would need to know, for example, whether the enterprise supplying inputs is profitable and, if not, how it manages to survive. The evidentiary requirements in such cases could be very onerous. It is thus likely that under the proposed amendments, the Minister would become increasingly responsible for determining normal value. However, the evidentiary provisions do not seem to be inconsistent with Article 6 of the Agreement on Implementation of Article VI of the General Agreement on Tariffs and Trade 1994.

On the other hand, there is no doubt that the semi-reformed nature of economies in transition means that some prices remain distorted by government action. For example, some countries continue to keep electricity prices low to limit the effect on living standards.

Endnotes

1 Additional information on dumping and subsidisation can be found on the Australian Customs Service website at http://www.customs.gov.au/site/index.cfm?nav_id=670&area_id=5
2 Explanatory Memorandum, p. 7.
4 See the transcript of the press conference given by the Attorney General, Hon. D. Williams AM QC MP on 18 December 2001 at: http://152.91.15.12/www/attorneygeneralHome.nsf/Alldocs/DD54281A46ADACA9CA256B610014649D?OpenDocument&highlight=air%20marshals
6 Explanatory Memorandum, p. 7.
7 ibid., p. 12.
8 ibid., p. 18.