



**Australian Government**  
**Productivity Commission**

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*From the Chairman's Office*

Mr Roger Beale AO  
Chairman  
Quarantine and Biosecurity Review Panel  
GPO Box 858  
CANBERRA ACT 2601

Dear Mr Beale

Further to our meeting earlier this month, we have given some further consideration to the issues discussed. Set out below are some points that the Panel may find useful for the work ahead.

#### **Determining the 'appropriate level of protection'**

One way of giving the appropriate level of protection (ALOP) more meaning would be to use an expected cost threshold at which quarantine measures (such as an import ban or protocols) would apply. For example, where an imported product is assessed in an import risk analysis to have 'a high likelihood of a \$X million cost arising from a pest or disease incursion', then quarantine measures would apply. The use of an economic cost threshold, while focussing on a specified trigger level, would provide for a range of combinations of likelihoods and dollar costs associated with pest or disease incursions.

Using an expected cost threshold for the determination of ALOP would demand quality economic consequence studies to be incorporated in import risk analyses, performed by institutions with credibility. Australia's approach to the appropriate level of protection and quarantine measures would be subject to considerable domestic and international scrutiny.

A major challenge in using this approach, of course, would be to determine the expected cost threshold itself. There is no simple solution to this problem, although consultations with the community should assist. We would caution against constructing the ALOP solely from a sample of economic consequence studies. There would be methodological challenges — for example, as to the choice of products, the assumptions made about pest and disease risks, and how the studies would be 'aggregated'. There is also the difficulty that a constructed appropriate level of protection might be meaningless to those domestic industries whose products were not part of the sample.

#### **Cost-effectiveness analysis in choosing among quarantine measures**

If quarantine measures are to be taken, we consider that greater use should be made of cost-effectiveness analysis, not only to implement the least-trade-distorting measure, but to do so at least cost domestically. Such an approach would most likely mean that less emphasis would be given to measures that reduced pest and disease risks by the greatest amount and that more emphasis would be given to measures that achieve the necessary risk reduction at least cost. To do this well, however, requires a clearly understood expression of the ALOP.

### Using broad economic assessments to help form attitudes to quarantine risks

We acknowledge that there are various difficulties in using broad economic assessments such as cost-benefit analysis to determine quarantine measures in relation to imported products.

However, we consider that undertaking such assessments from time to time would help raise community awareness and understanding of quarantine measures and their related benefits and costs. The assessments would build on the immediate and direct economic consequence studies done by ABARE, to examine the economy-wide effects of alternative quarantine measures. While such studies would be outside the SPS framework adopted by the WTO, they would help clarify what quarantine measures are in Australia's broader national interest. It was mentioned at our meeting that the United States presently conducts such studies, and their work may provide a useful reference base.

There may be an issue in how such assessments are used by other WTO members with an interest in challenging Australia's conservatism. That issue could be addressed by ensuring that any assessment focuses purely on the empirical effects of a quarantine measure, and not on what the measure ought to be.

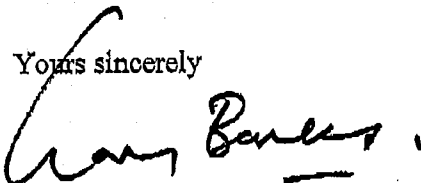
### Governance

The governance model underpinning the Productivity Commission's role may be of interest to the Review panel in its own deliberations about governance issues. The Commission operates under the powers, protection and guidance of its own legislation. Its independence is formally exercised under the *Productivity Commission Act 1998* through the Chairman and Commissioners, who are appointed by the Governor-General for fixed periods. The Productivity Commission has its own budgetary allocation and permanent staff, operating at arm's length from other government agencies.

While the Government largely determines the Commission's work program (both the topics to be examined and the timing of reporting), its findings and recommendations are based on its own analysis and judgments. The Commission reports formally through the Treasurer to the Australian Parliament, where its inquiry reports are tabled. However, the statutory requirement to promote public understanding of policy issues with a view of improving Australia's living standards means that its reports are also directed at the wider community. The Commission model may be relevant to the governance arrangement for Biosecurity Australia, where the credibility and independence of its import risk analyses are central to the effectiveness of the organisation.

I hope the Panel finds these comments helpful. Please feel free to contact me, or Bernie Wonder or Monika Binder should you require any further information. I wish you and your colleagues all the best in completing the Review and look forward to reading your report.

Yours sincerely



Gary Banks AO