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## **CORRESPONDENCE**

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*From Ross Parish*

**I**N advocating the lifting of the export ban on Australian native birds, Brendan Moyle ('Saving Australia's Parrots from the Export Ban', *Agenda*, Volume 4, Number 1, 1997, pages 127-132) argues that 'it is not obvious that lifting the export ban would result in a greater traffic of rare species; quite possibly, fewer rare species would be exported, since legal exports may depress prices'.

But how could this be? Legalising exports would not reduce the demand: if anything, it would increase it, since some potential buyers may currently be inhibited from participating in a dubious trade. Legalisation would depress prices all right, but only by reducing the scarcity of bids, that is, inducing an increase in supply.

*Brendan Moyle responds:*

**M**Y statement needs some elaboration. On the face of it, it is contrary to economic logic. The fall in price should follow from an increase in the legal exports. Hence, it does not seem possible that legalising the export trade would lead to lower exports.

Yet it is quite conceivable that legalising the trade would lower both prices and exports, for three reasons. The first reason relates to the pricing rules in the legal and the black markets. In a legal market, arbitrage will tend to bring all prices down to a market clearing price. In a black market, smugglers can practise full price discrimination. They can discover the maximum price a collector is willing to pay for a parrot and charge this (Hoser, 1993:23). The collector is unable to shop around for a better price as this increases the likelihood of being caught. The return in a black market is therefore higher than in a legal market, prompting a higher level of exports. Legalising the market lowers the profitability of each bird.

The second reason is related to the collecting impulse. Part of the demand for rare parrots is related to their rarity. In the Australian case, this rarity is created by the export ban. Owning an Australian parrot signals to other aviculturists a superior breeding skill or collecting ability. If the export ban were lifted, some of the demand for Australian parrots would ebb as this signal would no longer be given.

The third reason is that aviculturists in the importing country will try to meet some of the (now) legal demand for Australian parrots. Currently, smugglers do not encourage their consumers to breed from the stock they provide. It has been alleged that smugglers even sterilise their stock (by radiation) to discourage their market from building up a breeding population (Hoser, 1993:8, 26). However, aviculturists in the export market can and will acquire skills in breeding these birds (in much the same way that New Zealand breeders already have). So some of the de-

mand for Australian parrots would be met by domestic breeders who compete some of the legalised market away from Australian exporters.

It is, therefore, not obvious that relaxing an export ban would lead to a greater traffic of rare species. If the effects described above dominate, the level of legal exports could be lower than the present illegal level. The real conservation gain from legalising exports is that it could prompt a supply-side response by landowners to preserve parrot habitat (Vardon et al., 1997). After all, the loss of habitat to encroaching agriculture is a much greater threat to most wildlife than illegal harvesting (McNeely et al., 1990).

## References

- Hoser, R. (1993), *Smuggled*, Apollo Books, Sydney.
- McNeely, J., K. Miller, W. Reid, R. Mittermeir & T. Werner (1990), *Conserving the World's Biodiversity*, IUCN, Gland.
- Vardon, M., R. Noske & B. Moyle (1997), 'Harvesting Black Cockatoos in the Northern Territory: Catastrophe or Conservation?', *Australian Biologist* 10(1): 84-93.

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## From Peter Urban

I would like to endorse the criticisms of the Development Import Finance Facility (DIFF) that Ross McLeod and Sandy Cuthbertson made in their recent article ('The DIFF: An Obituary', *Agenda*, Volume 3, Number 4, 1996, pages 517-522). If anything, the benefit-cost ratio they give is overly favourable to the DIFF.

Using their example, imagine a market for clinics in the recipient country, with supply perfectly elastic at the world price of \$80,000 per clinic and demand downward sloping. If the demand curve intersects supply at a point where the recipient country would, in the absence of the DIFF, establish fewer than a further 286 clinics (most countries will establish some clinics even without aid funds), the value of the marginal clinic will be less than the \$80,000 that McLeod and Cuthbertson assume, and the benefit-cost ratio with DIFF will be even less than the .43 they calculate. The value of the marginal clinic could easily be only \$65,000 in the recipient country, implying a benefit-cost ratio, at the margin, of zero and, depending on the slope of the demand curve, an average benefit-cost ratio of less than .3.

A major argument used to justify the DIFF and now to support a 'soft loan' replacement for it is that the DIFF allowed AusAID to leverage up the size of its aid projects. Yet the bigger a project is, the more likely it is that its benefit-cost ratio will not be much greater under a soft-loan scheme than under the DIFF, even if the soft loan is untied. (Using the example of McLeod and Cuthbertson, and assuming that in the absence of the aid the recipient country would establish fewer than 286 more clinics, we can derive a benefit-cost ratio of .675 or less for an untied soft-loan scheme.) One can only hope that the government is very careful in the design of any replacement for the DIFF.