

Government Trade Policy Statement

- 9.1 In April 2011, the Gillard Government released a comprehensive Trade Policy Statement – *Trading our way to more jobs and prosperity*.
- 9.2 The Statement noted that the opening of the Australian economy since the 1980s had contributed greatly to the strong and sustained economic growth of the past twenty years. It commented that international trade assisted the government in achieving its aims of increasing national prosperity and the creation of high-skill, high-wage jobs. Workers in export industries earn about 60 per cent more than other Australian workers.¹
- 9.3 In evidence given to the Sub-Committee, the Department of Foreign Affairs and Trade set out the background to the preparation of the Statement:

The statement was prepared following consultations with a range of stakeholders, including key industry groups, the union movement and civil society. It also drew on the Productivity Commission's report on bilateral and regional trade agreements. That process had more than 100 written submissions.

Overall the trade policy statement has been welcomed by key industry bodies, including the Australian Chamber of Commerce and Industry, the Australian Industry Group, the Business Council of Australia, the National Farmers' Federation and the Australian Services Roundtable. Some other stakeholders as well have raised

¹ Gillard Government Trade Policy Statement: *Trading our way to more jobs and prosperity*, Department of Foreign Affairs and Trade, April 2011, p.1.

issues dealt with in this statement when we have been consulting with them.²

- 9.4 The Statement estimates that the reductions in industry protection, and the consequent opening of the Australian economy to more trade, have made the average household about \$3,900 better off. At the same time trade intensity (exports plus imports as a share of total economic output) has increased from 28 per cent to 40 per cent.³
- 9.5 The Government's role is a vital one. Through charges and processes, such as customs duties, quarantine restrictions, subsidies, taxes, and fees and charges of various kinds, it can have a major influence on the cost and availability of goods. The statement recognises that reduction in these government-imposed restrictions benefits the economy by exposing businesses to international competition:
- ...compelling them to innovate, to be efficient and to restrain the prices they charge local consumers. And reducing trade barriers at home can enable consumers to buy imported items at lower prices than the cost of producing them at home.⁴
- 9.6 The statement offers examples that reflect this effect – the prices of most items of clothing and footwear are considerably lower than they were 25 years ago. By contrast the prices of untraded goods – the examples used are haircuts, rents and dental care – are noticeably higher.⁵
- 9.7 This influence extends beyond the border. A sound and open trade policy allows the factors of production – land, labour and capital – to move into the nation's more competitive industries. The essential factor here is that an open economy is able to maximise its comparative advantage and to specialise where that advantage is greatest.⁶
- 9.8 The essential point is that these advantages do not depend on other countries reducing their levels of protection. However, when other countries are also reducing their barriers, it allows Australia to take advantage of better market access for its exporters and increases the overall gains.⁷

2 Department of Foreign Affairs and Trade, Committee Transcript, 3 June 2011, p.2.

3 Gillard Government Trade Policy Statement, p.1.

4 Gillard Government Trade Policy Statement, p.3.

5 Gillard Government Trade Policy Statement, pp.2-3.

6 Gillard Government Trade Policy Statement, p.3.

7 Gillard Government Trade Policy Statement, p.3.

- 9.9 Another essential factor is the pressure that is built up in the rest of the economy to also reform and become more efficient. Unless the reform process is economy-wide, export industries may be held back by the cost of non-traded inputs and by the costs imposed by excessive regulation:

Trade liberalisation therefore can drive wider economic reform, lowering prices not only to export industries but to the nation's consumers as well.⁸

- 9.10 The Statement recognises the changes that are occurring in the world economy, particularly the growth of globalised manufacturing processes supported by regional and global supply chains. It also notes the rise in the importance of services, which now:

...account for 73 per cent of Australia's economic activity, 85 per cent of employment and around 22 per cent of export revenue.⁹

- 9.11 ITS Global estimated that the services included in Australia's merchandise exports amounted to \$35 billion. This is in addition to \$53 billion of direct services exports. The Statement indicates that the Government intends to implement a reform program to make Australia's services sector one of the most open in the world.¹⁰

- 9.12 The Sub-Committee asked the Department of Foreign Affairs and Trade for some details of the proposed reforms. The Department commented:

The Government's overarching strategy for the service economy consists of:

- the creation of a sound macroeconomic environment that supports sustainable growth;
- increasing the productivity and competitiveness of the service economy by removing impediments to growth, through microeconomic reform;
- enhancing the capacity of service-based businesses, through investment in skills, innovation and infrastructure; and
- vigorously pursuing trade liberalisation.¹¹

- 9.13 The Department explained also that:

A major focus of the Government's microeconomic reform agenda is the work of the Council of Australian Governments (COAG) under its National Partnership Agreement to Deliver a Seamless

8 Gillard Government Trade Policy Statement, p.3.

9 Gillard Government Trade Policy Statement, pp.3-4.

10 Gillard Government Trade Policy Statement, p.4.

11 Department of Foreign Affairs and Trade, Submission 40a, p.1.

National Economy. In March 2008 COAG endorsed a far-reaching reform agenda, oversighted by the Business Regulation and Competition Working Group (BRCWG), for reducing the costs of regulation and enhancing productivity and workforce mobility in areas of shared Commonwealth, State and Territory responsibility. The COAG reform agenda is intended to deliver more consistent regulation across jurisdictions to address unnecessary or poorly designed regulation, to reduce excessive compliance costs on business, restrictions on competition and distortions in the allocation of resources in the economy.

The Government also has a wide range of other reforms in train that directly impact individual services sectors, including for example, the major infrastructure upgrades and competition reforms to Australia's telecommunications sector introduced under the National Broadband Network (NBN). The vastly improved broadband performance offered by the NBN will support greater productivity and innovation, including in areas such as e-commerce.

Another example is the report by the Australian Financial Centre Forum (AFCF) – *Australia as a Financial Centre: Building on our Strengths*, released on 15 January 2010. The AFCF report provides recommendations on domestic reforms and policies to improve the international competitiveness of Australia's financial services sector. The Government provided in-principle or direct support for nearly all of the Forum's 19 recommendations...¹²

- 9.14 The Government places support for the World Trade Organization among its top priorities and it is actively seeking a successful conclusion to the Doha Round. However, it recognises the difficulties faced by many developing countries in trying to fully participate in the world trading system. The ability to participate fully brings with it many benefits for such countries and directly influences their economic growth and the rate of poverty reduction they can achieve.¹³
- 9.15 To assist developing countries to take advantage of the opportunities that trade presents, Australia operates 'aid for trade' programs. The aim is to "strengthen the capacity of developing countries to participate in

12 Department of Foreign Affairs and Trade, Submission 40a, p.1.

13 Gillard Government Trade Policy Statement, p.4.

international trade” and, by doing so, “improve the health of the global trading system”.¹⁴

- 9.16 In response to a question about ‘aid for trade’ programs, the Department of Foreign Affairs and Trade explained:

Aid for trade is about helping developing countries, especially least developed countries, to integrate better in the global trading system, to sell their goods and services more successfully in the international marketplace, and to create an appropriate trade enabling environment domestically. Success in these areas, in support of greater market access, can make trade a potent fuel for achieving economic growth.

Greater economic integration and the opportunities flowing from this can enhance economic activity, and help communities build new livelihoods, expand existing businesses and find new jobs. The liberalisation of sectors such as health services can facilitate access to better health care, and thereby reduce child mortality and improve maternal health.

Economic growth and the resulting improvement in prosperity can provide developing countries the resources and capabilities to reduce poverty, and to deliver more and better education and health services.¹⁵

- 9.17 The Department explained that the Government sees the role of ‘aid for trade’ as an important way of assisting developing nations to take a full share in the global trade system:

Aid for trade plays an important role in the trade policy space, and is a key component of international trade advocacy efforts. It supports Australia’s commitment to international cooperation and an open and transparent global trading system as a foundation of future prosperity – and is a critical avenue to poverty reduction and economic growth.

Trade is a key factor for economic growth. Developing country participation in global trade liberalisation is one of the most effective ways of delivering developing countries a better deal in world trade, encouraging development and reducing poverty - no country has achieved strong and sustained economic growth without it. But developing countries need assistance to participate

14 Gillard Government Trade Policy Statement, p.4.

15 Department of Foreign Affairs and Trade, Submission 40a, p.2.

in the global trading system and capacity to translate the benefits of trade into development outcomes and progress towards the Millennium Development Goals. Aid for trade is being increasingly sought by developing countries.

Aid for trade helps to facilitate international trade and economic integration, utilising existing global institutions such as the WTO, APEC, East Asia Summit, ASEAN and the Pacific Islands Forum. It helps developing countries build and strengthen their economic and trade governance, undertake trade liberalisation, comprehensively engage in international trade negotiations and implement outcomes including to support economic reform and adopt international standards.¹⁶

- 9.18 The Department went on to explain that although the term ‘aid for trade’ is relatively new, the process has, in fact, been an important part of Australia’s aid program for a considerable time:

Aid for trade has always been an important component of Australia’s development assistance program. Over recent years Australia’s aid for trade activities have increased and strengthened, consistent with the Government’s commitment to support trade liberalisation unequivocally, resist protectionism and help developing countries gain access to international economic opportunities.

AusAID currently estimates Australia’s total aid for trade activities at around \$600 million in 2009-10 (or around 15% of total ODA). This figure was calculated based on activity/sectoral codes identified by the OECD as aid for trade. Australia has no specific aid for trade program or facility. Activities are funded across various programs or facilities.

Australian aid for trade provided through multilateral and regional forums/organisations represents about 30% of overall aid for trade. On a geographic basis, Australia’s aid for trade is primarily directed at East Asia (35%) and the Pacific (23%). The largest bilateral country recipients are Indonesia (15%) and Papua New Guinea (12%).

The key types of aid for trade activities are economic infrastructure for transport (51%), and building productive capacity (46%) mainly in the agriculture sector. These underpin regional integration and trade facilitation objectives.

16 Department of Foreign Affairs and Trade, Submission 40a, pp.3-4.

Continuing efforts to strengthen aid for trade will focus on better tailoring and targeting of activities to achieve optimal impact, and to improve monitoring and evaluation mechanisms to take better account of trade related outcomes.

Strengthening our efforts on aid for trade will help deliver more efficient and effective aid that underpins Australia's broader foreign and trade policy interests. It will help achieve economic growth and reduce poverty, as well as see developing country partners achieve self-reliance.¹⁷

- 9.19 Examples of these policies already in place are reflected in the economic cooperation and capacity strengthening provisions in recent trade agreements (such as AANZFTA) and in activities within many of the programs being undertaken through APEC.
- 9.20 The OECD and WTO produced a report in 2009 assessing the effectiveness and achievements of aid for trade initiatives. The report commented:

The Aid-for-Trade initiative has succeeded in raising awareness about the support developing countries, and in particular the least developed, need to overcome the barriers that constrain their ability to benefit from trade expansion and reduce poverty. As a result partner countries are raising the profile of trade in their development strategies and donors are responding by providing increasing resources to build trade capacity – whether in terms of policies, institutions or infrastructure.

...Now, more than ever, aid for trade is indispensable for helping suppliers from low income countries build capacity to penetrate global markets. Consequently, aid for trade must remain an essential component of development assistance. The report concludes that maintaining momentum towards the trade expansion and poverty reduction goals of the initiative requires reinforcing local ownership and advancing the dialogue among stakeholders.¹⁸

17 Department of Foreign Affairs and Trade, Submission 40a, p.3.

18 *Aid for Trade at a Glance 2009: Maintaining Momentum*, OECD/WTO, 2009, Executive Summary, p.13.

Trade Liberalisation

- 9.21 The Statement notes that the ultimate objective of trade policy “is to increase the prosperity of a nation’s citizens”, although non-trade policies are the most effective at redistributing income among the population. However, those processes are much more effective in a strongly growing economy.¹⁹
- 9.22 The process of trade liberalisation has transformed the Australian economy from “a small domestic market protected by high tariff walls to an open, competitive economy supplying global markets”.²⁰
- 9.23 The changes to the economy have gone far beyond the simple reduction of tariff protection; they have, for example, encompassed changes to the exchange rate, greater competition in financial markets, and an overhaul of government business enterprises. The Government Statement commented that this combination of trade policy and microeconomic reform is an integral part of the overall economic reform program.²¹
- 9.24 The trade liberalisation reforms have reduced average effective tariffs on manufactures from 22 per cent to below 5 per cent. On motor vehicles the maximum tariff rate fell from 100 per cent to five per cent; on clothing and some textiles the rates fell from up to 180 per cent to 10 per cent and will fall to five per cent in 2015. Tariffs on footwear and some other textiles are already at five per cent.²²

The Patchwork Economy

- 9.25 The Government Statement explains the problems arising from the extraordinary success of the mining sector. As the sector grows it is attracting skilled workers and other resources from less successful sectors. The result is described in the Statement as a “patchwork economy” – sectors operating at dramatically different speeds. The problem brings with it a high exchange rate and that, in turn, poses difficulties for exporters and import-competing industries.²³

19 Gillard Government Trade Policy Statement, p.4.

20 Gillard Government Trade Policy Statement, p.5.

21 Gillard Government Trade Policy Statement, p.5.

22 Gillard Government Trade Policy Statement, p.5.

23 Gillard Government Trade Policy Statement, p.6.

- 9.26 However, the mining sector itself faces competition from its overseas rivals, who are also benefitting from the commodity boom. The high exchange rate has two offsetting effects. It disadvantages exporters and import-competing industries, but pushes the prices of imported goods and services downwards and assists consumers and other industry sectors. As a result of these competing influences, the Government plans to concentrate on re-starting productivity growth to restore balance to the economy and allow all industry sectors to become more competitive.²⁴

Five Principles to Guide Trade Policy

Unilateralism

- 9.27 The basic principle underlying the trade liberalisation program is that it should not rely on what other people do. The reforms carried out to date have been very beneficial to the competitiveness of the Australian economy. Consequently, it makes no economic sense to refuse to push forward with liberalisation because other countries refuse to offer concessions. The Statement compares it to “an athlete refusing to get fit for an event unless and until other competitors also agree to get fit”.²⁵
- 9.28 The rule proposed by the Government is that trade negotiations should be judged solely on whether the results are in Australia’s interests, regardless of what other countries propose to do.²⁶

Non-discrimination

- 9.29 The Australian Government’s policy is to negotiate trade agreements that support the WTO’s basic rule of non-discrimination – reductions in protection offered to one country are also available to other countries. This is to some extent against the tide, because globally many of the agreements negotiated in recent years offer preferential treatment to the signatories and not to other trading partners.²⁷
- 9.30 The Government is seeking to minimise the trade-diverting effects of its trade agreements. Preferential agreements can allow resources to be

24 Gillard Government Trade Policy Statement, p.6.

25 Gillard Government Trade Policy Statement, p.7.

26 Gillard Government Trade Policy Statement, p.7.

27 Gillard Government Trade Policy Statement, p.7.

diverted from their most efficient applications by favouring products from the parties to such agreements. The Statement commented that:

Trade diversion amounts to a redistribution of jobs and prosperity instead of the creation of more jobs and prosperity. Worse, trade diversion is inherently job-destroying and income-destroying from a global perspective.

...the Gillard Government will not seek exclusive or entrenched preferential access to other countries' markets. Non-discriminatory trade agreements offer better long-run returns for Australia. They are more likely to result in trade creation instead of diverting trade from other countries that, in the absence of tariffs, would be lower-cost producers.

...the Gillard Government will vigorously pursue better access to other countries' markets for our exporters of agricultural produce, of manufactured goods and of services²⁸

Separation

- 9.31 Past experience has shown that trade policy and foreign policy should not be mixed – this means that trade deals should not be entered into for geo-political purposes:

Having decided to embark upon a trade agreement that gives each other preferential treatment, thereby discriminating against others, each country might soon find the other unwilling to give ground on issues that are politically sensitive domestically. Negotiations can become stalled, with interest groups in each country criticising the other's government for intransigence.²⁹

- 9.32 Australia will negotiate bilateral trade agreements with any country that is genuinely interested in reducing its trade barriers:

- but will only sign deals that pass the test of being in Australia's national interest.³⁰

Transparency

- 9.33 Where negotiations take place between two countries that genuinely wish to liberalise, it promotes transparency in the negotiations. One of the problems faced in current trade negotiations stems from the reliance
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28 Gillard Government Trade Policy Statement, p.7.

29 Gillard Government Trade Policy Statement, p.8.

30 Gillard Government Trade Policy Statement, p.8.

placed on the results of mathematical modelling of the likely outcome of the negotiations.³¹

9.34 The problem is that the modelling uses a hypothetical agreement, usually assuming full, or almost full, liberalisation. The results therefore show very impressive figures for the benefits likely to be gained through the agreement – but the final agreement is usually quite different to the hypothetical construct.³²

9.35 The Department of Foreign Affairs and Trade commented:

...modelling will depend very much on what the assumptions are. There are different types [of] modelling that you can do and they can be broader or bigger. So I think it is just saying there that modelling in and of itself is not the only thing that people should ever rely on. There may be circumstances where modelling is not the appropriate thing to do to make a judgment about what the net benefit to Australia would be from a trading agreement. It may be that there are limitations on where you should use modelling there. So it is really a contrast, I think, between what the government saw as some earlier practices and the way they want to move forward in the future.³³

9.36 To achieve transparency, the Government Statement proposes:

- modelling should be based on the final product of the negotiations, not on a hypothetical model;
- there should be regular consultations with business groups, trade unions and community organisations, with special emphasis on likely regional effects;
- as each stage of the negotiations is completed, the information should be placed on government websites; and
- all agreements should be scrutinised by the Joint Standing Committee on Treaties.³⁴

Indivisibility of Trade Policy and Economic Reform

9.37 During the major reforms of the last twenty years, Australia has not waited on the actions of other countries. Reforms to make the economy more competitive have been pursued regardless of what others have done. The Government Statement makes it clear that this policy will continue:

31 Gillard Government Trade Policy Statement, p.8.

32 Gillard Government Trade Policy Statement, p.8.

33 Department of Foreign Affairs and Trade, Committee Transcript, 3 June 2011, p.6.

34 Gillard Government Trade Policy Statement, p.8.

Applying the indivisibility, Australia will not wait for other governments to reform their economies before reforming ours. Australian economic reform is good for jobs, goods for prosperity. As reformers, we have never waited for the world and we need not wait for the world now.³⁵

9.38 Productivity growth has accounted for 80 per cent of the increase in Australia's national income over the last 40 years. However, that growth has slackened in recent years. The Gillard Government has made the revival of productivity growth, through a new program of economic reform, a priority in its program.³⁶

9.39 The Department of Foreign Affairs and Trade explained:

The Government has identified enhanced productivity growth as the key to increasing Australia's economic growth. The pursuit of productivity enhancing and nation building reforms through prudent investment in social and economic infrastructure, and policies to support skills and human capital development is a fundamental economic policy goal. This is focused in the following areas:

- Education reforms, including improved tertiary and vocational training as well as a greater allocation of resources and effort to schools and the critical early learning phase
- Core reforms to infrastructure, including in relation to transport, energy and water, the NBN and a range of reforms under COAG's Seamless National Economy National Partnership Agreement
- Promoting innovation, including through spending on research excellence, critical research infrastructure, business innovation and enabling technologies. This effort interacts with many of the education reforms and the development of infrastructure, especially the NBN.³⁷

9.40 The Department of Foreign Affairs and Trade in its evidence to the Sub-Committee explained that economic reform must include trade facilitation measures to reduce the regulatory burden on businesses involved in international trade:

Domestically and also internationally we did play quite a big role in trying to use e-commerce to facilitate the movement of goods across borders, so that is one element. But generally I think trade

35 Gillard Government Trade Policy Statement, p.9.

36 Gillard Government Trade Policy Statement, p.9.

37 Department of Foreign Affairs and Trade, Submission 40a, pp.6-7.

agreements in particular are looking more at how we can address some of those regulatory or process barriers.

In most agreements, in customs cooperation for example, there is quite a big focus on trying to remove things that are not really necessary for achieving policy objectives but really do provide additional costs on exporters or importers, do not really add to the whole situation, or provide more opportunities for people to slow down the movement of goods.³⁸

Disciplines in Australia's Trade Policy

9.41 Future trade negotiations will be conducted under a series of disciplines derived from the five principles set out above:

- Multilateral agreements offer the largest benefits;
- Regional and bilateral agreements must not weaken the multilateral system – they must be genuinely liberalising, eliminating or substantially reducing barriers to trade;
- Australia will not seek to entrench preferential access to markets in trade negotiations, but simply an opportunity to compete on terms as favourable as anyone else's;
- Australia will not allow foreign policy to dictate parties to and the content of trade deals;
- The public will be well informed about negotiations for, and the content of, proposed trade agreements and have an opportunity for input; and
- Australia will press ahead with domestic economic reform irrespective of whether other countries agree to reform their economies.³⁹

The Government Trade Negotiation Agenda

9.42 The Government faces a difficult time, with the world's economies struggling to overcome the setback of the Global Financial Crisis. Although the major economies resisted the temptation to re-establish protectionism, the Crisis has weakened the resolve of many economies to continue to push for liberalisation:

38 Department of Foreign Affairs and Trade, Committee Transcript, 3 June 2011, p.2.

39 Gillard Government Trade Policy Statement, p.9.

Governments are fearful that further global trade liberalisation would put further pressure on domestic industries still struggling with the after-effects of the recession and shifting patterns of comparative advantage.⁴⁰

9.43 This situation has increased the importance of a satisfactory outcome in the Doha Round. If the Round can be completed successfully it will stimulate the global economy and re-establish growth in job creation and prosperity. The Statement notes, however, that “the major and emerging powers appear indifferent to these opportunities”.⁴¹

9.44 Taking these factors into account, the Government has established a negotiating agenda that is consistent with the recommendations of the Productivity Commission’s report on trade agreements last year:

...the Government's negotiating agenda will steer a middle course of championing and protecting the multilateral system while seeking to negotiate high-quality, truly liberalising sectoral, bilateral and regional trade deals that do not detract from but support the multilateral system.⁴²

9.45 The Government also announced that later this year it will:

...assess each set of trade negotiations against the principles and disciplines outlined in this Trade Strategy, in the light of progress on the various negotiations.⁴³

Current Negotiations

The Doha Round

9.46 Strenuous efforts have been made to bring the Doha Round to a successful conclusion but a recent announcement by the WTO indicates that is unlikely this year. A News Item released on 31 May said that it is unlikely that agreement will be reached on agriculture, non-agricultural market access, services, trade remedies and intellectual property by the time of the Ministerial Conference in December 2011. Delegates are hoping to achieve at least a package for the least-developed countries as part of an “early

40 Gillard Government Trade Policy Statement, p.9.

41 Gillard Government Trade Policy Statement, p.10.

42 Gillard Government Trade Policy Statement, p.10.

43 Gillard Government Trade Policy Statement, p.10.

harvest” in anticipation of a full agreement – but so far there is no indication of when that final agreement may be reached.⁴⁴

9.47 The Department of Foreign Affairs and Trade confirmed the likely delay in its evidence to the Sub-Committee:

...we had a rush of enthusiasm and optimism coming from the end of last year when at the G20 summit and also at the APEC leaders meeting, leaders in their discussions – and they had some quite detailed discussions on the prospects for the round – were able to say, 'We think there's a window of opportunity to conclude the round this year.'

There was a lot of activity from December and it is still going on, in fact. But it seemed about a month ago, after a range of bilateral meetings in particular between the United States, Brazil, India and China, that there are a number of issues, a number of gulfs, that those countries in particular do not seem to be able to bridge, and that essentially means that we are not going to be able to finish it this year.

...Nobody wants to drop the round completely. Everybody says they are still very committed to trying to get a conclusion. But it is quite clear that we are not going to get the whole conclusion this year. So the focus is now turning to whether we can get, if you like, an early harvest of some issues by the time of the December WTO ministerial meeting in Geneva – whether we can get a harvest there, get some issues that we can get agreement on and a process to try to bring the rest to a conclusion over the following period.

So the focus now is just on trying to translate that political commitment into outcomes and then trying to work through in Geneva exactly what issues we could possibly pull out and have as an early harvest, and how to deal with the issues that are maybe harder and cannot be resolved before the end of the year and how to move through those issues ... over the next year or so.

...So we have a lot of work to do to maintain and continue our involvement in the WTO system. That will go on, as well is our efforts to try to find a way forward. I read the other day that

44 *Members support Lamy's proposed three-speed search for Doha outcome in December*, WTO: 2011 News Items, 31 May 2011, http://www.wto.org/english/news_e/news11_e/tnc_infstat_31may11_e.htm, accessed 16 June 2011

someone described it as a marathon rather than a sprint. I think that is true. We will just continue to be one of the most vocally and policy optimistic and energetic members of the WTO, because we believe it is such an important thing. All aspects are important and we will continue to try to find a positive way forward on all parts of the WTO's agenda.⁴⁵

9.48 The Government places the WTO Round as its top priority:

A multilateral trade deal offers the greatest prospective benefits. Successful completion of the Doha Round would create a new wave of global trade liberalisation and strengthen the integrity of the global trading rules to achieve greater gains from trade.

Global prosperity is maximised in a global market observing global trading rules.⁴⁶

9.49 Recognising the value of reaching simultaneous agreement with 153 economies, the Government said it will "continue to press for an ambitious, comprehensive outcome of the Doha Round that liberalises trade in agriculture, manufacturing and services".⁴⁷

APEC

9.50 In 1994 APEC adopted the "Bogor Goals" for free and open trade and investment in the Asia-Pacific region – by 2010 for developed economies and 2020 for developing countries. By 2009 this program had produced a reduction in average tariffs from 16 per cent in 1988 to 6 per cent.⁴⁸

9.51 The long-term aim is for the conclusion of a Free Trade Area of the Asia Pacific (FTAAP) but the Statement notes that at present there is no clear path to reach that goal. One possible route to achieving FTAAP is through the current negotiations on the Trans-Pacific Partnership (TPP), an agreement that will aim to expand its membership over time. Another possibility is through the Comprehensive Economic Partnership for East Asia (CEPEA), which involves the ten ASEAN members, China, India, Japan, New Zealand, the Republic of Korea and Australia.⁴⁹

9.52 When asked about the likely progress on this issue, the Department of Foreign Affairs and Trade commented:

45 Department of Foreign Affairs and Trade, Committee Transcript, 3 June 2011, pp.3 and 7.

46 Gillard Government Trade Policy Statement, p.10.

47 Gillard Government Trade Policy Statement, p.10.

48 Gillard Government Trade Policy Statement, p.10.

49 Gillard Government Trade Policy Statement, p.10.

In its basic form APEC has a goal of a free trade area of the Asia Pacific. That is a goal. The issue is how you get there. People are thinking about different ways of getting there. There can be overlapping ways of getting there. One way that some people have mentioned is the Trans-Pacific Partnership Negotiations. These can expand over time. Another possible way could be CEPEA.

But there are other proposals for regional free trade agreements. I think they have talked about that in ones that do not include us. There is one for ASEAN +3 that is also under discussion in that same forum. All of these have members that are also in APEC. Really I think it is about people trying to find their way through to what is the best and most productive way to produce freer trade over time.

...Our view is that we try to be involved in as many [of these mechanisms] as possible. Some of them are at different stages of development and some are much more at a formative stage. Some regional FTAs are in a negotiating phase. I think all we do is try to focus on all of those things that we are involved with and try to get as much progress and value out of them as we can.⁵⁰

- 9.53 The Sub-Committee asked whether it is likely that India will become a member of APEC in the near future and the Department of Foreign Affairs and Trade responded:

Our policy is that we are supportive of India becoming a member of APEC, but the moratorium on membership has only just finished. There was a moratorium for a number of years and I think it was only last year that the moratorium came to an end. It is not clear exactly how membership issues are going to be taken forward.

The bottom line is still that it requires a consensus. There is bound to be a balancing of people supporting some members and other people say saying, 'Yes, but we would like to have some other people join as well'. So how all of that comes out is still not clear yet...⁵¹

50 Department of Foreign Affairs and Trade, Committee Transcript, 3 June 2011, pp.8-9.

51 Department of Foreign Affairs and Trade, Committee Transcript, 3 June 2011, p.7.

Trans-Pacific Partnership

9.54 This is the top regional priority for the Government's program. The aim is an agreement that "eliminates or substantially reduces barriers to trade and investment". An especially valuable aspect of the proposed agreement is that it will also deal with "behind-the-border" issues. The other major advantage is that it is intended to be dynamic – to stay relevant in the face of emerging issues and to allow for membership expansion.⁵²

9.55 The Department of Foreign Affairs and Trade was asked about these aspects of the TPP negotiations and responded:

'Living agreement' refers to two issues. The first is that we want an agreement that genuinely expands membership over time. There have not been many examples of free trade agreements that, practically, have gone from, say, one or two people and expanded to a larger number. Often there are provisions in them that allow for new members to come in, but there are not many where that is actually happened. That is what we are thinking of.

We do not have answers on all of these because we are still involved in the negotiations. But it is about how we can make an agreement that can genuinely expand over time and also one that can be adjusted as new issues come onto the horizon, and how you manage to have that reflected in agreements so they do not get out of date. These are some of the issues that we are grappling with. We do not have the answers as yet, but they are things we think are important as goals. We are trying to work through them as we go.

On the trade facilitation front, again, we have two approaches in the TPP. One is, if you like, what we call a bottom-up approach. At the moment there are more than 24 negotiating groups that deal with different aspects of the negotiations. It is very complicated, as it is in all FTAs. All of those groups deal with either liberalisation or facilitation type issues, but there are some in particular, like customs corporation and trade facilitation issues, where they go through exactly what the behind-the-border issues are. There is another element to the TPP that is relatively new. It is one of what we call the horizontal issues. We have a number of cross-cutting issues in the TPP.

52 Gillard Government Trade Policy Statement, p.11.

...We have identified thematic concerns that people have, such as how can we do the TPP in a way that really assists small and medium sized enterprises, how we can contribute to development and how we can contribute to improved regulatory coherence. The regulatory coherence is what I am coming to, and there are a couple of other ones as well.

Regulatory coherence is this issue that says that really what people need to do is not necessarily to have the same regulatory systems, because people are not necessarily going to do that; what they need to do is have some coherence and opportunities for people to contribute to preparation and implementation of regulations.

So we are looking at ways in which we can get regulators together from different countries and have processes and commitments in place so that, if you are going to put in place a regulation, you give people an opportunity to understand it and comment on it.⁵³

- 9.56 The requirement for those seeking to join TPP is that they “need to demonstrate commitment to early and comprehensive liberalisation so as to maintain the momentum that has been generated by existing TPP parties”.⁵⁴

Australia-Korea Free Trade Agreement

- 9.57 The Government is seeking to complete these negotiations in 2011. The proposed agreement is an important one because Korea is our fourth largest trading partner and the aim is to put Australia on an equal footing with the US and EU in the Korean market.⁵⁵

- 9.58 The agreement will include strong commitments by Korea on the liberalisation of services trade; while Australia will eliminate tariffs on Korean motor vehicles and liberalise the foreign investment requirements.⁵⁶

- 9.59 When asked about the current progress of negotiations, the Department of Foreign Affairs and Trade commented:

We launched that negotiation relatively recently, in March 2009. We have made very fast progress on both agreeing the treaty text and working through all of the market access – the tariff

53 Department of Foreign Affairs and Trade, Committee Transcript, 3 June 2011, p.9.

54 Gillard Government Trade Policy Statement, p.11.

55 Gillard Government Trade Policy Statement, p.11.

56 Gillard Government Trade Policy Statement, p.11.

concessions and the services commitments. We are really in the final phases of that negotiation.

The Prime Minister in her trip to Republic of Korea ... agreed with President Lee that we would have the goal of concluding the negotiations this year. So that is the track that we are all on. We are hoping that we will be able to conclude that agreement very soon, certainly within the time frame agreed by the leaders. That is a very important agreement, needless to say, and you will be hearing more about it in the next inquiry...⁵⁷

- 9.60 DFAT in evidence to the Sub-Committee said that the negotiations are in their final stages.⁵⁸ The completion of negotiations has now assumed some urgency, as the US and Korea have completed negotiations on their FTA and it is only awaiting Congressional approval. If that agreement comes into operation before the Australia/Korea agreement is ready for operation, there could be difficulties for Australian exporters – especially beef exporters.

Japan-Australia Free Trade Agreement

- 9.61 The negotiations with Japan have been running since 2007. However, late last year, the Japanese Government released a Basic Policy on Comprehensive Economic Partnerships. That policy suggests “a major commitment to fundamental reform of Japan’s agricultural sector”.⁵⁹
- 9.62 The Japanese Government proposed that, if possible, these negotiations should be completed this year. Whether that is still possible after Japan’s recent natural disaster remains to be seen. However, the Australian Government has agreed to accelerated negotiations that, it says, “...would offer benefits across goods, services and investment”.⁶⁰
- 9.63 When asked about the current state of negotiations, the Department of Foreign Affairs and Trade acknowledged the difficulties arising from the impacts of the earthquake and tsunami and that Australia had recognised there would be delays:

We started the free-trade agreement negotiations with Japan in 2007 and have been negotiating steadily since that time. Quite some progress has been made in constructing the treaty that

57 Department of Foreign Affairs and Trade, Committee Transcript, 3 June 2011, p.11.

58 Committee Hansard, 3 June 2011, p.11.

59 Gillard Government Trade Policy Statement, p.11.

60 Gillard Government Trade Policy Statement, p.11.

would be the free-trade agreement, and we have had a lot of negotiations on the market access side. As negotiators you tend to think of it in terms of the written treaty text – you have to get a treaty text agreed and you have also got to get the market access concessions agreed, which are in the schedules and part of the treaty as well, of course.

There has been a tremendous lot of work done across the whole breadth – as you say, you end up with a minimum of 20, more like 25, separate areas of a big trade negotiation. A lot of progress has been made and we were very encouraged by the Japanese government's announcement late last year of its basic policy on agriculture reform and trade reforms associated also with the TPP.

So there was quite some momentum gathering in the bilateral negotiation. But unfortunately the 11 March triple disaster of the earthquake and the tsunami and then the radiation issues from Fukushima have really, understandably, taken up the attention of the Japanese government and, there is no doubt about it, have led to a slowdown in our negotiating schedule since then.

...It is a very clear case of needing to deal with the reconstruction issues. And of course agriculture, which is a big part of any trade negotiation from Australia's point of view – the agriculture officials as well as the actual sector have been really very directly involved in the disasters and the consequent reconstruction work because of the agricultural areas that were hit.

The Prime Minister visited Japan, as you know, just recently, and the public statements that were made at the time were very clear in saying that we understand that there are unavoidable delays in our negotiating process while Japan attends to the reconstruction work. But the leaders both committed to resuming the negotiations as soon as possible.

So what we are doing is trying to keep working through email and teleconferences on the things that we can. In fact we are expecting a small delegation from Japan in a few weeks to do with the services part of the negotiation. We keep working as much as we can in the overall constraints on the Japan negotiation. It is extremely important, clearly, to both Japan and Australia. There is a very clear political commitment to continuing that and to concluding that. But there is no doubt that the disasters have been a setback in our momentum this year.

...It is such a phenomenally big and important trading partner with potentially large gains to be had if the trade barriers can be reduced across the board but it is a very big agricultural market. So we will just keep going.⁶¹

China-Australia Free Trade Agreement

9.64 China is Australia's largest trading partner and negotiations for an agreement began in 2005. The issues involved are complex and some are quite sensitive. The main issues under discussion include: agricultural tariffs and quotas in China, manufactures, services, temporary entry of people and investment.⁶²

9.65 In October 2010, the two Trade ministers agreed to make fresh efforts to overcome the present lack of progress.⁶³ When asked about the outcome of these discussions, the Department of Foreign Affairs and Trade commented on the Chinese leadership's continuing commitment to the negotiations, then added:

There is clear recognition from both of the governments that it is an important undertaking. It was started in 2005. It is a big, difficult, complex negotiation. We know it is important and we will continue to pursue those negotiations. We expect to meet the Chinese for a full round of negotiations probably in July.⁶⁴

Malaysia-Australia Free Trade Agreement

9.66 Malaysia is Australia's 13th largest trading partner. Although both are signatories of the AANZFTA these negotiations seek to go further than that agreement. The aim is to complete negotiations by March 2012.⁶⁵

Indonesia-Australia Comprehensive Economic Partnership Agreement

9.67 Indonesia is our 11th biggest trading partner and its economy is growing rapidly. The Indonesian Government is aiming to be in the top ten world economies, measured by GDP, by 2025. This agreement will also seek to build upon the AANZFTA.⁶⁶

61 Department of Foreign Affairs and Trade, Committee Transcript, 3 June 2011, pp.10-11.

62 Gillard Government Trade Policy Statement, p.11.

63 Gillard Government Trade Policy Statement, pp.11-12.

64 Department of Foreign Affairs and Trade, Committee Transcript, 3 June 2011, p.11.

65 Gillard Government Trade Policy Statement, p.12.

66 Gillard Government Trade Policy Statement, p.12.

Gulf Cooperation Council Free Trade Agreement

- 9.68 These negotiations are stalled at present awaiting a GCC review of its trade agreement policy. Two-way trade with the Council members is quite substantial at \$9 billion in 2010. Important products for Australia are motor vehicles, agricultural products, minerals and services (especially education, engineering and construction).⁶⁷

Applying Non-Discrimination Principles

- 9.69 The Government will not seek preferential treatment over other economies in its trade negotiations – it will seek only parity with others selling to those markets. It will offer our trading partners high-quality agreements that genuinely seek to liberalise trade. Decisions on signing or rejecting agreements will be based on whether they measure up to these principles:

The Government is willing to conclude a trade agreement with any country willing to sign up to a high-quality and comprehensive bilateral or regional trade deal that is consistent with the global trading rules.⁶⁸

- 9.70 If Australia currently receives more favourable treatment than some other competitors in a particular economy, the government would have no objection to that treatment being extended to all other economies.⁶⁹

Domestic Reform not Dependent on Others

- 9.71 The Government Statement clearly recognises that economic reform is in Australia's national interest, whether or not its trading partners reform their own economies. In boosting the productivity of exporters, the reforms will provide an additional advantage over exporters from countries that do not reform their economies.⁷⁰

67 Gillard Government Trade Policy Statement, p.12.

68 Gillard Government Trade Policy Statement, p.12.

69 Gillard Government Trade Policy Statement, p.12.

70 Gillard Government Trade Policy Statement, p.13.

- 9.72 This process is aided by the openness of Australia's economy, which forces businesses to be as efficient and productive as possible if they wish to remain competitive in the global market.⁷¹
- 9.73 An important part of Australia's reform process is to remove the impediments that for many years made Australia a series of small, fragmented state and territory markets. Consequently, the Government is working towards the completion of a "seamless economy" – a single national market.⁷²
- 9.74 Priority areas in the program are: a national school curriculum; a national industrial relations system; national road transport regulations; and a national ports strategy.⁷³

Non-Trade Objectives

- 9.75 The essence of this section of the Statement is that while trade policy can legitimately be applied to assist with "labour, environmental, health and community safety objectives". However, it should not be used as a "back-door" method of protectionism in these areas.⁷⁴
- 9.76 An obvious example for Australia is the law on quarantine:
- The Gillard Government's decision to accept a World Trade Organization ruling on the importation of apples from New Zealand is testimony to its commitment not to use quarantine as an artificial trade barrier.
- ...Australia is committed to a science-based quarantine regime that does not create artificial barriers to trade.⁷⁵
- 9.77 The Minister for Trade and the Minister for Agriculture, Fisheries and Forestry jointly commented on 30 November 2010:
- The Government ... will now proceed with a science-based review of the import risk analysis for New Zealand apples. The review will be conducted by Biosecurity Australia.

71 Gillard Government Trade Policy Statement, p.13.

72 Gillard Government Trade Policy Statement, p.13.

73 Gillard Government Trade Policy Statement, p.13.

74 Gillard Government Trade Policy Statement, p.13.

75 Gillard Government Trade Policy Statement, p.13.

Minister for Agriculture, Fisheries and Forestry, Senator Joe Ludwig, and Minister for Trade, Craig Emerson, said Australia had strongly defended the integrity of the nation's quarantine regime throughout the dispute and the current review will ensure Australia remains appropriately protected from pests and diseases.

Minister Ludwig said industry and other stakeholders would be properly consulted through the review process, which would be based on the best available science.⁷⁶

9.78 The Government, however, will preserve the right of Australian governments to make laws in important public policy areas, such as social and environmental issues.⁷⁷

9.79 Environmental issues are becoming steadily more important in trade discussions but it is important that they should not become an excuse to reintroduce protectionism. The Department of Foreign Affairs and Trade addressed this issue in its evidence to the Sub-Committee:

...I think that is why there is that principle or that position set out in the agreement that environmental issues are important and all governments want to pursue them; the issue from a trade perspective is how to pursue them effectively and efficiently and in a way that is consistent with international trade rules.

Certainly we do not see a contradiction between multilateral environment agreements and multilateral trade rules. There are ways to address all of these issues that are consistent with those rules. We keep a very close eye on the development of policies, as we always have, to see how they can fit into the international trade rules system. I think that is why we say in here that environmentalism is important but should not be used for protectionist purposes.

...There has been an attempt to encourage people to move away from trade-distorting forms of assistance to less trade-distorting forms of assistance. Again, that is how we have been trying to address some of those issues as well. It is about how you address these issues, not about whether you do or whether you should.

76 Joint Media Release, Senator the Hon Joe Ludwig, Minister for Agriculture, fisheries and Forestry and the Hon Dr Craig Emerson MP, Minister for Trade, *Australia to review import risk analysis of New Zealand apples*, 30 November 2010.

77 Gillard Government Trade Policy Statement, p.14.

I guess it is trying to find your way through about allowing people to address some of these issues but not in a way that is damaging from a trade perspective. There certainly is the capacity to do that. What we have to do a lot of the time is simply to monitor to make sure that people are actually following the rules and are trying to address policies in ways that are consistent with these broad ideas.

Of course you want to address the environment and of course you want people to have better standards of living; the issue is not about whether you want to do those things and whether you should have policies but what the best policies to do that are and how you can do it in a way that does not have unnecessary consequences for other people as well.⁷⁸

- 9.80 Labour policies are a common cause of disagreement in trade negotiations. The Statement notes that they are intended to “encourage improved working conditions, human capital development, higher labour productivity and sustained economic growth”. Conversely, the Statement added:

They are not intended to be punitive in nature or to come at the cost of competitiveness, enterprise growth or trade relations.⁷⁹

- 9.81 Supporters of protectionism often claim that low wage rates in an exporting country give their products an “unfair” advantage. They seem to overlook the advantages given to local products by cheaper capital against some imports and cheaper land against others.⁸⁰

- 9.82 In its evidence to the Sub-Committee, the Department of Foreign Affairs and Trade commented:

I think some of the pressures that you are talking about come from more developed economies and wealthier economies. I think poorer economies tend to focus on trying to make sure that people have reasonable living standards. Part of that obviously is getting jobs and having jobs that have good returns for workers, and all of those sorts of issues. So I think there are different ways people address them.

We do not tend to find those issues as much of a problem in developing countries. But we certainly focus, through the WTO—and there has been some WTO work done on some of these issues

78 Department of Foreign Affairs and Trade, Committee Transcript, 3 June 2011, pp.3-4.

79 Gillard Government Trade Policy Statement, p.14.

80 Gillard Government Trade Policy Statement, p.14.

as well – on the positive contribution that trade can make to lifting living standards and creating better paid jobs and what have you.

So there is quite a deal of work there. Again, some of these issues are about the detail but in principle it is quite clear that trade liberalisation links in to creating better standards of living, creating better jobs and what have you over the longer term. So it works through all of those sorts of issues, and that is what we try to focus on.⁸¹

- 9.83 Australia has signed two trade agreements that include labour provisions – with the US and with Chile. These provisions are also being considered in the negotiations with Korea, Malaysia and in the TPP negotiations. The government asserts that, if included, these provisions will not be used as disguised protectionism.⁸²

Investor-State Dispute Resolution

- 9.84 Some countries request investor-state dispute resolution clauses in trade agreements to allow their businesses to take international legal action for alleged breaches of the agreement. The Australian Government supports the principle that foreign and domestic businesses should be treated equally under the law.⁸³

- 9.85 Consequently, the Government will not support the inclusion of provisions that give foreign businesses greater legal rights than domestic businesses. Nor will it allow provisions that constrain Australian governments from enacting laws on social, environmental and economic matters that do not discriminate between foreign and local businesses.⁸⁴

- 9.86 When asked how such provisions have been dealt with in the past, the Department of Foreign Affairs and Trade said:

We have not dealt with it because it has never happened to us before. The issue really is that it has come up and there have been some stakeholders in particular who have raised concerns about the possibility that that could have an impact on some domestic policy formulation. What the government says in the trade

81 Department of Foreign Affairs and Trade, Committee Transcript, 3 June 2011, p.4.

82 Gillard Government Trade Policy Statement, p.14.

83 Gillard Government Trade Policy Statement, p.14.

84 Gillard Government Trade Policy Statement, p.14.

statement is that the ISDS really gives foreign companies an additional process, if you like, to take up complaints, that is not available to domestic businesses. We do not see a rationalisation for that. It really depends on which side you are looking at it from.

In the past, people have been quite interested in having those provisions in countries where legal systems perhaps are less well developed and they do not have confidence in the legal system there. But we have never actually used any of those provisions where we have ISDS provisions overseas.

Domestically, there is the other focus, which is what about if somebody wants to use those provisions here in Australia. I think the government has decided that in the future we are not going to be pursuing ISDS where we have sometimes in the past, mainly with countries where we thought it would add to the level of protection primarily for Australian investors overseas. But no-one has ever used them against us in the past and we have not used them overseas.

This is an issue that was looked at by the Productivity Commission. They found no evidence to suggest that it provides any real benefit in terms of investment. So, again, the government has just made this change in statement. At the same time, I would say that we have not done ISDS in all agreements, anyway, in the past.

We did not do ISDS in the past with the United States when the free trade agreement was done. We have not done it with New Zealand either, my colleague is reminding me. We always forget New Zealand, because it was done so long ago. We do not have an ISDS with New Zealand and we do not have an ISDS with the United States. In the past, we have not really negotiated ISDS with any OECD country.

...in fact, the US is the biggest demander for investor state dispute settlement. They want it because they see themselves as the foreign investor in most of the circumstances. They did very strongly push for it to be included in the US Australia free trade agreement, but the government of the day resisted that. It said that it did not think it was necessary in that the two countries have established legal systems and commercial issues can be pursued commercially. You do not need to use this avenue of enforcing the

free trade agreement commitments via arbitration in a commercial context.⁸⁵

- 9.87 Australia has itself requested the inclusion of investor-state dispute resolution provisions in agreements with developing countries. This practice will now be discontinued – the assessment of the risks involved in investing in a particular country will now be solely an issue for the company to determine.⁸⁶

Trade and Investment Promotion

- 9.88 The Statement comments that in recent years the demands placed on Austrade have resulted in its resources being spread too thinly. The government has decided that it will in future apply those resources in a manner based on sound economic and commercial principles.⁸⁷

- 9.89 In response to a question from the Sub-Committee on the substance of the proposed changes, the Department of Foreign Affairs and Trade responded:

On 17 May Dr Emerson announced a comprehensive reform of Austrade, aimed at better meeting the needs of Australian businesses. Austrade will reshape its strategy, operating model and structure.

Austrade will reorient its overseas operations, with an increased focus on frontier and emerging markets, where Australian businesses can benefit most from government support.

Austrade's resources in North American and European markets will, in future, be heavily focused on attracting foreign direct investment, and Austrade will continue its important role in promoting Australia's education and training capabilities in all major markets.

Existing programs such as the Export Market Development Grants (EMDG) and Tradestart will also continue to support Australian exporters.⁸⁸

- 9.90 On the question of staffing resources for Austrade, the response added:
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85 Department of Foreign Affairs and Trade, Committee Transcript, 3 June 2011, pp.13-14.

86 Gillard Government Trade Policy Statement, p.14.

87 Gillard Government Trade Policy Statement, p.15.

88 Department of Foreign Affairs and Trade, Submission 40a, p.2.

Austrade will rationalise staffing, and close some small offices in Europe and North America, while establishing offices in Mongolia and Central Asia and strengthening its presence in Latin America, China and Africa.

Australian business will benefit as Austrade's resources are better targeted around sound economic and commercial principles, and deployed where Austrade adds the greatest value. Services to Australian business will be concentrated on those firms which are ready to tackle the challenges of the international marketplace.⁸⁹

- 9.91 A paper released at the time of the Minister's announcement of the review, summarised the New Operating Model that Austrade will follow:

The conclusions of the Review will fundamentally reshape Austrade's strategy, operating model and structure. The core elements of the new operating model are:

- A clearer rationale and purpose - predicated on addressing market failure and focussing resources where Austrade as a government agency can add the greatest value
- A realigned international network - with a different focus in different markets reflecting the commercial potential as well as the nature and scale of impediments to business in those markets and the optimal role for Government
- A service delivery model targeted to internationally ready firms, supported by simpler packaging and pricing of services
- A focus on identifying and bringing tangible foreign business opportunities to Australian business
- Sharper investment promotion, attraction, and facilitation priorities
- A more open and contemporary approach to sharing Austrade information and insight, with new investment in online service delivery and information dissemination and strengthened collaboration with government and commercial service providers
- A commitment to strengthening organisational capability through simplifying the organisational structure, new initiatives to build workforce capacity and streamlining of corporate administration.⁹⁰

- 9.92 The Statement stressed the importance of market information and its role in identifying foreign commercial opportunities and entering new

89 Department of Foreign Affairs and Trade, Submission 40a, p.2.

90 *Reform of the Australian Trade Commission: Maximising Our Value*, Austrade, May 2011, p.3.

markets. It noted that market information is a public good and its use by one firm does not reduce the information available to other firms:

Left to private markets, the search costs that would need to be borne by a single firm, particularly in an emerging or frontier market, can be prohibitively high.

Just as a government can correct for market failure in mineral exploration by conducting early geological survey work and disseminating the information obtained to all private exploration firms, there is a legitimate role for government in generating information in emerging or frontier markets and disseminating this freely to interested firms.

The strongest rationale for government support for trade and outward investment promotion therefore is one of addressing market failure. There is a far less compelling case for government to promote and assist exporters generally in the absence of market failure.⁹¹

9.93 The reasons behind the new arrangements were explained as follows:

The most obvious information deficiencies are in emerging, frontier and transitional economies; where governments play a significant role in the economy; where language and business culture can provide a barrier; where there may be less openness of regulatory frameworks and transparency of business processes; where there are greater difficulties accessing distribution channels and commercial connections; and where the value of the 'badge of government' is highest. Austrade's trade promotion activities will be reoriented towards these markets.

For investment attraction, the general market failure argument for government involvement is not as specifically related to the nature of the market per se. It makes sense for Austrade to concentrate its investment promotion activities on countries with a surplus of investible funds, rather than on frontier markets.⁹²

9.94 The Policy Statement concluded by summarising the Gillard Government's trade policy program. It re-emphasised the primacy of the multilateral trade negotiations and the Government's resolve to strengthen the global trading system wherever possible.⁹³

91 Gillard Government Trade Policy Statement, p.15.

92 Gillard Government Trade Policy Statement, p.15.

93 Gillard Government Trade Policy Statement, p.16.

- 9.95 The Statement explained that while the Government would continue to seek reductions in foreign tariff barriers and quantitative restrictions, it would also be working on the reduction of non-tariff barriers and behind-the-border issues on both goods and services. This may involve negotiations with domestic regulators on such things as: licences, permits, complex domestic regulations and burdensome and time-consuming processing of applications.⁹⁴
- 9.96 Trade policy will avoid the use of measures such as quarantine restrictions, labour provisions and environmental standards as “back door” protectionism. Foreign investors in Australia will have the same legal protection as domestic businesses.⁹⁵
- 9.97 As explained above, Austrade’s trade facilitation activities will be refocused to give greater emphasis on emerging and frontier markets. Its investment promotion activities will be concentrated on North America, Asia and Europe.⁹⁶
- 9.98 Finally, the Statement announced that trade policy priorities will be reviewed annually against the principles and disciplines set out above. The review will take account of progress made and of emerging opportunities for further liberalisation. The positions set out in the Statement are consistent with the recommendations in the Productivity Commission’s recent report on bilateral and regional trade agreements.⁹⁷

Mr Michael Danby

Chair

July 2011

94 Gillard Government Trade Policy Statement, p.16.

95 Gillard Government Trade Policy Statement, p.16.

96 Gillard Government Trade Policy Statement, p.16.

97 Gillard Government Trade Policy Statement, p.16.