**Questions on Notice – Sub-committee on Trade**

1. On page [4 of the Trade Policy Statement] you talk about a reform program for the service services sector. It is in the third paragraph on page 4. Can you give us an outline of the program or the thinking that such a program would follow? (p 5)

**Answer**

The Australian Government is undertaking an ongoing and comprehensive agenda of microeconomic reform aimed at ensuring the competitiveness and productivity of the Australian economy into the future. Major impediments to competitiveness in the services sector are inefficient regulation, excessive compliance costs and competition barriers. The services sector has been, and will continue to be, a major beneficiary of economy-wide reforms addressing these issues.

The Government outlined an overarching service economy strategy in the 2008 response to *Servicing our Future*, the report of the House of Representatives Standing Committee on Economics, Finance and Public Administration on Australia's service sector exports. The Government's response to the 14 recommendations was tabled on 4 December 2008.

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.

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 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, including tax measures such as the introduction of an Investment Manager Regime, and the development of an Asia Region Funds Passport that is designed to improve cross-border marketing of funds in Asia. The report also recommended the establishment of an online regulatory gateway to assist potential offshore investors with the provision of information.

2. Again on page 4 in the fifth paragraph down, it talks about the Austrade network of overseas offices. What changes have recently been made to the Austrade network? It is implied there and some of the things we have read indicate that is so. Are there any other changes planned? (p 5)

**Answer**

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.

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.

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

For further details see: http://www.austrade.gov.au/ArticleDocuments/1358/Reform-2011-Maximising-Our-Value.pdf.aspx

3. What changes have been made to Aid for Trade programs? (p 5)

**Answer**

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.

In light of the benefits, as outlined above, there has been a strong push in the international community, such as the G20, WTO and OECD, to do more on "aid for trade" (or development assistance to enable trade), including increasing funding commitments for such activities, and taking more deliberate steps to mainstream trade considerations in broader economic and development policy-making. There is also an increasing demand from developing country partners for aid for trade. (See 'Aid for Trade at a Glance – Maintaining Momentum.' WTO-OECD. 2009.) And this has been evident in Australia's dealings with partner countries, particularly in the Pacific, ASEAN and Mekong regions. Specific areas of demand include structural reform, trade policy capacity building and infrastructure. African countries have also expressed strong interests in aid for trade, especially trade policy capacity building.

While aid for trade is a relatively new term, much of what it essentially achieves has been an integral part of donor countries' official development assistance (ODA) for a very long time. The scope of aid for trade has expanded overtime from technical support for negotiating and implementing trade agreements, to building supply-side capacities such as infrastructure investments, and to supporting trade-related governance reforms.

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. See the Government's 2009 Trade and Development Statement at http://www.dfat.gov.au/trade/trade_and_development/aid_for_trade.html.

AusAID currently estimates that 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.

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.

4. Perhaps you can give us some more information on how aid for trade is built into the overall trade program. That would be really useful. We read it and hear it but we do not actually have any specifics. (p 6)

**Answer**

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 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.

***Some examples***

Consistent with the Government's 2009 Trade and Development Statement, Australia provides significant Aid for Trade to help meet the trade related needs of developing countries and enable their better engagement in the multilateral trading system.

<u>Multilateral</u>

- In 2010 Australia contributed A$2 million to the WTO Global Trust Fund for WTO trade-related technical assistance for developing countries. It also contributed A$3 million to the Advisory Centre on WTO Law (ACWL) and is in the process of joining the organisation. The ACWL provides expert legal advice to developing countries on WTO rights and obligations, including assistance with dispute settlement cases and capacity building work.
- At the UN LDC IV recently held in Istanbul, Australia highlighted its recent contribution of A$2 million to the Enhanced Integrated Framework (EIF) Global Trust Fund, a multi-donor program aimed at building the trade capacity of LDCs. The Government values highly the work undertaken by the EIF and recognises the good work it has been doing.
- The Government sponsors the participation of trade officials from numerous developing countries in DFAT's Trade Policy Course held biannually in Canberra.

<u>Regional</u>

Since the launch of the ASEAN- Australia-New Zealand FTA (AANZFTA) negotiations in 2004, FTAs have become a feature of DFAT's regional aid for trade engagement. Such aid for trade activities, generally referred to as "economic cooperation", are aimed at supporting capacity-building, economic reforms and regional economic integration (see Box 1 below) on Economic Cooperation and FTAs).

AANZFTA is the first of Australia's FTAs to include specific commitments on economic cooperation. It would not have been possible to conclude the agreement without the inclusion of these commitments. Australia's contribution will help ASEAN members implement their AANZFTA obligations and participate in the benefits of more open trade and investment, as well as supporting regional economic integration (see Box 2 below for more detail, including on feedback received on particular activities).

Aid for Trade is a focus of PACER Plus negotiations in which Australia's primary objective for PACER Plus is to promote the economic development of Pacific Island Forum (PIF) countries through greater regional trade and economic integration. Given the limited trade negotiating capacity of PIF countries, Australia has committed A$5.8 million to help their effective participation in the negotiations - including funding to establish and operate the Office of the Chief Trade Adviser (to provide independent advice and support to Forum Island countries in the PACER Plus negotiations) and training trade officials to increase trade negotiating capacity for current and future negotiations.

APEC strongly supports capacity-building training in the region, including Behind the Border initiatives such as exchange of best practice and mutual assistance on regulatory reform, investment regimes, port reform and strengthening customs and excise and quarantine services. Australia has taken a leading role in TRTA in APEC. A good example of an Australian-funded APEC aid for trade project delivering concrete results is the APEC Australian Fumigation Accreditation Scheme which trained officers from six APEC developing countries to improve quarantine practices. The project was assessed to reduce export costs by nearly A $5 million and avoided 12 tonnes of methyl bromide use. The Trade Minister Dr Emerson also announced that Australia would provide $A2.5 million to help developing economies identify national structural reform priorities and develop policies and measures to boost prosperity and sustain APEC's trade reform efforts.

<u>Bilateral</u>

The Government support a range of bilateral aid for trade activities to assist developing countries engage in the global trading system, in line with our broader trade and foreign policy agenda and tailored to individual circumstances. For DFAT, assistance to help developing countries accede to the WTO is an important focus. Australia worked closely with Tonga and Vietnam in relation to their WTO accession. As Laos, Vanuatu and Samoa now steadily advance towards WTO membership, aid for trade is playing a key role in helping their integration into the global trading system. We provide ongoing technical support to Laos PDR, Vanuatu and Samoa in their bids to finalise WTO accession negotiations. Australian assistance to Laos PDR under the Standards and Trade Development Facility (STDF) has supported Laos' regional and economic integration, the capacity of its officials to participate in trade negotiations, and development of trade policy frameworks e.g. sanitary and phytosanitary measures (SPS) and Technical Barriers to Trade (TBT).

**Box 1: Economic Cooperation and FTAs**

Australia provides assistance to developing country FTA partners to comprehensively engage during negotiations and, following their conclusion, by assisting them implement FTA outcomes. When developing countries enter FTA negotiations it provides an opportunity to encourage them to undertake further reforms and capacity building to ensure they get the most from the agreement and from open markets. Capacity building activities as part of FTAs are not intended to overlap with existing efforts, but to build on them.

**Box 2: ASEAN-Australia-New Zealand FTA (AANZFTA) – Economic Cooperation**

Australia contributed A$1.5 million over four years (2006-09) for trade-related capacity building activities to support the AANZFTA negotiations, as well as to prepare for AANZFTA implementation

AANZFTA entered into force in January 2010. Australia is contributing up to A$20 million over five years to support ASEAN members implement their AANZFTA obligations and to participate in the benefits of more open trade and economic integration and achieve faster growth and development. The agreement includes a separate chapter on economic cooperation and an associated five-year Economic Cooperation Work Program (ECWP), which provides for cooperative activities in the areas of rules of origin; sanitary and phytosanitary measures; standards, technical regulations and conformity assessment procedures; services; investment; intellectual property; sectoral integration; customs; and competition policy.

The *AANZFTA Economic Cooperation Support Program* (AECSP) funds an ASEAN Support Unit within the ASEAN Secretariat and the annual roll-out of ECWP activities approved by the AANZFTA Joint Committee and implemented by the Secretariat.

ASEAN Leaders at the ASEAN-Australia Summit in Hanoi on 30 October 2010 welcomed "Australia's significant contribution to the AANZFTA Economic Cooperation Support Program, including the AANZFTA Support Unit in the ASEAN Secretariat" and highlighted the "unprecedented capacity building initiatives undertaken within the framework of an ASEAN-Plus FTA."

At this early stage of AANZFTA implementation, ECWP activities have necessarily focused mainly on giving practical support to ASEAN member states, especially the newer ASEAN members in their implementation of AANZFTA and participation in the benefits of the agreement. For example, workshops have been held at the request of ASEAN members on Outreach and Public Advocacy, Chemical and Plastic Production and Process Rules for the AANZFTA Rules of Origin, Monitoring the Utilisation of AANZFTA Tariff Preferences, the Two Annex Approach to the Scheduling of Investment Reservations, Intellectual Property Crime and accession to the WIPO Madrid Protocol.

Feedback on ECWP activities has been excellent. As the agreement matures and all Parties are comfortable with its implementation, we expect the focus to shift to longer term projects.

5. On page 9, at the top of the page, it talks about productivity growth et cetera. Are there any indications that measures will be applied to raise productivity in the manufacturing services and agricultural sectors? That is what it seems to be heading towards, but I am not sure. (p 6)

**Answer**

- 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.

- For further details see 'Australia to 2050: future challenges' at: http://www.treasury.gov.au/igr/igr2010/report/pdf/IGR_2010.pdf