

Senate Standing Committee on Economics

ANSWERS TO QUESTIONS ON NOTICE

Treasury Portfolio

Additional Estimates

23 – 24 February 2011

Question: AET 120

Topic: Trade Deal

Hansard:E 120

Senator Cameron asked:

Senator CAMERON—I agree with you in your response that that is not the factual position. It is a bilateral trade deal or a preferential trade deal where not all barriers are removed. How can we have any confidence in the modelling that is done which uses that assumption that all trade will be free when we know that it is not going to be the case, and then we tell the public that these are the benefits that you will get and that is the figure? It is not like advertisers. The banks will put a little asterisk and say, ‘Read the fine print.’ We do not do that; we say, ‘This is what you’re going to get,’ and we know it is not. Have you got any answers?

Mr Murphy—With any modelling you will have assumptions. I would have to go back and look at the modelling that we are talking about, but there will be assumptions. Oftentimes in these things you make assumptions with a fixed number of factors and then you run a scenario change. I note that in this area it might be worth looking at the Productivity Commission’s report, which has just been published, on bilateral free trade agreements—it is quite a weighty document—in terms of the benefits, how it is assessed and so on. When I responded to you I said that the Productivity Commission was undertaking a study. That has now been released, so it might be worth looking at.

Senator CAMERON—I thought I would come direct to Treasury. I thought you guys were the experts.

Mr Murphy—That is what I am saying. It might be worth our looking at that and then coming back to you.

Senator CAMERON—Yes. You are the market experts on this. The public are fed a line based on a false assumption, not by Treasury but by the modelling that is done to say, ‘Embrace these free trade agreements, because this is the increase in GDP, this is the increase in trade in terms of what is happening’, but it has not happened.

Mr Murphy—If you really wish to address free trade agreements, I suggest that is a matter for the Department of Foreign Affairs and Trade.

Senator CAMERON—No. I would suggest it is not, because the economics of it is the Treasury.

Mr Murphy—Yes, of course.

Senator CAMERON—That is why I am asking you. I would not ask the Department of Foreign Affairs and Trade about modelling.

Mr Murphy—They commission the modelling.

Senator CAMERON—That does not make them experts on it, does it?

Mr Murphy—Yes.

Senator CAMERON—You are kidding me? Your market department is about informed decisions on the operation of the Australian market. If I am looking for an informed view on these issues, I am coming to you. Do you think that is fair enough?

Mr Murphy—It does not matter whether I think it is fair or not, because that is what your request is. We will do our best to look into it.

Senator CAMERON—I am asking you again to have a look at what I asked for, to have a look at what you can come back to me on, and actually try to answer the question. Also in addition to that, I would appreciate it if you could give me some details on the merchandise trade and the US free trade agreement.

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Mr Murphy—Yes.

Answer:

The decision to launch bilateral and regional trade agreement negotiations has often been based on a joint feasibility study prepared by the Department of Foreign Affairs and Trade and the negotiating partner/s. To assist with this process, the Department of Foreign Affairs and Trade usually commissions consultants to model the potential economic impacts of the proposed agreement.

The Productivity Commission report on Bilateral and Regional Trade Agreements (which was released on 13 December 2010 at <http://www.pc.gov.au/projects/study/trade-agreements>) was critical of the approach to conducting feasibility studies, finding that it had ‘produced overly optimistic expectations of the likely economic benefits of bilateral and regional trade agreements and does not provide an adequate basis for assessing their merits’.

The Commission acknowledged that assessing the potential benefits and costs of these agreements is difficult because the modelling is prepared prior to the commencement of negotiations. However, it noted that the analysis is likely to overstate the benefits of a proposed agreement because the modelling assumes all barriers to trade and investment will be removed (the modelling generally does not take account of possible carve outs, the effects of rules of origins or the potential for tariff cuts to not be passed on in the form of lower prices). The lack of comprehensive and robust analysis of the benefits and costs of trade agreements means that Australia risks entering agreements that will ultimately reduce welfare or risks foregoing options with potentially greater net benefits.

To overcome these problems, the Commission recommended that scrutiny of the potential impacts of prospective trade agreements be improved. Before entering negotiations with any particular prospective partner, Australia should undertake a transparent analysis of the potential impacts of the options for advancing trade policy objectives with the partner.

The Government is currently considering the recommendations in the Productivity Commission’s report.