
1 Setting the scene

Given its likely size and scope, the proposed Millennium Round of World Trade Organization (WTO) negotiations seems set to dominate the world trade policy scene. The importance of these negotiations is highlighted by the apparent rise in protectionist pressures in a number of countries, including the United States and the European Union.

WTO negotiations on agriculture and services are expected to resume in 2000. Both sectors are vital to Australia — agriculture because it continues to provide a major part of Australia's exports, and services because of its dominance in domestic economic activity and its growing importance in trade.

The WTO agenda also includes unresolved issues in trade-related aspects of intellectual property rights. The issues are narrow in scope, covering the use of geographic labelling and the protection of biotechnology. Again though, both are of interest to Australia.

The trade ministers of WTO member countries will meet in Seattle in late November 1999 to give final agreement to launch the Millennium Round and to discuss what other issues it should cover. Most developed countries are keen to negotiate further on protection of manufacturing products. Many developing economies, some still struggling to implement their Uruguay Round commitments, are less so.

In order to negotiate effectively, countries need good information about their own trade barriers as well as information about those of their trading partners.

To meet the information requirements of past WTO Rounds, international organisations and individual countries have built reasonably comprehensive information sets covering barriers to trade in agricultural and manufacturing products. For example, for many years the OECD has calculated 'consumer tax and producer subsidy equivalent' measures to summarise import protection and domestic market support regimes affecting the agricultural sectors of OECD member economies. UNCTAD has a comprehensive database on non-tariff barriers affecting merchandise trade. The WTO itself collected information on tariff protection of merchandise trade as part of the Uruguay Round. And for many years, the Productivity Commission and its predecessors have published comprehensive

information on the tariff and non-tariff protection afforded to Australia's agricultural and manufacturing sectors.

In services, the situation is different. The Uruguay Round was only the first multilateral round to have services on its agenda. Much of the Uruguay Round involved negotiating the architecture of a services agreement — the General Agreement on Trade in Services, or GATS — rather than negotiating on protection levels. Member countries did provide substantial information about existing barriers to trade in services, but the usefulness of that information was limited in two important respects:

- it was primarily qualitative, providing little indication of the relative importance of diverse measures affecting trade in services; and
- because of the 'positive list' nature of the GATS schedules, it was seriously incomplete for many countries (Australia's schedules being no exception — see McGuire 1998).

This year's *Trade and Assistance Review* presents the first of a new series of estimates of barriers to services trade designed to address these shortcomings (chapter 2). The estimates are:

- quantitative, giving an indication of the relative importance of different barriers, including a measure of their impact on service prices; and
- more complete than the information in GATS schedules, because they draw on a much broader range of sources.

Estimates are provided for a range of countries, not just Australia. This is partly a consequence of the cross-country methodology used to estimate the price impact of barriers to services trade. Importantly though, it also helps to fill a major information gap for Australia as it prepares for the Millennium Round.

The estimates are the product of a three-year collaborative project between the Productivity Commission, the University of Adelaide and the Australian National University. The methodologies by which they have been derived are fully documented elsewhere. The results are summarised here in a simple, accessible and comparable form. The results available this year cover banking services, telecommunications and maritime transport. It is intended that results will be available for additional sectors next year.

In addition, this year's *Trade and Assistance Review* presents the Commission's usual estimates of effective rates of assistance to Australia's manufacturing and agricultural sectors (chapter 3), and information on Australia's budgetary assistance (chapter 4). These estimates and information help to reveal which groups in the

community win and which groups lose from industry assistance. They can also highlight the net costs to the community of inappropriate assistance, and thus provide information and incentives for governments to adopt welfare-enhancing policies. There are some methodological and coverage differences between the two sets of estimates, as well as some areas of overlap. This two-pronged approach, while not conducive to consistency, allows a broader range of government assistance to be measured and thus aids transparency. The methodological and coverage issues are canvassed in Appendix A.

The Commission also outlines some recent and forthcoming issues in agricultural, manufacturing and services trade and assistance. Some issues are WTO-related, including possible negotiating strategies for services and intellectual property rights during the Millennium Round, Australia's quarantine risk assessment processes, the recent safeguard action for pigmeat, and the US action on imports of Australian lamb. Others have a mainly domestic focus, including recent reviews of liner shipping and air services, the performance of Australia's revamped anti-dumping system, and foreshadowed changes in assistance arrangements for the dairy industry. Each is dealt with in the relevant parts of chapters 2 and 3.

Finally, the Commission examines the recent granting of firm-specific budgetary assistance under the Government's Strategic Investment Incentive Program. The program was announced in the Government's *Investing for Growth* statement in December 1997, and was a response to the recommendations of the Mortimer and Goldsworthy inquiries which advocated the use of large-scale incentives to attract major investment projects. The Government recently foreshadowed an extension to the program to help compensate for the removal of the accelerated depreciation allowance, as part of the Government's response to the (Ralph) Review of Business Taxation. Aspects of the program's design and early operation are discussed in chapter 4.