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## 6 Recent developments in trade policy

Australia has a strong economic interest in the rules and arrangements that govern international trade. Australia's approach to trade reform over recent decades has focused mainly on unilateral trade liberalisation, supported by its participation in multilateral trade negotiations. In addition, Australia has regional trade arrangements with some neighbouring countries in the South Pacific and regional initiatives to encourage trade liberalisation through the Asia Pacific Economic Cooperation (APEC) forum.

In this chapter, the Commission reports on recent developments in trade policy including:

- multilateral trade negotiations in the World Trade Organisation (WTO);
- recent efforts by the Australian Government to establish regional trading agreements with particular APEC members; and
- the WTO's recent Trade Policy Review of Australia.

### 6.1 Multilateral trade negotiations

In November 2001, a new round of WTO trade negotiations was launched at the Fourth WTO Ministerial Conference in Doha. Australia will participate in the new round. The Productivity Commission commented on the outcomes of the Doha Ministerial, and the scope of the negotiations it mandated, in last year's *Review* (PC 2001).

The negotiations will cover a wide range of issues. Accordingly, separate negotiating groups have been established which deal with agriculture, services, industrial products, WTO rules, dispute settlement procedures, trade and the environment, geographical indicators for wines and spirits, and a review of 'special and differential treatment' provisions for developing countries (DFAT 2002a). While the negotiations between member countries occur 'behind closed doors', several groups have important deadlines approaching for significant decisions:

- A first round of 'requests'<sup>1</sup> for the services negotiations was completed in June 2002. The focus now is on bilateral negotiations between trading partners in preparation for initial 'offers'<sup>1</sup>, which are scheduled to be made by 31 March 2003.

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- A ‘modalities document’<sup>2</sup> for agricultural negotiations is to be developed by March 2003. This document is to be used by WTO member governments to produce their first round of offers on agriculture, which are due by the Fifth WTO ministerial conference in September 2003.
  - Similarly, modalities for trade in non-agricultural products negotiations are due to be agreed by March 2003.

The Doha Ministerial Declaration also committed member countries to ‘the objective of duty-free, quota-free market access for products originating from LDCs [least developed countries]’ (WTO 2001b). In June 2002, at the Commonwealth Government’s request, the Productivity Commission analysed the effects of removing Australian tariffs on imports from LDCs on the Australia economy and other countries (PC 2002c). Only a very small portion of imports to Australia are sourced from LDCs. Most of these are textiles and clothing. The Commission found that the overall effects on the Australian clothing industry of removing tariffs on these products was likely to be small, and the impact on the rest of the Australian economy would be negligible. Subsequently, the Government has granted tariff- and quota-free access to LDCs (Howard 2002f).

In November 2002, Australia hosted a ‘mini-ministerial’ meeting in Sydney of 25 trade ministers from WTO member countries. While the meeting discussed a range of issues related to the Doha round, it focused on the Trade Related Aspects of Intellectual Property Rights (TRIPS) agreement. The Doha ministerial meeting had earlier made a declaration on TRIPS and public health which reiterated members’ ability to use ‘compulsory licensing’ provisions<sup>3</sup> in order to protect public health. It also noted that countries without pharmaceutical manufacturing facilities may have difficulty using these provisions and committed WTO members to ‘find an expeditious solution to this problem’ (WTO 2001b). While the Sydney mini-ministerial did not resolve the issue completely, Mr Vaile, the Minister for Trade, stated that there was a ‘convergence of views between Ministers on how best to improve access to medicines’ and Ministers were ‘determined to see this issue resolved by the end of the year’ (Vaile 2002c).

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<sup>1</sup> The process of the services negotiations in the WTO requires individual countries to make ‘requests’ for other countries to liberalise certain aspects of their trade restrictions or trade-related economic policies. All countries then make ‘offers’ to liberalise, which form the basis for subsequent negotiations.

<sup>2</sup> The modalities document sets out the procedures to be followed during the negotiations and may also outline targets that are expected to be met.

<sup>3</sup> Under ‘compulsory licensing’ provisions, countries can produce patented products without the consent of (and without giving compensation to) the patent holder in cases of ‘national emergency or other circumstances of extreme urgency’.

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More broadly, however, as the Commission noted in last year's *Review*, while the negotiating agenda agreed at Doha appears to be promising in some respects, its success will depend on the course of the detailed negotiations that lie ahead. Recent decisions by the US Government to extend its farm subsidy program and to impose tariffs on steel imports do not auger well in this respect. Similarly, recent reports suggest that the European Union is likely to extend its Common Agricultural Policy until 2013 (The Australian 2002). If this occurs, it could encumber the critical agricultural negotiations.

The Doha negotiations are scheduled to conclude by 1 January 2005. The Fifth WTO ministerial conference has been scheduled for September 2003 (in Mexico), following which negotiations are scheduled to begin in the areas of investment and competition policy, government procurement and trade facilitation.

## **6.2 Preferential trading arrangements**

As reported in last year's *Review*, the Australian government has recently sought to negotiate Preferential Trading Agreements (PTAs) with a number of countries. This follows the recent global trend towards PTAs as an instrument to encourage greater trade and integration between two or more countries. Since 1995, more than 100 agreements covering trade in goods or services, or both, have been notified to the WTO (WTO 2002e). However, unlike many earlier agreements which involved several nations, most of these have been bilateral agreements.

In the past, Australia's approach to trade reform has focused mainly on unilateral liberalisation, supported and reinforced by its participation in the multilateral trading system under the GATT/WTO. Australia's main bilateral PTA is the Australia-New Zealand 'Closer Economic Relations' Agreement, established in 1983. Australia has also pursued regional initiatives to encourage trade liberalisation through the APEC forum.

The Government is now seeking to develop agreements with a number of countries:

- Singapore — In November 2002, Australia and Singapore announced that they had finalised negotiations for a free trade agreement. The agreement is expected to be formally signed in early 2003 (Vaile 2002b).
- Thailand — In May 2002, the Prime Ministers of Australia and Thailand announced that the two countries would begin negotiations toward a closer economic relations (free trade) agreement (Howard 2002c). Rounds of negotiations took place in August and October. No timetable has been set for the final agreement to be completed.

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- Japan — The Prime Ministers of Australia and Japan announced in May 2002 that ‘the two governments would launch high-level consultations to explore all options for deeper economic linkages between Australia and Japan’ (Howard 2002b).
  - United States — In November 2002, the United States and Australian governments announced that they would begin free trade agreement negotiations. This follows the passing of a trade promotion authority law (‘fast track’) in the United States in August. The law allows the United States president (or his representatives) to negotiate agreements with foreign countries, which can then either be passed or rejected by the United States parliament, but not amended. Negotiations between Australia and the United States are expected to begin early in 2003.<sup>4</sup>

The Commission commented on issues in assessing the merits of Australia entering into PTAs in last year’s *Review* (PC 2001). As noted at that time, preferential reductions of tariffs among members may have beneficial or adverse effects for members and for third parties, and the net effect of any PTA may be positive or negative. Hence, the merits of entering into any PTA need to be assessed carefully.

### **6.3 The WTO’s Trade Policy Review of Australia**

In 2002, the WTO conducted a Trade Policy Review (TPR) of Australia as part of its systematic review of all WTO members (WTO 2002d). Previous TPRs of Australia were conducted in 1998 and 1994. The TPRs aim to increase transparency and understanding of countries’ trade policies. The reviews focus on WTO members’ own trade policies and practices, although they may also take into account the country’s wider economic and development policies.

In addition to independent analysis by the WTO secretariat, the TPR process also includes submissions from other WTO countries and responses from the Australian Government (DFAT 2002b).

The TPR final report commented on several areas of Australia’s performance over the past four years including its economic performance, tariff reform and government procurement policies.

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<sup>4</sup> Following the passing of the law, the US administration also plans to begin negotiations with a number of other countries including Chile, Morocco, Singapore, the Southern African Customs Union (Botswana, Lesotho, Namibia, South Africa and Swaziland) and the Central American Economic Integration System (Costa Rica, El Salvador, Guatemala, Honduras and Nicaragua). In addition, the United States is continuing negotiations with 34 South American countries to establish the Free Trade Area of the Americas.

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## *Economic performance*

The TPR report noted that, since its previous review, the Australian economy had performed strongly, with impressive GDP growth, low inflation and falling unemployment, notwithstanding the effects of the Asian financial crisis. It attributed this largely to ‘sound macroeconomic policies in combination with some far reaching structural reforms that have reinforced past unilateral trade liberalisation’ (WTO 2002b).

## *Tariff Reform*

Australia’s continuing tariff reforms were commended. Over the four years since the last TPR, average MFN<sup>5</sup> tariffs have fallen from 5.6 per cent to 4.3 per cent. Most tariff lines (96 per cent) are bound<sup>6</sup>, which imparts a high degree of predicability in the system. These bound rates have, on average, fallen over the period. While applied MFN tariffs offer some scope for the government to increase tariffs within bindings, the report found that this has not happened in the past four years and, indeed, applied tariffs have fallen on average by more than the bound rates. Nevertheless, the TPR report found that recent tariff reductions had done little to address the issue of tariff escalation.<sup>7</sup>

The report commented that there are still significant tariff peaks protecting the MVP and TCF industries. Tariffs on motor vehicles have recently been reduced, and are scheduled to fall further — to 10 per cent — in 2005. The Government noted in its response that post-2005 TCF assistance arrangements are to be reviewed, and that the ‘timing of further [post 2005] reductions to PMV tariffs will be considered by the Government’ (DFAT 2002b).<sup>8</sup>

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<sup>5</sup> MFN or Most Favoured Nations tariffs apply to all WTO members who do not have a preferential arrangement with Australia.

<sup>6</sup> Binding a tariff refers to giving a commitment that the applied tariff will be no greater than the bound rate.

<sup>7</sup> Tariff escalation refers to situations where primary inputs (raw materials) attract a lower tariff than semiprocessed materials and finished outputs. Such a tariff structure encourages the domestic processing and manufacturing of materials rather than processing occurring where the raw materials originate. Thus, a higher degree of protection is conferred upon the industry than is suggested by the tariff alone (WTO 2002c).

<sup>8</sup> Subsequently, in December 2002, the Government announced new assistance arrangements for the automotive industry which entail a reduction in PMV tariffs to 5 per cent in 2010 (see section 4.4).

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### *Agricultural assistance and quarantine*

According to the report, formal assistance to Australian agriculture has remained low over the past four years. As measured by the WTO secretariat, total support amounted to 0.3 per cent of GDP in 2001, the lowest in the OECD. It was also noted that most domestic support measures for agriculture are so called ‘green box’ measures that have little affect on production or trade.

Several countries, however, questioned Australia’s Sanitary and Phytosanitary (SPS) and quarantine requirements, arguing that they are unduly stringent. In its response, the Australian Government observed that Australia has a unique disease free status which, if breached, would impose serious costs on Australia. It further stated that ‘Australia has an open and transparent risk assessment process that keeps all interested parties — including other countries — informed’.

### *Government procurement*

Questions were also raised about Australia’s use of government procurement policies as an instrument of industry policy.<sup>9</sup> Australia has not signed the WTO agreement on government procurement and, according to the Government’s response to questions, has no plans to accede to the agreement. Some Australian governments still accord significant preference margins (up to 20 per cent) to local (and New Zealand) producers. In addition, local content rules are used by some governments.

The Australian Government noted that the Commonwealth has no power over the purchasing decisions of State and Territory governments (which often use procurement policies), and that all Australian governments make their procurement policies publicly available on the Internet (DFAT 2002b).

### *Luxury Car Tax*

The major structural adjustment since the previous TPR was the introduction of the goods and services tax and associated changes to the taxation system.

One concern associated with the restructuring of the tax system was the introduction of the ‘Luxury Car Tax’ which applies to vehicles priced above a set threshold

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<sup>9</sup> Government procurement policies refer to preferment by governmental agencies of a particular type of supplier when making purchasing decisions. Usually government procurement policies favour local products over imported products, but they may be based on other criteria, such as business size.

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(currently \$57 009). The report commented that this tax ‘seemed to be discriminatory on imported cars, whose prices in Australia, already reflecting high import tariffs, tend to be higher than those of locally manufactured vehicles’. The Government responded that:

The government introduced this tax as an equity measure... This was necessary to prevent disproportionate falls in the price of luxury vehicles compared to standard model vehicles when a GST of 10 per cent replaced the wholesale sales tax of 45 per cent... the luxury tax applies to both imported and domestically produced vehicles without discrimination (DFAT 2002b).