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## 4 Recent developments in trade policy

In this chapter, the Commission documents selected developments in international trade policy involving Australia, namely:

- progress in the current round of World Trade Organisation negotiations; and
- Australia's involvement in preferential trading arrangements.

### 4.1 Multilateral trade negotiations

The WTO provides a stable, rules-based system for the conduct of international trade, and has provided significant benefits and legal protections for small to medium-sized trading nations such as Australia (PC 2000a). Successive rounds of trade negotiations within the WTO and its predecessor (the General Agreement on Trade and Tariffs — GATT) have facilitated substantial reductions in many trade barriers over more than 50 years, and underpinned strong expansion of international trade and growth in living standards.

However, barriers to trade remain, particularly in areas such as agriculture, textiles and clothing. With the growth in membership of the WTO (which now stands at 148 governments, most of which are from developing countries), achieving agreement on further liberalisation has become more complex.

In November 2001, a new round of WTO trade negotiations was launched at the Fourth WTO Ministerial Conference, held in Doha, Qatar. WTO member governments agreed to negotiations covering a broad range of issues with far-reaching implications for the development of world trade (box 4.1). The Commission commented on the scope of the negotiations mandated at the Doha Ministerial in *Trade & Assistance Review 2000-01* (PC 2001b), and discussed early progress with the negotiations in last year's *Review* (PC 2002b).

In September 2003, the Fifth WTO Ministerial Conference was held at Cancún, Mexico. The conference provided an opportunity to advance the Doha agenda.

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#### Box 4.1 The key Doha outcomes

At the Fourth WTO Ministerial Conference in Doha in 2001, trade ministers from the WTO member governments agreed to launch a new round of multilateral trade negotiations. The Doha agreement indicated that negotiations were to be conducted over three years and were to cover the following.

- *Agriculture* — comprehensive negotiations with the aim to increase market access and reduce long standing export subsidies and domestic support.
- *Non-agricultural goods* — negotiations to increase market access through reductions in tariffs and increased disciplines on non-tariff barriers.
- *Services* — existing negotiations to continue to achieve the goals of the GATS.
- *Environment* — negotiations to look at the relationship between WTO rules and the Multilateral Environmental Agreements and to reduce trade barriers on environmental goods and services.
- *Intellectual property rights* — existing negotiations to establish a multilateral system for registration and notification of geographical indications for wines to be completed and the system extended to spirits.
- *Foreign investment, competition policy, government procurement and trade facilitation* — negotiations on these issues were to take place subject to agreement at the Fifth WTO Ministerial Conference in 2003.
- *Subsidies and countervailing measures and the dispute settlement understanding* — negotiations were to clarify and improve existing WTO rules.
- *Regional trading arrangements* — negotiations seeking to clarify and improve existing WTO disciplines on preferential trade.

In addition, the Doha conference had agreed several measures to assist developing countries, and had clarified contentious aspects of the TRIPS agreement (see PC 2001b).

Source: WTO 2001.

However, both during the lead-up and at the Cancún conference itself, disagreements emerged on the pace and scope of reform. For example, with respect to agricultural reform:

- the Cairns Group of agricultural exporting countries, including Australia, sought significant reductions in agricultural protection and support;
- some developing countries sought reductions in agricultural protection and other supports provided by developed nations whilst seeking to quarantine their own agricultural trade restrictions from reform; and

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- the United States, the European Union and Japan indicated a reluctance, albeit to differing degrees, to contemplate reductions in agricultural support measures.

Similarly, on the four so-called ‘Singapore’ issues — investment rules, competition policy, transparency in government procurement and trade facilitation measures — the European Union, Japan and Korea wanted these issues on the negotiating table, but many Asian and African nations objected to their inclusion.

There were also differences over some other issues, including non-agricultural market access, geographical indications, and the reform of cotton subsidies.

Multilateral trade negotiations require compromises and trade-offs between the preferred positions of different countries to find a ‘consensus’ position that is acceptable to all parties. As the Cancún negotiations progressed, some governments showed some flexibility. For example, there was some preliminary agreement to go further with agricultural reforms and, towards the end of the conference, the EU accepted the abandonment of negotiations on two of the four Singapore issues — investment rules and competition policy — all of which had been opposed by many developing countries.

However, the Conference ended without reaching agreement on the Singapore issues, which in turn precluded final consideration of agriculture and other reforms. In commenting on this setback, the Director-General of the WTO, Supachai Panitchpakdi (2003), stated:

In the end the ministers could not summon the necessary flexibility and political will to bridge the gaps that separated them. Sadly, those that will suffer the most for their inability to compromise are the poorest countries among us. A more open and equitable trading system would provide them with an important tool in alleviating poverty and raising their levels of economic development.

While the WTO members were unable to agree on further trade reforms at Cancún, a number of intergovernmental forums subsequently called on WTO members to restart serious negotiations on the Doha agenda. For example, at the APEC summit in Thailand in October 2003, APEC ministers strongly reaffirmed their commitment to ‘press for an ambitious and balanced outcome to the Doha Development Agenda, reiterating that the development dimension is at its core.’ However, following the Cancún meeting, there was disagreement on the path that further negotiations should take. More recently, at the WTO General Council meeting held in Geneva in mid December 2003, member countries have at least agreed to reactivate the Doha round negotiating groups, suspended at Cancún, in 2004.

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## 4.2 Preferential trading agreements

In the past few years the Australian government has commenced negotiating preferential trading agreements (PTAs) with a number of countries. This follows the recent global fashion for PTAs as an instrument intended to encourage 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 2002b). However, unlike many earlier agreements which integrated several nations, most of these have been bilateral agreements.

Until this year, Australia's only bilateral trade agreement has been the Australia-New Zealand 'Closer Economic Relations' Agreement, established in 1983. During the past year, the Australian Government has concluded new PTAs with Singapore and Thailand, commenced negotiations on a PTA with the US, and agreed to undertake joint feasibility studies into PTAs with Japan and China.

The Commission commented on issues in assessing the merits of Australia entering into PTAs in a public submission to the Department of Foreign Affairs and Trade in 2001 (PC 2001a). As noted at that time, preferential reductions of tariffs among PTA 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. Recent work by Commission staff (Adams et al. 2003), which measured changes in trade and investment flows following the establishment of past PTAs, suggests that many may have diverted more trade than they have created, although it also found some evidence that some non-trade provisions could enhance international investment flows, particularly if the provisions are non-preferential in nature. More work is required to understand fully the impact of PTAs and supporting regulations (such as rules of origin). Nevertheless, the results of this and other studies highlight the desirability of careful assessments of the details of particular PTAs.

### **The Singapore-Australia Free Trade Agreement**

In November 2002, Australia and Singapore announced that they had finalised negotiations for a PTA. The Singapore-Australia Free Trade Agreement (SAFTA) became operational in July 2003 (Vaile and Yeo 2003), and includes initiatives across many sectors.

SAFTA entails the elimination of all tariffs on goods and agreement not to use export subsidies or 'safeguard measures', such as anti-dumping duties, against the other party. For most goods, the 50 percent 'regional value content' rule of origin will apply as under the Australia-New Zealand Closer Economic Relations

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Agreement.<sup>1</sup> The agreement also addresses technical regulations and quarantine measures.

On services, SAFTA requires that, listed exemptions apart, both countries treat each other's service suppliers on the same terms as their own businesses, and remove quantitative and other market access restrictions on service suppliers. SAFTA also includes specific liberalisation commitments on financial, legal and other professional services, education, environmental services and telecommunications.

Investors in both countries are to receive treatment no less favourable than that available to local investors, except in areas specifically exempted by either country. Australian investors will benefit from greater transparency in investment restrictions by Singapore's government-linked companies. Australia is not required to make any changes to its foreign investment screening processes or to its current controls on foreign ownership.

Other matters addressed in the agreement include customs procedures, government procurement, competition policy, intellectual property rights, electronic commerce and restrictions on business travel between the two countries.

### **The Australia-Thailand Free Trade Agreement**

In October 2003, the Prime Ministers of Australia and Thailand announced the conclusion of an Australia-Thailand Free Trade Agreement (Howard 2003b, Vaile 2003a). The agreement is expected to be signed in the first half of 2004 and will enter into force after legal and parliamentary processes have been completed in both countries. It includes initiatives across many sectors.

On goods, Australia and Thailand are to eliminate virtually all tariffs on goods imported from the other country by 1 January 2010. Australia is to eliminate 83 per cent of its tariffs on imports of Thai origin upon the agreement entering into force, and to phase down 13 per cent of its tariffs to zero by 1 January 2010 and the

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<sup>1</sup> 'Rules of origin' are the criteria used to define where a product has been made for the purposes of ensuring that only the products of countries which are party to a PTA obtain the benefits of the agreement. The Australian Government has asked the Commission to undertake a research study to examine Australia's rules of origin arrangements under the Australia–New Zealand Closer Economic Relations Trade Agreement (CER). The request stems from concerns that Australian and New Zealand firms in some circumstances are having difficulty achieving the minimum content threshold set down under the CER. The Commission released an interim research report in December 2003 (PC 2003d), in which it found that the CER rules had not kept pace with changes in technology and business practices. Its preliminary recommendations included relatively minor changes to reduce operational problems and more substantial changes to liberalise the current rules.

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remainder by 1 January 2015. Thailand is to immediately eliminate 49.4 per cent of its tariffs on imports of Australian origin, and to phase down 43.7 per cent of its tariffs to zero by 1 January 2010 and the remainder over the period 2015 and 2020.

Thailand is to expand access for Australian imports under tariff-rate quotas (TRQ) over a transition period that varies according to the product, with the eventual elimination of all TRQ restrictions.

The agreement prohibits the use of export subsidies in trade between both countries.

On services, the agreement seeks to strengthen trade in a range of services by treating each other's service suppliers on the same terms as their own businesses and by progressively liberalising the barriers that prevent businesses from entering those markets. Australia is to give legally-binding commitments regarding access to, among other sectors, a range of professional and business services; banking and finance; and telecommunications. In return, Thailand is to liberalise parts of sectors, including: business services; construction and communication services; tertiary education services; and hotel, restaurant and recreational services.

On investment, investors in both countries are to enjoy treatment no less favourable as that available to local investors or nationals of any other country. Australian investors will be able to transfer funds out of Thailand at any time and have the right to seek an impartial resolution of any disputes arising with the Thai government over their investments. Both countries are to improve the transparency and certainty of their investment regimes. Thailand is to permit majority Australian ownership in range of sectors and sub-sectors, including mining. In return, Australia is to legally bind its current foreign investment policy settings in manufacturing and mining.

Other matters addressed in the agreement include customs procedures, government procurement, competition policy, intellectual property rights, electronic commerce and restrictions on business travel between the two countries.

## **Other bilateral negotiations**

*Japan* — Following negotiations which commenced in May 2002, in July 2003 the Australian and Japanese Prime Ministers signed the Australia-Japan Trade and Economic Framework. The Framework includes several initiatives aimed at improving commercial and policy linkages, covering matters such as food, energy trade, ICT, competition policy and securities markets regulation. It also includes a commitment to undertake a joint feasibility study into a possible PTA between Australia and Japan.

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*China* – Following negotiations which commenced in May 2002, in October 2003 the Australian Trade Minister and Chinese Vice Minister for Commerce signed the Australia-China Trade and Economic Framework (Vaile 2003b). Among other things, the Framework covers cooperative activities in sectors such as energy and minerals, agriculture, services and investment, and refers to other bilateral issues including education, health, food safety, customs cooperation and intellectual property rights. It also includes a commitment to undertake a joint feasibility study into a possible PTA between Australia and China.

*United States* — In November 2002, the United States and Australian governments announced that they would begin negotiations for the formation of a PTA. This followed the passing of a trade promotion authority law (‘fast track’) in the United States in August 2002.<sup>2</sup> Negotiations between Australia and the United States began early in 2003, and are scheduled to be concluded in early 2004.

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<sup>2</sup> The law allows the United States president (or his representatives) to negotiate bilateral agreements with foreign countries, which can then either be passed or rejected by the United States Congress, but not amended.