
5 Recent developments in trade policy

Although Australia is a major trading nation for only a select range of commodities, and even fewer services, it is an active participant in trade negotiations and more generally in trade policy reform. Australia has reduced its own barriers to international trade mainly through domestic industry assistance reform initiatives, reinforced by participation in multilateral trade agreements. In recent years, as well as engaging in the current ‘Doha’ round of multilateral negotiations under the World Trade Organization (WTO), Australia has been pursuing preferential trade agreements with a number of countries. Developments in international trade policy involving Australia over recent years have been discussed in previous editions of *Trade & Assistance Review*.

This chapter reports on developments since the last edition of *Trade & Assistance Review*, up to the commencement of the caretaker period of government on 17 October 2007. During that time:

- there was some limited progress in multilateral trade negotiations;
- the Australian Government continued negotiating several new preferential trade agreements, and commenced negotiations on three other agreements; and
- a WTO review of Australia’s trade policy was conducted.

5.1 Trade agreements

For over 60 years, the WTO and its predecessor, the General Agreement on Tariffs and Trade (GATT), have provided a stable, rules-based system for the conduct of international trade (box 5.1).

The WTO performs two main roles in facilitating international trade.

- First, it provides a forum for the negotiation of new multilateral trade agreements to liberalise trade. Successive rounds of negotiations have facilitated substantial reductions in many trade barriers and underpinned the strong expansion of international trade and growth in living standards.
- Second, it has an ongoing role in the enforcement of existing rules and commitments. Members have agreed to use the WTO’s dispute resolution

procedures to deal with perceived violation of trade rules, rather than take unilateral action. Under these procedures, members are encouraged to resolve their disputes bilaterally, but if this is not possible they can request adjudication by an expert panel. Either party may appeal. The whole process is subject to time limits, and rulings are binding. These features of the WTO's dispute resolution system have been central in providing security and predictability in the multilateral trading system (WTO 2007c).

Box 5.1 The World Trade Organization

The WTO is an international forum where sovereign governments negotiate and execute agreements — which include constraints on their own actions — to foster an open trading system. In the trade negotiations, decisions are generally taken 'by consensus' of all member governments.

In broad terms, the WTO agreements require all member governments to apply their trade rules in a consistent, transparent and essentially non-discriminatory way. Once a country's trade commitments have been agreed with other WTO members, the commitments are 'bound' and cannot be broken without risking sanctioned retaliation or other disciplines.

The multilateral trading system was established in 1947 when 23 governments — mainly from developed countries including Australia — signed the General Agreement on Tariffs and Trade (GATT). It has evolved through eight rounds of negotiations to cover goods, services, non-tariff trade barriers and certain trade-related issues, such as intellectual property protection. Since the GATT's inception, industrial country tariffs on industrial products have come down from an average of some 20 to 30 per cent to less than 4 per cent, while over the period since 1950, world trade has increased 27-fold (in volume terms), or three times faster than world output growth (WTO 2007d). There are now 151 members of the WTO, the overwhelming majority of which are developing nations. Governments can apply to join or withdraw from the WTO at any time.

As an organisation dealing with the rules of trade between nations, the WTO also handles disputes and monitors members' trade policies.

Doha Round

The latest round of multilateral negotiations (the Doha Round) has been underway for over six years, but progress has been limited. As reported in last year's edition of *Trade & Assistance Review*, talks on the Doha Round were suspended in July 2006, after a meeting of the G6 (Australia, Brazil, the European Union, India, Japan and the United States) failed to resolve divisions on how to cut farm subsidies and tariffs (PC 2007d). At the time, it was widely understood that unblocking the negotiations would require parallel progress on a 'triangle' of issues, two sides of which relate to agricultural trade liberalisation:

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- the US would have to agree to deeper cuts to its domestic farm support;
 - the European Union would have to agree to increased agricultural market access through greater tariff cuts in agricultural products; and
 - developing countries, such as Brazil and India, would have to agree to lower tariffs on non-agricultural products.

Trade negotiations recommenced informally in November 2006, after signs that member countries' requests to resume negotiations were 'widespread and genuine', and across-the-board negotiations formally recommenced in February 2007 (PC 2007d). The Australian Government was engaged in this process, in particular through leadership of the Cairns Group of agricultural exporters and by participating in meetings of the G6 in April and May of 2007 (DFAT 2007).

In June 2007, an attempt by the G4 (the United States, the European Union, Brazil and India) to bridge the key gaps on agriculture and industrial products broke down. Members of the G4 attributed this outcome to inadequate negotiating offers by the other members, in each of the three areas noted above (ICTSD 2007).

Most recently, some of the world's leading economies have called for another push for a deal in the Doha Round (ICTSD 2008a). While negotiations are continuing, there has been no major breakthrough following the June 2007 meeting (ICTSD 2008b).

Preferential trade agreements

In part because of difficulties in achieving improved access for Australian exports through multilateral negotiations, Australia has in recent years negotiated preferential trade agreements (PTAs) with a small number of countries. Prior to 2003, Australia was party to only three agreements, with Papua New Guinea, South Pacific countries and New Zealand, but only the last was a reciprocal agreement. Since 2003, Australia has signed several more (reciprocal) PTAs, most notably with the United States but also with Singapore and Thailand. Negotiations for a number of additional agreements have been commenced or are in prospect.

Since the last edition of *Trade & Assistance Review*:

- the Australian Government continued to negotiate further bilateral preferential agreements, with China and Malaysia, and a regional preferential agreement encompassing the Association of South East Asian Nations and New Zealand;
- negotiations were commenced on preferential trade agreements with Japan, Chile, and the Gulf Cooperation Council; and

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- the Government announced its intention to undertake studies to assess the benefits of a preferential agreement with each of the Republic of Korea, Indonesia and India. The Indonesian study has now commenced (DFAT website, February 2008).

5.2 WTO Trade Policy Review of Australia

In 2007, the WTO concluded a Trade Policy Review (TPR) of Australia as part of its regular systematic review of all WTO members. The TPR mechanism was established under the Uruguay Round of trade negotiations in 1988 (WTO 2007a). Previous TPRs of Australia were conducted in 1994, 1998 and 2002.

The TPRs aim to increase transparency and understanding of member countries' trade policies and practices, and 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 incorporates submissions from other WTO countries and responses from the Government under review.

The WTO secretariat's final report commented on several areas of Australia's performance over the past four years including its economic performance, tariff reform and non-tariff assistance arrangements (WTO 2007b).

The TPR noted that Australia's economic performance had been 'impressive' since the last review in 2002. It also noted that trade liberalisation had been integral to the structural reforms that contributed to this performance. It highlighted Australia's high degree of transparency in the formulation and evaluation of economic policies. In this context, the report specifically noted the Commission's role, which it saw as enhancing government accountability and public debate on the merits of these policies and contributing significantly to the continuing process of reform. Trade liberalisation, much of it unilateral, has been integral to this reform process.

It was also observed that, although multilateral trade liberalisation remains Australia's trade policy priority, increased importance has been attached to preferential trade agreements. The TPR noted the Government's efforts to multilateralise, through WTO negotiations, some of the outcomes achieved in regional trade liberalisation.

Australia's foreign investment regime was seen as being generally transparent and liberal, although foreign equity restrictions in certain 'sensitive' sectors remain, and a screening process continues to be applied for 'national interest' reasons. It was noted that the Australia-United States Free Trade Agreement provided preferential treatment to United States investors compared with other trading partners.

Other findings from the report are summarised in box 5.2.

Box 5.2 The WTO Trade Policy Review of Australia: other findings

Tariffs

Australia grants at least most favoured nation (MFN) treatment to imports from all its trading partners. Its 2006 tariff has over 6000 lines, of which virtually all are *ad valorem*, ensuring a high degree of transparency. Despite reductions in tariffs applied to TCF and to passenger motor vehicle products, their rates are still considerably higher than the average applied MFN rate. Further, those non-*ad valorem* rates that do apply tend to conceal relatively high tariffs, with the \$12 000 specific duty on used or second-hand vehicles being potentially prohibitive.

Sanitary and phytosanitary (SPS) measures

Although strict quarantine measures remain, changes to import risk analyses were seen as having achieved a more transparent, efficient, and timely process.

Export controls

Discretionary export licensing restrictions are maintained for reasons related to SPS, the environment, and alignment with international agreements. Certain export quotas remain. Despite reforms, the exports of certain agricultural products are still managed by state-trading enterprises and agricultural marketing arrangements.

Regional trade agreements

Australia's recently signed regional trade agreements changed various aspects of trade policy, including protection of intellectual property rights. The TPR was advised that these changes are applied on a MFN basis to all WTO Members.

Budgetary assistance

The TPR noted the further assistance provided to encourage the development of domestic industry in the form of tariff concessions, tax incentives, grants, or concessional loans, and observed that the apparent lack of cost-benefit analysis of some schemes, including tax measures, makes it difficult to determine whether the assistance has yielded net social benefits.

While local-content requirements were removed for the EMDG scheme in June 2006, the TPR noted that they remain for recipients of export assistance under the EFIC program.

Government procurement

It was observed that Australia has not become a party to the WTO Government Procurement Agreement, and in some areas such as motor vehicles, government procurement still incorporates local-content requirements.

Source: WTO (2007b).