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# Summary

The proposed 'Millennium Round' negotiations of the World Trade Organization (WTO) are expected to bring about further action to liberalise world markets.

Australia has a clear interest in promoting such action. Commission estimates suggest that the liberalisation of trade in services alone could boost Australia's income by almost \$2 billion annually. As well, access to export markets remains vital for the viability of many Australian farmers, and the ability to source competitively priced goods from abroad can improve the cost structure of industry and directly benefit consumers.

Australia can bolster the case for further trade liberalisation by demonstrating its own openness to trade, and by exposing the costs of countries' protectionist policies borne not only by their trading partners but also by their own communities.

Scrutiny of government measures which assist Australian industries is also important from a purely domestic perspective. Such scrutiny reveals which groups in the community lose, as well as which groups win, from industry assistance. It can also highlight the net costs of inappropriate assistance, and thus encourage policies which are in the long term interests of the community as a whole.

In this year's *Trade and Assistance Review*, the Commission:

- presents new estimates of the level of trade restrictions in different countries' service sectors, and the effects of those restrictions on the price of services;
- updates estimates of, and developments in, budgetary assistance and other agricultural and manufacturing assistance; and
- highlights some trade and assistance policy issues.

## Services

WTO negotiations about restrictions on trade in services are expected to recommence in 2000. Services account for around 80 per cent of domestic economic activity and an increasing share of trade.

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## **Estimates of trade restrictions**

In a joint project with the University of Adelaide and the ANU, the Commission has estimated the level and impact of (non-prudential) barriers to services trade in the banking, telecommunications and maritime sectors of an array of countries.

Australia has liberal regulatory regimes in banking and telecommunications and a moderately restrictive regime in maritime services.

The countries found to have the most restrictive regimes are located mostly in Asia and South America. Brazil, Colombia, South Korea, Mexico, the Philippines, Thailand, Turkey and Uruguay have among the most restrictive trade regimes in two of the three sectors studied, while India, Indonesia, and Malaysia have among the most restrictive trade regimes for all three service sectors.

These countries' restrictions on services trade are estimated to have inflated prices in banking services by more than 45 per cent for Brazil, India, Indonesia, Malaysia and the Philippines, and by more than 55 per cent in telecommunications services for Indonesia, Thailand and the Philippines. These trade restrictions can therefore harm not just potential competitors but also other sectors of the economies with the restrictions.

## **Negotiating approaches**

Data of this kind will be useful for negotiators during the Millennium Round as they seek to encourage greater liberalisation of services markets, and to determine the focus of their negotiating efforts. For example, negotiations might concentrate on opening the more restricted foreign markets, generally in Asian and South American economies.

Further, while negotiators will need to focus on whether restrictions applying solely to foreign suppliers are necessary, they should also aim to improve market access for all entrants, including domestic suppliers. This can lessen the impact of liberalisation on the domestic services sector, help facilitate the removal of restrictions against foreigners and bring greater benefits to the economy.

## **Relaxation of Australian restrictions**

Australia made three main commitments in relation to services trade at the APEC forum in September 1999. These were to relax foreign investment restrictions, and to liberalise air and postal services. The Commission has also recently reviewed Australia's restrictions on trade in maritime services.

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## **Agriculture and manufacturing**

WTO negotiations on agriculture are also expected to recommence in 2000, but there is less certainty about whether manufacturing trade restrictions will be subject to negotiation. The agricultural negotiations will be particularly important for Australia because the viability of the rural sector hinges largely on access to export markets. Both the agriculture and manufacturing sectors account for around 20 per cent of Australia's exports, although agriculture accounts for a much smaller share of employment and production.

### **Estimates of effective assistance**

Assistance to both sectors has declined during the 1990s and is projected to continue to do so, largely due to the program of phased reductions in manufacturing tariffs and the unwinding of various agricultural marketing arrangements.

For agriculture, the average 'effective' rate of assistance (which takes into account the effects of tariffs and other assistance on industries' inputs as well as on their outputs) is estimated to have been around 8 per cent in 1997-98. The market milk sector receives assistance many times higher than this, at more than 200 per cent. The current assistance arrangements for dairy producers are set to change next year when it is expected that farm gate prices will be deregulated and a \$1.8 billion industry assistance package funded by a levy on milk consumers introduced. The tobacco growing industry also receives relatively high assistance, with an estimated effective rate of 60 per cent in 1997-98, although the industry's assistance arrangements are being unwound. Most agricultural activities, however, have an effective rate of below 5 per cent.

For manufacturing, the effective rate of assistance in 1997-98 is estimated to have been between 5 and 6 per cent. The Government recently announced its intention to abolish 'nuisance' tariffs — with rates of 5 per cent or less — on 400 imported manufacturing items, and an inquiry into the remaining tariffs at these levels. The inquiry excludes tariffs applying to the passenger motor vehicles (PMV) and the textiles, clothing and footwear industries. Assistance arrangements to apply to these industries from 2000 to 2005 have already been announced. These industries continue to receive effective assistance several times higher than other manufacturing activities, at more than 20 per cent for PMV and textiles, and more than 40 per cent for clothing and footwear in 1997-98. The new arrangements will modify the way assistance is delivered to these industries, but will not significantly reduce the levels of effective assistance before 2005.

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## **Anti-dumping measures**

Australia was the world's second largest initiator of anti-dumping actions against imports in 1997, and currently has about 50 anti-dumping measures in force.

A new anti-dumping system commenced in July 1998. While the changes have reduced the time taken to consider applications for anti-dumping measures, some questions have arisen about the thoroughness of the initial investigation process and the effectiveness of the new appeals process in ensuring that only genuine anti-dumping actions are taken. The new scheme is scheduled to be reviewed next year.

## **Application of WTO trading rules**

Several matters arose (or were progressed) during the year relating to compliance with WTO trading rules:

- a successful Canadian complaint to the WTO led to the review and relaxation of Australian import restrictions on certain uncooked salmon, but new import restrictions on certain related fish products;
- a US complaint to the WTO on assistance to Howe Leather led to a withdrawal of assistance deemed to be 'export assistance', although the replacement assistance offered by the Commonwealth has also been challenged;
- the Government took action in line with the Commission's findings that, while there were grounds under the WTO 'safeguards' agreement to impose a temporary tariff on imported pigmeat, it should instead provide an assistance package to facilitate industry restructuring; and
- Australia has recently lodged a complaint with the WTO in response to the United States decision to impose a 'safeguards' tariff-quota on lamb imported from Australia.

## **Trade-related aspects of intellectual property**

Further negotiations on the WTO agreement on Trade-Related Aspects of Intellectual Property Rights (called TRIPS) are scheduled for the proposed Millennium Round. Australia's best approach to intellectual property rights protection will generally be to provide regulation which complies with the minimum standards required under TRIPS, but no more. In relation to the use of geographical names for products, action to extend the protections in the TRIPS from wine and spirits to other products could hinder Australia's competitiveness in export markets against regions which have already acquired a strong reputation for quality.

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In the biotechnology area, however, Australia's standards already exceed those in the TRIPS, and it would be economically advantageous for Australia to support higher and broader international standards in this area.

## **Budgetary assistance**

While to date most industry assistance has been provided through measures such as tariffs on imports and statutory marketing arrangements, industry assistance in the form of tax concessions and government spending on industry programs is becoming increasingly important.

### **Estimates of budgetary assistance**

In 1998-99, the Commonwealth provided nearly \$3.4 billion of budgetary assistance to industry. The level of budgetary assistance has been reasonably constant for the last two years, and is projected to remain so in 1999-2000. This follows an 11 per cent fall from more than \$3.7 billion in 1996-97.

The manufacturing sector received almost half of all budgetary assistance in 1998-99. As a proportion of gross sectoral output, however, primary production received most budgetary assistance, followed by manufacturing, mining and energy, and services.

While the quantum of Commonwealth budgetary assistance has remained stable, several changes to the design of budgetary assistance schemes have been made or foreshadowed in recent years.

Further, against the general trend to lower assistance, the Government has announced and/or provided additional budgetary assistance recently for the information technology, biotechnology and book industries, as well as new incentives for venture capital.

### **Strategic investment incentives**

During the year, the Government offered two firm-specific assistance packages under its Strategic Investment Incentive Program — a \$40 million package for a new pulp and paper mill in New South Wales and a package in excess of \$100 million for expansion of a Queensland aluminium smelter.

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While selective assistance can in theory provide net benefits to Australia in specific circumstances, it also entails several risks. At the extreme, if an investment project is sufficiently viable in its own right such that it would proceed without government assistance, then providing a selective assistance package involves only costs, not benefits. This is of particular concern where the business involved is foreign owned. Another risk is that assisted projects could ‘crowd out’ other investments, drawing resources away from potentially more productive uses elsewhere in the economy.

It is therefore critical that decisions about the funding of projects under the Strategic Investment Incentive Program be informed by rigorous analysis of the potential benefits and costs. The Commission also considers it important that there be clarity as to how the program’s selection criteria, which presently are expressed in broad and general terms, are applied in practice. Similarly, the benefit-cost analyses undertaken as part of the assessment process should be made publicly available. Ultimately, transparency is the best means of ensuring that decisions are in the wider community’s interests.