

**SUBMISSION TO THE PRODUCTIVITY COMMISSION STUDY
ON TRADE AGREEMENTS**

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THE GOVERNANCE OF TRADE POLICY

This submission supplements our earlier one, dated 9 April, and submissions 5 and 23 lodged by our wider group. It deals with two issues that we believe are central to the Commission's study of trade agreements: these are the governance and domestic transparency arrangements put in place by the Whitlam government in 1974. Those arrangements are relevant to all policy initiatives that involve changing domestic protection (our trade barriers), including the trade agreements that are the subject of the present study. They must be revived if the future conduct of trade policy is to deliver the rewards available to Australia from trade liberalisation.

Governance principles for protection decisions

Any policy initiative that involves changing protection has long-term and economy-wide consequences which extend beyond the life of the initiating government. It follows that governance arrangements are required that enable those consequences to be brought into account in the conduct of protection policy. This does not mean that Australian governments and oppositions need to share the same policy responses as future developments unfold. But both sides of politics need to respect a governance process that brings all the relevant information to bear on decision-making.

A system of independent advice about the economy-wide consequences of all forms of protection was introduced by a Labor government in the 1970s, with bipartisan support in both houses of the Parliament. That system prepared the way for the decisions taken since the early 1980s to reduce Australia's dependence on protection. Those decisions have contributed substantially to the prosperity we have since enjoyed, and were responsible in no small measure for the economy's strength during the recent global crisis.

Following Australia's experience with policy transparency in protection reform, the Productivity Commission's role was extended to include other areas of micro-economic policy. But the transparency arrangements introduced in 1974, to ensure that its advice would be sought as a matter of course before changing protection, had by then been rendered ineffective. [This is explained in Appendix 2 of submission 5, pp 19, 20] As a result, incumbent decision-makers were free to bypass the Productivity Commission whenever they wished. They did so recently when assistance to two of our most highly assisted industries, the motor vehicle and TCF industries, was changed. In reviewing assistance to these industries, responsibility for advice was placed in the hands of industry insiders. The industrycentric focus of the reviews meant that the subsequent advice and decisions reflected what was required to ensure their survival, rather than their contribution to national welfare. The economy-wide consequences of those decisions will emerge later—perhaps a decade down the track—beyond the life of the initiating government.

It is clear where this has the potential to lead. It signals a return to the arrangements operating before the transparency discipline was introduced in 1974. Governments until then received separate advice on policies for manufacturing (or parts of it), agriculture (or parts of it), the services sector (or parts of it) and the mining sector (or parts of it). Individual sectors of the economy were able to 'privatise' advice going forward to governments on initiatives that had ramifications throughout the economy.

The prospect of the new system of advice, underpinned by bipartisan agreement to seek independent and public advice about the economy-wide consequences before changing protection, generated tension among officials who had been comfortable with the old arrangements. The tension was reflected in the response of Country Party leader Doug Anthony, a former minister for trade, when the Bill to establish the new transparency arrangements was being debated in Parliament:

"What this legislation means, of course, is the end of the long-established and successful system under which industry policy has been devised—the system of discussion, consultation and negotiation between industry and government. This legislation means that it will be quite pointless...for industry to put its views directly to the government, to ministers, or to government departments...The access which industry of all kinds has had to the government through its contacts with ministers, with members and with government departments will, if it does not cease, become pointless...Governments are very reluctant to be accused of being influenced by vested interests." [Parliamentary Debates, House of Representatives, 18 October 1973, p 2356]

As a consequence of the new transparency arrangements, the community was engaged directly in the process by which advice on protection (trade barriers) was formulated. These arrangements, and the bipartisan agreement in 1974 to respect them, preserved the autonomy of governments over policy while introducing transparency and an economy-wide perspective into the advice going forward to them.

Yet the transparency arrangements were never applied to trade policy. The system of independent and public advice on protection has been routinely ignored in advice on trade agreements, which has continued to be pursued as an external issue--as though it were not primarily about establishing the conditions for internationally competitive domestic economic development. For instance, DFAT recently commissioned a major study to 'show-case' what Australia has gained from our trade policy. In fact those gains resulted almost entirely from unilateral action to liberalise our own barriers, undertaken solely for domestic policy reasons. This contradiction--between the major *domestic* gains at issue and the present conduct of trade policy as an *external* issue--confirms why the Productivity Commission must in future be involved in the advice available to government.

The way Australia's trade policy is conducted has not changed over time. Our negotiators have engaged in international bargaining as though the gains for Australia result from securing access to external markets without giving anything away at home.

That was reflected in then Trade Minister Anthony's report to Parliament on the outcome of the Tokyo Round: "Australia has achieved a meaningful and advantageous settlement with the United States, EEC and Japan without reducing the current level of tariff protection on a single tariff item applicable to any manufacturing industry...This was, I believe—I am sure industry agrees with me—a commendable result." [House of Representatives, 21 November 1979]

As a further manifestation of that mindset DFAT advised the government against the use of our domestic transparency procedures when preparing our 'offers' for the Uruguay Round, on the grounds that this would disclose Australia's negotiating position to other parties in the trade bargaining process: "From a trade perspective ... the very process of public inquiry ... advertises to the world the very nature of the Government's concerns and likely direction of reactions, thereby leaving little or no negotiating possibilities." [DFAT submission to government, following the Uhrig review of the IAC, in 1984]

Keeping Australia's negotiating position secret was considered more important than employing public procedures to help structure our negotiating 'offers'—that is, the reductions in domestic protection we were prepared to offer—in a way that would enhance national economic welfare.

We have learned from our struggle with protectionism that private interests with a stake in things as they are will always oppose trade liberalisation. Without independent and public advice about the economy-wide consequences of initiatives under consideration, the influence of these interests (or 'stakeholders') will continue to distract the attention of trade officials from the social goal of trade policy--that of enhancing national welfare. That is the issue of paramount importance exercising the Australian and New Zealand business groups responsible for the Lowy document on protectionism and for submissions to the PC study on trade agreements.

What a domestic transparency process is, and what it is not.

Submissions to the present study have attributed a range of quite different roles to transparency of trade policy. The purpose of this further submission is to underline our earlier explanation of how we see transparency playing its role in resisting protectionism.

One popular misconception about its role arises from the language commonly used in Australia's preparations for trade negotiations. Its focus on groups identified as 'stakeholders' leaves the impression that the gains and losses in prospect are limited to the particular producer groups who stand to win or lose from opening domestic markets to international competition. The mystique surrounding the secretive nature of the bargaining process in trade negotiations provides an opportunity for well organised domestic 'stakeholders' to ensure that the market concessions sought and offered

minimise the private costs (or maximise the private gains) for them. It was therefore inevitable that some submissions to the present study would seek a closer working relationship with officials responsible for negotiating Australia's agreements. The only 'stakeholder' recognised in our proposal, and in the Commission's charter, is the economy as a whole and the wider domestic community. This focus on the general welfare effects of protection is what made it possible for Australia to reduce its own barriers unilaterally, in the face of strong pressure from powerful domestic groups opposing reform.

A second view limits its role to exposing barriers to external markets and developing an international data base of frontier barriers for use in trade negotiations. This view of transparency's role makes no contribution to community understanding of what is at issue in trade liberalisation, and it is this understanding that determines how much liberalisation actually takes place. The contribution of transparency arrangements in helping Australian governments open domestic markets has involved more than simply raising the visibility of barriers to trade; it has also helped community understanding of their economy-wide effects. Its role has been to provide the information domestic constituents (and the national executive) need to reduce the political costs of liberalising, by making the consequences for the Australian economy and community more transparent.

Another formulation sees its role as building a coalition of winners, to counter the negative influence on national decision-making by those who stand to lose from opening domestic markets to international competition. That is not its role in the response to protectionism we advocate, because it limits participation to one group of domestic players with a private interest in the outcome and bypasses the rest of the community. The role of the domestic transparency process we advocate is to make national interest, rather than the interests of particular domestic producer groups, the driver in trade policy initiatives.

All three formulations focus on the gains at issue for particular private interests in decision-making on protection. It is precisely because the interests of prospective domestic winners and losers have had such a profound negative influence on domestic decision-making that the domestic transparency process we advocate (and embedded in the Commission's charter) focuses on the public, not the private, domestic gains and losses at issue in liberalising. As noted in our other submissions, and confirmed by studies undertaken by the WTO itself, the Doha Round has failed to produce agreement about liberalising world markets because of the influence interest groups had over the market opening offers participating governments took to the negotiating table. While market access requests responded to domestic producers seeking external markets, decisions about access to domestic markets were heavily influenced by protected

domestic producers threatened by the prospect of having their markets open to international competition. Their influence over national decision-making swamped consideration of the economy-wide (national) interest in domestic decision-making about protection (trade barriers).

This has profound implications for progress in liberalising world trade. It is only by having a domestic transparency process that reinforces the dominance of national over sectional interests that a closer match can be established between the expectation of national gains from trade negotiations and the outcome of the negotiating process itself. As Australian experience confirms, such a process is crucial for maintaining the distance between government decision-making and the influence of domestic interest groups seeking special treatment at the expense of the rest of the community.

That discipline should now be re-established, with the safeguards needed to ensure that the transparency arrangements introduced in 1974 again operate as a matter of course when changes in protection (trade barriers) are under consideration. All policy initiatives that involve changing protection, including bilateral and regional trade agreements, need to be examined through a domestic transparency process that gives priority to national over sectional interests. The only agreements worth consummating are those that pass this test.