

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

**Bill Carmichael
Greg Cutbush
Denis Hussey
David Trebeck**

10 June 2010

This submission reviews our collective contribution to the study to date, and draws the Commission's attention to an outstanding issue we hope it will address in its report.

Earlier submissions

Our initial submission, of 4 February, argued that a domestic transparency process—one that operates outside government, is independent of private interest groups, and takes an economy-wide view of trade policy initiatives—must be added to the international disciplines on which the WTO presently relies, to counter the dominant influence protected domestic interests now exercise over national decision-making on protection. That process is needed to help individual countries secure more rewarding outcomes from liberalising, whether through the multilateral system or unilaterally. We also argued that Australia is uniquely placed to sponsor that initiative in international forums, and has much to gain from doing so. For instance, in world markets for agriculture and services non-border barriers are pervasive. As the Doha Round has demonstrated, international disciplines and negotiations are unable to deal with these barriers, which are seen as belonging to domestic policy. Consequently, Doha negotiations have done little more than fiddle around the edges of the problem these barriers pose in world markets for services and agriculture.

They provide a major challenge for Australian trade policy, because services and agriculture account for over 80 per cent of national economic activity but significantly less than 30 per cent of exports. When trade liberalisation is pursued at home, through domestic processes and as a domestic policy issue, the artificial distinction between border and non-border barriers disappears. This provides a powerful reason for Australia to promote the domestic transparency initiative, as Trade Minister Crean has recognised.

The problem addressed by the proposed transparency initiative is not limited to behind-the-border barriers, however, but is endemic in the WTO system. It will continue to limit any liberalisation achieved through multilateral trade negotiations, even if the Doha Round eventually produces some form of agreement. We therefore foreshadowed our intention to establish an international study group, modelled on the Leutwiler and Long study groups in the 1980s, to raise international understanding of what is at issue for countries liberalising through the multilateral system.

The second submission, of 6 March, built on our discussion with the Commission following our initial submission.

The third submission, of 9 April, elaborated on the first two and proposed an overhaul of the process presently used in Australia to inform public understanding about the domestic consequences of trade agreements. It contrasted the domestic gains projected by the current process with the outcome of our regional and bilateral agreements, as negotiated. And it drew attention to an issue overlooked in discussions to date—the opportunity cost of focusing our trade efforts exclusively on these less comprehensive agreements, instead of acting on the government's commitment to reinforce the primacy of the multilateral system.

The fourth submission, of 7 May, confirmed that our own gains from trade since 1974, when the Whitlam government introduced Australia's domestic transparency process, came almost entirely from unilateral action to liberalise our own barriers, undertaken solely for domestic policy reasons. It is only by having such a domestic transparency process to reinforce 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. We examined several versions of domestic transparency offered in other submissions to the

Commission's study, and confirmed what the domestic transparency process we advocate is, and what it is not.

In a fifth contribution to the Commission's study, Saul Eslake and Peter Corish submitted an exchange of correspondence in which the Trade Minister confirmed support for an international study group to report on the options available to reinforce the primacy of the multilateral system.

An outstanding issue

The present preoccupation with bilateral agreements has distracted policy attention from the government's trade policy priority, confirmed in the reference to the Commission. As the Mortimer report concluded, these less comprehensive agreements have fully occupied our trade policy resources. As a result, our trade officials have developed no coherent response to the government's highest trade policy commitment. It is clear from the DFAT submission to the Commission's study that they see the government's commitment to the multilateral system as involving no more than bringing the Doha Round to a conclusion.

We have argued that the transparency response we propose is the only way to restore momentum in the multilateral system--by encouraging member governments to introduce a domestic source of public advice on trade policy initiatives they have under consideration. New Zealand and Indonesia have now committed to introduce such domestic procedures. As our earlier submissions to the Commission attest, there is growing international support for that response. It is increasingly recognised as a domestic imperative, to counter the domestic influences that have stalled momentum in the multilateral system. Trade Minister Crean has confirmed government support for it. No other response is on offer, or in prospect. It therefore deserves to be pursued now, and for as long as it takes.

There is both an urgent need and an opportunity to break out of the ambiguity and divergence that exists between the government's trade policy priority and DFAT's conduct of trade policy. The international study group is the appropriate vehicle for taking the transparency initiative forward, and warrants the level of resources that only government can bring to bear.

We suggest the conditions for managing the initiative should:

- maintain the status of the proposed study group outside government, but making it publicly accountable to government for the level of public resources committed to the study;
- locate responsibility for managing Australia's contribution with a policy neutral public institution, and that it be supported with the necessary resources.

The Commission's experience over three decades in providing public advice on protection (our trade barriers), and international respect for its open procedures, make it the appropriate institutional vehicle for Australia to establish and contribute to the international study group. We therefore suggest it now be given responsibility for developing the initiative further, and that it be required to provide regular public updates of progress and ongoing scope for public input and comment during the life of the international study group.

Some might argue that the issues raised by us are of second order importance in a study on trade agreements. On the contrary, the terms of reference for the study state clearly that Australia's trade policy priority is to reinforce the primacy of the multilateral system, and our submissions explain why the Commission's domestic transparency role is central to that policy commitment.