

**Further Submission to the Productivity Commission on
Bilateral and Regional Trade Agreements**

by the Office of Horticultural Market Access, Horticulture Australia Ltd

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Note: This further submission by the Office of Horticultural Market Access (OHMA), a committee of Horticulture Australia Ltd (HAL), is provided to the Productivity Commission in response to their Draft Research Report entitled 'Bilateral and Regional Trade Agreements', abbreviated in the Report as 'BRTAs', which has been prepared dated July 2010 for further public consultation and input. This further submission follows on from the OHMA's original submission dated 29 March 2010. The views in this submission are those of the industry members of OHMA.

Perspective on the Draft Research Report

The OHMA welcomes the Productivity Commission's Draft Research Report as an interesting and wide ranging contribution towards the debate on the issues in respect of BRTAs.

The Report's content can be read in places as covering areas somewhat beyond the immediacy of BRTA issues. For example Report comments that 'The majority of the gains in GDP available to Australia from tariff reductions are likely to arise from unilateral reform' (p.12.1) and that 'Exports can of course bring benefits to Australians and Australian businesses, but, as the Commission has noted previously, this does not mean that exporting should, of itself, be a policy objective.' (P. 11.2)

In these and some other respects the OHMA finds it difficult to assess in summary terms what are the conclusions of the Productivity Commission's Report against its Terms of Reference. While the Report summarises its 'Key Points' in the Overview (p. XIV) and also identifies its Draft Recommendations (p. XXVII to XXIX), it does not appear to specifically summarise its conclusions against the points under the Commission's Terms of Reference's Scope of Study. (p. IV to V)

The OHMA makes this follow-up submission as a response in respect of certain points throughout the Draft Research Report, and with particular reference to the Commission's 'Key Points' in the Overview (p.XIV). It is not the intention of this follow-up submission to repeat the points in the OHMA's original submission but rather to respond to certain of the concluding points made by the Commission in its Draft Research Report from a horticulture perspective.

Utilisation of Tariff Concessions

The Report comments that 'Theoretical and quantitative analysis suggests that tariff concessions in BRTAs, if fully utilised, can significantly increase trade flows between partner countries, although some of this increase is typically offset by trade diversion from other countries. The likely increase in national income flowing from BRTAs is likely to be modest.' (p. XIV) The Report observes 'some appreciable reductions in tariff barriers faced by Australian suppliers in partner countries...' (p XVIII) The Report however additionally recognises that 'Notional improvements in market access from negotiated reductions in tariff and quota barriers could remain largely unrealisable without concomitant reforms to quarantine requirements in partner countries.' (p. XIX)

Generally, other than some reference to the percentage of zero tariff lines under certain BRTAs, the Report does not appear to address in detail the question of to what extent tariff concessions are fully utilised as trade impacting outcomes under BRTAs. Horticulture's view, as explained in its original submission, is that tariff concessions under BRTAs, at least for commodities into horticultural export markets, are not fully utilised, as tariffs are frequently drawn down over periods of time, some quite lengthy, rather than 'eliminated on entry into force', and certain key lines can be excluded from tariff liberalisation. The limited analysis of tariff reductions in the Report is based on number of lines covered as compared to trade weighted coverage, which can be quite different.

Regarding its statement that the 'Likely increase in national income flowing from BRTAs is likely to be modest', the Report does not appear to attempt to assess why this should be so. For example are the 'tariff outcomes' and contribution from stronger exports to national income from BRTAs limited because tariff concessions are not fully utilised? In this case should utilisation presumably be greater in order to achieve a greater contribution? Or is 'trade diversion' a major issue? If anything, the Report appears to devote more focus on the question of 'trade diversion', mostly discussed in theoretical rather than evidential terms, than to focus on the trade impacting issues from tariff concessions.

Provision of Substantial Commercial Benefits

The Report notes that 'To date, the Commission has received little evidence from business to indicate that preferential BRTAs have provided substantial commercial benefits. This may be because the main factors that influence decisions to do business abroad lie outside the scope of BRTAs' (p.XIV). The Report also elsewhere suggests that beneficiaries may be less vocal than non-beneficiaries.

Horticulture is not surprised at the finding of limited evidence of 'substantial commercial benefits' from BRTAs. In its original submission the OHMA made the point that a range of other factors can obviously impact trade generation and outcomes. The attribution of trade outcomes to any particular influencing factor is quite often difficult in situations where multiple factors are impacting. However business needs to grow through attention to all major factors impacting profitability, which will often include importing country tariffs, even though their impact may not be readily and separately identifiable.

Nevertheless assessment of potential importance of BRTA tariff outcomes in the absence of identification of 'substantial commercial benefits' should not be down-played. A point not emphasised in the Report is that positive BRTA outcomes can protect and in some cases may be essential to protect the 'below the line' position of Australian exports. For example, if competitors achieve highly concessional or zero tariffs into export markets, Australian BRTAs could protect an existing export position by achieving parity with concessional or zero tariff outcomes achieved by others. 'Substantial commercial benefits' in this context could be protection of existing trade levels rather than achievement of additional trade growth. Several specific examples are given in the OHMA's original submission.

Further, evidence of 'substantial commercial benefits' in the sense of resulting trade growth would presumably be best identifiable where Australia may negotiate a BRTA ahead of its competitors, and this is often not the situation.

Domestic Economic Reform

The Report states that 'Domestic Economic Reform offers relatively large economic benefits and should not be delayed to retain bargaining coin.' (p. XIV)

The context of this statement in the Report's 'Key Points' is unclear although appears supported by some theoretical views elsewhere in the text. As the Report is about BRTAs, it can presumably be assumed that this statement is a reference to further liberalisation of border and other barriers to imports into Australia as a contributor to domestic reform rather than as an assessment of unilateral domestic reform. Unilateral trade barrier liberalisation, for example unilateral tariff liberalisation, is a path which Australia has followed in the past. By virtue of its unilateral action, it is probably fair to say that Australia has taken off the trade negotiating table much of its 'bargaining coin'. This presents a particular challenge to negotiations as trading partners may well have less interest in negotiating with or offering concessions to Australia, as trade liberalisation outcomes have, to a substantial extent, already been conceded by Australia. The limited range of low level tariffs which Australia retains, does however represent a potential although limited level of bargaining coin for Australia, consistent with Australia's interests.

These comments are not offered as a contribution to the debate on Australia's level of tariff protection or on its future. They are rather a realistic observation that BRTA outcomes represented by limited and resisted tariff concessions by Australia's trading partners and a unilaterally liberalised Australian border regime do not inspire acceptance by either the export community who continue to be faced with importing country border barriers or by the domestic agriculture production community who are faced by heightened import competition with limited access concessions for exports.

Pursuit of the Doha Round

The Report states that 'In the international arena, the Australian Government should continue to pursue progress in the Doha Round.' (p.XIV)

This is a comment with which the OHMA agrees. The OHMA also notes the Report's discussion elsewhere, essentially in a theoretical sense, that multi-lateral trade negotiations are likely to be superior to BRTAs. Yet the Report does not include an assessment of the prospects for Doha or more specifically of how liberalising or trade generating the outcomes from Doha are likely to be. The OHMA rather suggests that a realistic assessment of the prospects for trade generating outcomes from Doha may be less than is generally accepted. This is not to down play the importance of pursuing further the Doha Round. It does more importantly however suggest that that the pursuit of negotiation of and improvements to BRTAs should continue to be given a high priority.

Within Country Transparency

The Report states that 'Building the case for substantive reductions in trade barriers internationally requires improvements in domestic transparency and policy analysis within each country.' (p. XIV) It also argues that substantive trade liberalisation is likely to require reforms to the policy processes of countries.' (p. XXI)

The OHMA views that, while this may be a commendable objective, the reality of the situations, even in the most open economies, rarely provides for high levels of transparency and policy analysis likely to be adequate to garner an appropriate level and depth of support for policy reform resulting in substantive reductions in trade barriers. The reality is likely a continuance of a very difficult future climate for further trade liberalisation through BRTAs or other approaches.

Other Options to BRTAs and Cost Effectiveness

The Report states that 'The potential impact of BRTAs is limited, and other options may be more cost-effective.' (p. XIV)

The OHMA judges that the potential benefits from BRTAs or other approaches such as Doha are likely to considerably outweigh the costs of pursuing them. Therefore while a cost effective approach is desirable in all cases, benefits will outweigh the costs, particularly if commitment to trade generation outcomes is present in each case.

The OHMA views that the Report has not made a case, other than perhaps in theoretical terms, for alternatives to either BRTAs or the Doha Round, particularly any which can be readily argued as practical.

Overselling of BRTAs

The Report states that 'Current processes for assessing and prioritising BRTAs lack transparency and tend to oversell the likely benefits. A full public assessment of a proposed agreement should be made after negotiations have been concluded, covering all of the actual negotiated provisions.' (p. XIV) The Report also states that 'Before negotiations commence, greater attention should be given to the reasons for seeking to negotiate with a trading partner, the proposed topics for negotiation, potential impacts and benefits of a prospective agreement, expected time-frame, relevant exit strategies where negotiations cannot be concluded within, say, 2 years, and the relative merits and feasibility of alternative strategies, including unilateral and multilateral reform options.' (p XXVIII-XXIX)

The OHMA agrees with these statements, viewing that the causes of 'overselling' include fully liberalising BRTA modelling and also the political tendency to argue for large benefits from any negotiations. The OHMA views that the same risks are present in overselling the Doha Round. A post negotiation public assessment as an input into acceptance or otherwise of the agreement by public representatives could be a helpful and innovative step for Australia.

The OHMA also agrees with the suggested approach involving appropriate assessment before negotiations commence, while viewing that a 2 year time frame is unlikely to be adequate for all but a few BRTA negotiations.

Comprehensiveness of Agreements

The Report states that 'In determining its approach to particular BRTAs, Australia should adopt a more flexible approach to the comprehensiveness of agreements, including considering services sector-only agreements, and favour arrangements based on non-discriminatory provisions... (p.XIV).'

The OHMA considers that Australia's approach to BRTAs should preferably pursue wherever possible comprehensive agreements. However the OHMA views that the reality and strength of opposition in key negotiating countries to comprehensive agreements particularly with respect to some or all the agriculture sector is an important issue. There is a prospect of lengthy time lines to gain agreement to 'comprehensive' BRTAs which may even so fail to provide trade generating outcomes in agriculture. At the same time there is a prospect of Australia's competitors negotiating BRTAs which will give them a competitive edge over certain Australian exports for years to come. It needs to be recognised that, to pursue comprehensive agreements which are inclusive of agriculture, is likely to require a more intensive support building and negotiating effort than in the past.

The Report's emphasis on 'non-discriminatory provisions' appears a somewhat theoretical requirement bearing in mind that BRTAs are essentially about two or more country preferential arrangements which are generally not extended to third parties. As the Report elsewhere acknowledges (p. XV), BRTAs are to a large extent 'preferential trade agreements' and which also cover certain matters which are 'off the table' in the WTO setting. The Report's example of APEC as a 'non-preferential agreement' is likely to be a less than convincing template from industry's perspective, considering APEC's less than formalised position as a 'trade agreement'.

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