

# **Submission to the Productivity Commission**

## **Comments on the draft review of bilateral and regional trade agreements**

**Andrew Elek**

Australian National University

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The Productivity Commission's Draft Report on bilateral and regional trade agreements contains a wealth of relevant information and many valuable insights. The following comments may prove help to prepare an even more effective report and recommendations to the Australian Government.

Section 1 of this submission explains the need to go beyond assessments of **particular** trading arrangements. It is essential to consider the consequences of the ongoing proliferation of preferential trade agreements (PTAs). This **development** needs to be placed in the context of the history of the international trading system and the systemic risks to the WTO-based regime for **rules-based** trade, built on the fundamental principle of non-discrimination.

Section 2 explains what Australia can do to help restore a less fragmented, more efficient and predictable environment for international commerce. The Australian Government can set positive examples as well as promote international **policy development**.

As explained in the Draft Report, preferential bilateral and regional trading arrangements have only marginal effects on the Australian economy. Section 3 discusses other, considerably more effective, ways to enhance Australia's international commercial interests. These include unilateral action, further efforts to defend and strengthen WTO rules and disciplines and non-discriminatory international economic cooperation, including through APEC and the new G20 process.

The bandwagon of discriminatory trade deals will not stop quickly, so it is useful to minimise the adverse effects of individual PTAs. Therefore, Section 4 comments on the Draft Report's analysis of current trends and how Australia's approach to PTAs can be improved.

Section 5 submits a revised set of recommendations for consideration by the Productivity Commission when finalising its report.

### ***Section 1 Drifting towards a preferential trading system***

The Productivity Commission has taken an economy-wide view of the effects of bilateral and regional trading arrangements. This perspective is the Commission's traditional strength, but more is needed in this report. It is not sufficient to take a short-term view on whether **particular discriminatory trading arrangements have a marginal positive or negative short-term effect on the Australian economy**.

As explained in my initial submission to the Commission, individual PTAs have no more than a marginal economy-wide effect. That assessment has been confirmed by the careful analysis in the Draft Report. However, the cumulative effects of the recent proliferation of PTAs need to be considered, in a historical and institutional context: This point was emphasised by Professor Ross Garnaut in his presentation to the Coombs Policy Forum, held at the Australian National University on August 25, 2010.

Preferential blocs dominated, restricted and distorted international trade in the 1930s. This had a disastrous effect on the global economy, facilitating selective protection against competition from new economic and strategic rivals. The unwillingness to accommodate the interests of rising powers contributed to the tragedies of the World War II.

The 2005 Sutherland Report <sup>1</sup> explains that, learning from this **experience**, leading statesmen established a very different international trading order. Led by United States Secretary of State, Cordell Hull, and Lord John Maynard Keynes, they called for a trading system based on the international economic insight that products and factors of production should be compared on the basis of price and quality, not on the ownership or location of suppliers.

This led to the GATT, then the WTO, based on the fundamental principle of non-discrimination. Since the 1940s, this open and **rules-based regime based has contributed an unprecedented expansion of trade and rising living standards. A non-discriminatory system made it possible for East Asian economies to trade their way out of poverty. Australia's current prosperity could not have been approached in the absence of this regime.**

**During the past 10-15 years, we have witnessed a relapse towards discrimination. The world is heading towards a trading system with** potentially thousands of preferential bilateral trade arrangements, combined with a growing number of sub-regional and regional preferential trading blocs.

The nature and provisions of negotiated bilateral or regional agreements are, in practice, determined by the currently relatively more powerful nations and economies. Middle powers, like Australia have some limited influence on outcomes, but many small economies have no real say.

The proliferation of PTAs is a systemic risk to the multilateral trading system at a time when the pressures for **protectionism** are rising due the massive adjustment needed to accommodate new emerging economic giants like China and India and the risk of trade sanctions to deal with the threat of climate change.

These concerns about a drift back towards widespread **discrimination** are much more than a personal view. Nor is it fanciful idealism by academics with no understanding of international politics, business or trade **negotiations**.

The 2005 **Sutherland Report** to the WTO was prepared by a consultative board including a former Director-General of the WTO, internationally recognised experts on international economics and senior private sector people engaged in international

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<sup>1</sup> The formal title of this report is: *The future of the WTO: addressing institutional challenges in the new Millennium*, Report by the Consultative Board to Director-General Supachai Panitchpakdi, by Peter Sutherland (chairman), Jagdish Bhagwati, Kwesi Botchwey, Niall FitzGerald, Koichi Hamada, John H Jackson, Celso Lafer and Thierry de Montbrial, WTO 2005.

commerce. They expressed very strong concern about the erosion on non-discrimination, which they believed to matter profoundly for the future of the WTO.

Most governments now accept that the current proliferation of preferential trade agreements is creating a problem and express a desire for a less confusing and more efficient outcome. However, government do not dare to stay aloof, since **particular** agreements offer them some marginal gains and/or limit the damage done to them by discriminatory agreements among others.

The Sutherland Report demonstrates clear understanding of these realities and recommends some ways to slow the drift towards discriminatory **trading arrangements**, then to limit the damage it is causing.

Firstly, they recommend that governments should take into account the damage being done to the multilateral trading system before they embark on new discriminatory initiatives. In **particular, if the motive is to “catch up” with others, or follow suit, they should show restraint.**

**Secondly, they recommend that if old PTAs cannot be scrapped and new ones cannot be prohibited, then the remedy to a “spaghetti bowl” of discriminatory preferences would be to attack them by reducing MFN tariffs and non-tariff measures.**

**Thirdly, along with many others, the Sutherland Report calls for the strengthening and better administration of WTO disciplines on PTAs which do not conform to the fundamental Article I principle of non-discrimination. They acknowledge that this will not be easy, since “there are now just too many WTO Members with interests in their own regional or bilateral arrangements” who stand in the way of consensus.<sup>2</sup>**

The Sutherland Report’s analysis of systemic risks and recommendations to limit further drift away from non-discrimination is an authoritative assessment of the cumulative effects of PTAs. Therefore, a responsible report to the Australian Government by the Productivity Commission should draw attention to the analysis and recommendations of the Sutherland Report.

The final report should do better than to repeat the glib assertion on page 6.19 of the Draft Report that:

*the effects of BTRAs on multilateral trade liberalisation are unclear*

With such lack of rigour, the Productivity Commission could say that since the effects of any policy change on the Australia economy is never certain, the most fashionable policy will suffice and/or each sector of the economy deserves marginally greater assistance to counter assistance to any other sector. The Productivity Commission reputation rests on its ability to be somewhat more analytical, including in its final report on BRTAs.

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<sup>2</sup> These recommendations can be found in paragraphs 102 to 105 of Chapter 2 and paragraphs 2 to 5 in the **Sutherland Report**.

## ***Section 2: An opportunity for leadership***

If the Productivity Commission comes to the view that a non-discriminatory system is in Australia's long-term interests, then its recommendations should not be restricted to marginal changes on the way Australia its PTA partners and how individual agreements should be negotiated.

The report should also emphasise that PTAs cannot be legitimately modelled in isolation, in view of the mounting evidence that each agreement motivates other agreements to limit the damage they cause to other economies.

Therefore, in addition to recommendations relating to individual PTAs, the Productivity Commission should provide advice on the implications of the ongoing proliferation of PTAs and their cumulative effect. The final report should recommend what Australia, as a significant middle power can do to promote a strategy to return towards a non-discriminatory system.

Australia has proved itself to be effective in terms of improving the international economic environment for Australian producers and consumers as well in improving the international economic policy environment.

The Cairns Group of agricultural exporters, initiated and led by Australia, was able to place the reform of distorted agricultural trade on the multilateral negotiating agenda, to bring this trade under normal WTO **disciplines and begin the long-term challenge of reducing policy distortions.**

Australia was primarily responsible for launching APEC, preparing the ground for the first meeting in 1989 and shaping the principles and mode of operation of what has become the premier international institution in the Asia Pacific. A 2005 mid-term stocktake demonstrated that the APEC process has been able to persuade APEC governments to reduce border and other impediments to international commerce without the need for formal **negotiations** or discrimination against the rest of the world.<sup>3</sup> The next review of progress, which will reveal **subsequent** liberalisation and facilitation of trade, will be available by November 2010.

These achievements show that Australian policies and actions have been able to influence international economic policies and decisions of others. Therefore, there is no basis for an assertion that Australia cannot influence the current drift towards a international economic environment dominated by PTAs.

The bandwagon of proliferation will be hard to slow, let alone to stop. But there are opportunities for positive influence using a **combination of example and persuasion.** It may not be easy to make a difference, but it is simply not good enough to assert that:

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<sup>3</sup> APEC (2005), "Mid-term stocktake of progress towards the Bogor goals: Busan Roadmap to Bogor Goals", endorsed by APEC leaders, November.

***Australian involvement in BRTAs is unlikely to have any effect on the multilateral trade liberalisation process (Draft Report page 6-19)***

The final report of the Productivity Commission should correct the false impression that Australia is impotent in terms of this policy issue which is vital to our interests.

The most effective way to set an example would be for Australia to declare that it will not participate in PTA **negotiations** beyond those already under way.

The Productivity Commission may believe that such an example would not have any effect on others. In that case, the Commission should explain why the Australian Government believes its policy intention to limit greenhouse gas emissions is expected have some positive influence on global action, but its policy on PTAs would not.

The Australian Government may not accept a **recommendation for a moratorium**. That does not mean that it is not willing to show some restraint, or to exercise international leadership in other ways. Options which could be recommended by the Productivity Commission could include the following.

Australia should seek to mobilise itself and some other governments to draw up a strategy for an eventual movement back towards a less **discriminatory international economic environment, perhaps building on the recommendations of the Sutherland Report**. People with experience and expertise comparable to the authors of that report could be commissioned to report to these governments.

It should be possible to raise this issue in APEC and in the G20 as one of the challenges which need to be addressed to shape the post-Doha international economic **trade and investment** agenda. An alternative option would be to use the precedent of the Cairns Group and assemble a group of governments who are prepared to exercise leadership on this issue.

International action in line with the recommendations of the **Sutherland Report** would be made more likely by pointing to other, **non-discriminatory, options for reducing impediments to trade and other forms of international commerce**. The Draft Report of the Productivity Commission does discuss such opportunities, but the final report could be strengthened, including by drawing on some of the presentations and discussion at the Coombs Policy Forum.

### ***Section 3. Promoting economic integration in the 21<sup>st</sup> century***

As noted by Professor Drysdale in his concluding remarks to the Coombs Policy Forum, international commerce involves much more than just trade. Trade in goods is now only a just part of intertwined international movements of investment, services, components, **expertise** and information. Thanks to falling costs of transport and vast leaps in information technology, global supply chains are becoming ever more important. Intra-firm and intra-industry trade are growing far more rapidly than trade in commodities and finished manufactures.

Consequently, the impediments to **trade and investment** are no longer dominated by border barriers. Some traditional trade barriers remain on a few sensitive products. These residual border barriers are costly, but they affect only a small and rapidly shrinking share of international commerce.

The greatest gains from international economic cooperation now come from dealing with problems of communications and logistics, often linked to security concerns, and the efficiency and transparency of economic policy implementation in national markets. Research, including by the OECD, the World Bank and the ADB, tells us that the potential gains from reducing transactions costs other than traditional border barriers are enormous.<sup>4</sup>

Dealing with these problems is a matter of encouraging gradually better policy-making, including policies for many areas which are well inside the borders of our economies.

The effective constraint on collective action to create a more commerce-friendly domestic **as well as** international environment is not political will. The real constraints are limited technological and institutional capacity to design and implement the necessary policy reform. And capacity cannot be created by negotiation. For example, easier movement of business people cannot be achieved by negotiating statements of good intentions.

It follows that PTAs are not efficient means, with dealing with these issues. A close examination of recent agreements, including those signed by Australia show that they are not making much headway in terms of liberalising trade in sensitive products. And the chapters dealing with new issues are typically no more than statements of intent and the creation of committees to examine options.

PTAs are **discriminatory trade deals, based on ever-more confusing rules of origin. They are based on business models of the 1950s and 1960s, when finished goods accounted for most trade. Preferential trade agreements are not suited to today's international trading pattern which is increasingly dominated by global production networks. They cut across opportunities to add value in locations which have comparative advantage at each stage of the supply chain.**<sup>5</sup>

**In view of these realities, it is not surprising that the draft review found little evidence of significant commercial benefits from Australia's PTAs. Accordingly, a review of bilateral and regional trading arrangements should do more than suggest marginal improvements in future PTAs. The Productivity Commission should place the role of potential PTAs in the context of all options for Australia's international economic diplomacy.**

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<sup>4</sup> References to this research can be found in my initial submission to this inquiry.

<sup>5</sup> This problem is explained by Victor Fung in his 2005 address to the UN/ESCAP Macao Dialogue *Delivering on the WTO Round*, available at: [http://www.unescap.org/tid/projects/gbdialogue\\_fung.pdf](http://www.unescap.org/tid/projects/gbdialogue_fung.pdf)

The presentation to the Coombs Policy Forum by Professor Christopher Findlay listed some criteria for Australia's policies to reduce impediments to international commerce. He recommended that such policies should seek to:

- promote multilateral reforms;
- aim to maximise the scope for competition among suppliers;
- deal with all impediments, including border barriers, behind-the-border and **across-the-border** issues;
- facilitate engagement in international production networks and supply chains;
- deal with all components of international commerce.

Professor Findlay then explained that the design of PTAs makes them unlikely to meet these criteria, noting some of the points made above, adding that Australia should be seeking to facilitate **trade and investment** and engage in production networks with all partners, not just those willing to negotiate PTAs.

Professor Findlay also explained that the APEC process is more likely to lead to reforms which do meet the criteria he proposed. APEC has demonstrated comparative advantage in dealing with regulatory and logistic cost and risks of international commerce.

The final report should draw more attention to APEC's established track record in reducing impediments to Australia's international **trade and investment**. It should **highlight the evidence that the APEC process is the regional trading arrangement which has yielded the most significant contribution to facilitating trade or investment among all BRTAs**. Based on that evidence, it would be appropriate for the Productivity Commission to recommend more resources be devoted to advance Australia's interests using the APEC process.

#### ***Section 4: Some detailed comments on the Draft Report***

Before some comments on what is in the draft, I would like to draw attention to what might be added.

The preceding sections have already explained the need to place the negotiation of PTAs in a historical context and to express a view about the systemic effects of the proliferation of FTAs.

Turning to the nature of PTAs and the process for negotiating such deals, the current draft fails to link these recommendations to past **experience** with the agreements negotiated to date.

There should be a section or a text box highlighting some lessons which can be drawn. It is well known these agreements have not achieved all of their original objectives. That is to be expected. But the current recommendations do not seem to draw lessons from some of the **experience** gained.



For example, before entering into **negotiations for the PTA with the United States**, the Government of the day stated that access to the US sugar market was one of the main objectives and essential for successful **negotiations**. **When negotiations were concluded, there was no new access for sugar**. However, the same Government accepted the deal, due to the high political cost of not proceeding. This suggests, contrary to the draft recommendations, that it is not enough to evaluate deals only after **negotiations** are completed.

Some detailed comments follow:

#### Cost of negotiations

I agree it is essential to require DFAT to estimate the cost of multilateral, regional and bilateral **negotiations** as well its work in the APEC forum (see page 7.1 and Box 7.2).

#### Defensive considerations

The discussion on pages 11.7 and 11.8 is important – it should be reflected more strongly in the recommendations. As recommended by the **Sutherland Report**, governments **should avoid agreements simply in order to “catch up” with others**. Such **reactive deals exacerbate the cumulative systemic damage to the non-discriminatory trading environment which is in Australia’s best interests**. As well careful weighing of the costs (including opportunity costs) of PTAs against their potential **benefits**, Australia should promote efforts to reverse the current drift away from a non-discriminatory trading regime.

#### Alternative options for achieving integration

Pages 11.17 and 11.18 note the need to consider alternatives to PTAs to promote integration. The quote from Panagariya (1999) sums up this issue well.

It should also be noted that APEC is not a PTA; it is a **regional trading arrangement** which is not discriminatory and has proven to be effective as discussed in Section 3 above.

The final recommendations should draw more attention to the relative efficiency of alternative opportunities to improve Australia’s international economic opportunities.

#### Bargaining coin issues

On page 12.4, the draft report concludes (and I agree) that:

*“... beneficial unilateral reforms should be identified as part of normal Australian policy processes and not delayed on account of bargaining coin considerations ...”*

Some related points are set out on page 13.29.

One option for beneficial unilateral liberalisation is to extend the reforms made in response to requests by PTA partners to other economies, where applicable on an MFN basis, as soon as possible. As for any other unilateral reduction in impediments to international competition, the bulk of the benefit will accrue to Australia.

There will be very strong resistance to such unilateral reform by past and present trade negotiators. In response, it is worth noting that Singapore got rid of most of its policies that restrict international competition before the recent era of PTAs.

**Nevertheless**, Singapore has been able to negotiate many BRTAs which it considers to serve its interests.

#### WTO disciplines on PTAs

I endorse the call on page 12.7 and 12.8 to keep trying to strengthen WTO **disciplines** in PTAs. This effort will continue to meet resistance from those who have entered into low quality agreements.

To help overcome such resistance, **policy development** to reverse the drift away from **non-discriminatory** international commerce should draw the attention of all governments to alternative ways to promote economic integration, including through the APEC process (see proposed recommendations in Section 5).

#### Exit strategies

I agree with the view on page 13.8 that it may be appropriate to discontinue **negotiations** for a PTA after a protracted period of unproductive negotiations. I also agree that prolonged and unfruitful **negotiations aimed at** a single undertaking can be productively replaced by agreeing on issues where potential parties all see net gains. As stated in my initial submission, the **experience** of attempting a PTA with China and Japan reinforces this point.

The difficulty of negotiating PTAs with such significant trading partners has a large opportunity cost. Agreements to implement cooperative arrangements to facilitate trade in many of the ways adopted in the CER with New Zealand are being delayed, or held hostage to, drawn-out **negotiations** on border barriers on a few sensitive products that affect a shrinking share of trade.

The need for an exit strategy from protracted **negotiations** is referred to only in passing in the draft recommendations. A more explicit recommendation is needed and wording is suggested below.

#### Accession clauses

I endorse the scepticism of the Draft Report (pages 13.7 and 13.8) about the prospects of accession to PTAs which tend to be tailor-made to avoid significant new international competition to the sensitive sectors of current participants.

## Evaluating potential agreements

Chapter 14 of the draft report contains a powerful critique of the way PTAs to date have been analysed prior to committing to **negotiations**.

**It is not surprising that that consultants have consistently reported net gains from the potential agreements that they have been commissioned to analyse. They have been well aware that the Government wished to proceed with these agreements. Therefore the consultants have an financial incentive to select assumptions which lead to a net benefit, since such a finding makes it more likely they will be commissioned to analyse other potential PTAs. To avoid this problem, the Productivity Commission itself should conduct objective assessments of proposed agreements.**

**I do not agree with the with the view in the Draft Report that the economic effects of an agreement be assessed only after **negotiations** are completed. Such an assessment before signing is appropriate, but should not be the only independent analysis. It is naïve to assume that the Australia Government will be able to make a decision at that late stage, based solely on the economic net costs and benefits of the negotiated outcome. By that time, there will be substantial political costs of not proceeding. As noted above, this problem was demonstrated by the **experience** of the PTA with the United States.**

**In order to make an informed decision before committing to negotiations, an objective assessment of potential benefits should be made before negotiations begin, with explicit assumptions about the likely nature of the outcome.**

**The experience with PTAs to date confirms that significant liberalisation of border barriers is least likely to be achieved for the products where there is the greatest potential gain. The probability of similar outcomes should be taken into account when assessing the potential net cost or benefit of future PTAs under a range of realistic assumptions.**

**Making assumptions about the potential for negotiating certain outcomes does not undermine the ability to negotiate them.**

**All parties to a potential negotiation make calculations based on the potential effects of decisions on reform decisions which are either politically sensitive, or have a significant effect on the potential balance of costs and benefits of a potential agreement. All parties will be well aware of the issues where **negotiations** are likely to be difficult.**

**It is disingenuous to argue against an objective analysis of potential outcomes on the grounds that awareness of alternative results will weaken the capacity to negotiate. On the contrary, it is irresponsible to recommend commitment to **negotiations** without assessing possible outcomes.**

**For these reasons, an objective independent assessment of the expected net costs and benefits of potential agreements should be made before **negotiations** commence**

as well as before any negotiated outcome is accepted or rejected. In both cases, the analysis should be carried out by the Productivity Commission.

### ***Section 5: Alternative recommendations for the final report***

I support the statement to the Coombs Policy Forum by Professor Peter Drysdale that the terms of reference of this review do not restrict the Productivity Commission to recommendations on how and when PTAs should be pursued.

The important effect of proliferating PTAs on the international economic environment means that a responsible report should place the negotiation of PTAs by Australia and others in the context of history and their effect on the WTO-based international regime.

The option of negotiating future PTAs should also be placed clearly in the context of the overall objectives of Australia international economic diplomacy. As noted in Section 3, and in Professor Findlay's presentation to the Coombs Policy Forum, PTAs are not an adequate means of pursuing all of Australia's options to reduce impediments to productivity engagement in the global economy.

For these reasons the current set of draft recommendations, which deals only with PTAs needs to be expanded to deal with these matters.

A suggested set of recommendations to this effect, which builds on the draft recommendations, is set out below.

#### [Recommendation 1:](#)

**Decisions on the pursuit of bilateral and regional trading arrangements should be taken in the context of Australia's broad objective of reducing all impediments to international commerce with all of Australia's trading partners and the alternative policy options for doing so.**

#### [Recommendation 2:](#)

**Unilateral reforms of Australian policy continue to be the most efficient means of improving Australia's productivity and competitiveness. Therefore, unilateral reform should not be deferred or delayed in order to seek or retain leverage in international negotiations.**

#### [Recommendation 3](#)

**Significant reductions in the remaining impediments to sensitive products, such as some agricultural commodities and appropriate disciplines on policies which may impede all forms of international commerce are most likely to be achieved in the WTO.**

**Other opportunities to reduce impediments to international commerce can complement the work of the WTO, but can also lead to systemic damage to the international trading environment.**

Therefore, Australia should seek to pursue options for reducing impediments to trade and investment which are most consistent with the fundamental WTO principles of transparency, non-discrimination and national treatment.

#### Recommendation 4:

In addition to active participation in WTO negotiating rounds, Australia should seek opportunities for plurilateral WTO agreements to advance Australian interests, including by building on the successful precedent of the Information Technology Agreement.

#### Recommendation 5:

The APEC process is not a preferential trade agreement. It has proven to be an effective means of reducing impediments to **trade and investment** in the Asia Pacific region, without seeking to divert economic activity from the rest of the world, thus fully in line with WTO principles.

Therefore, Australia should use the APEC process more vigorously, including pathfinder initiatives with some Asia Pacific economies to set examples for others.

#### Recommendation 6:

The ongoing proliferation of preferential trade agreements is not in the long term interests of Australia. Therefore, PTAs should be initiated only if they meet the following criteria:

- no **non-discriminatory policy** option can be expected to make progress in terms of reducing some significant impediments to **Australia's** international **trade and investment**; and
- taking account of past **experience** of Australia's existing PTAs, a new PTA can be expected to lead to substantial progress on these issues; and
- the benefits of such potential negotiated outcomes outweigh the opportunity cost of negotiating an additional PTA, including the effect on pursuing other, **non-discriminatory** options, prejudicing other arrangement with trading partners, and the systemic problem of proliferating PTAs.

#### Recommendation 7:

The Australian Government should enhance substantially the scrutiny of the potential costs and benefits of potential PTAs, including their **consistency** with the criteria in **Recommendation 6**. **An objective and independent analysis should be made** by the Productivity Commission before committing to commence **negotiations** of any PTA.

Such analysis **should take into account the possibility that all of the objectives of the proposed agreement may not be achieved and assess the effect of potential outcomes on the balance of costs and benefits.**

#### Recommendation 7:

The design of PTAs should meet the following criteria:

then insert the dot points of Recommendations 2, 3, 4 and 5 of the Draft Report of the Commission.

#### Recommendation 8:

The process of negotiating a PTA should not be indefinite. At least every three years, a further independent assessment should be conducted by the Productivity Commission to test whether continuing the **negotiations** would still meet the criteria set out in Recommendations 6 and 7 above. If not, the **negotiations** should be terminated.

#### Recommendation 9:

A PTA negotiated outcome is agreed by Australian officials, should be subjected, before signing, to a further independent and transparent assessment by the Productivity Commission.

take in remainder of current Draft **Recommendation 6, second dot point.**

#### Recommendation 10:

**In order to reduce the extent of trade and investment diversion and to enhance the productivity and competitiveness of the Australian economy by means of unilateral reform, the benefits of reforms to PTA partners should be extended, subsequently, to all other economies, on an MFN basis where applicable.**

#### Recommendation 11:

**The Australian government should commission policy development work to analyse how the pattern of international commerce, including trade in goods and services could be brought back into line with the fundamental WTO principle of non-discrimination. This policy development work should include, but not be restricted to efforts to improve WTO disciplines on the nature of arrangements which are not in line with the fundamental principle of non-discrimination.**

**Ideally, this policy development would be carried out in cooperation with other governments interested in this objective. Options for cooperative policy development include working with APEC or G20 partners and could be based on an assessment of options by internationally recognised experts.**