

**SUBMISSION TO THE AUSTRALIAN
GOVERNMENT REVIEW OF EXPORT
POLICIES AND PROGRAMS**

March 2008

TASMAN TRANSPARENCY GROUP
PO Box 9545
DEAKIN ACT 2600
www.tasmantransparencygroup.com

FOREWORD

The domestic transparency initiative outlined here by the Tasman Transparency Group provides an opportunity for Australia to act on the government's commitment to support multilateral trade negotiations and the World Trade Organisation.

It provides the support the WTO needs, by helping to insulate multilateral trade negotiations against the pressures that have stalled progress in the Doha Round--pressures that threaten the future viability of the multilateral system. In explaining why it is in Australia's interests to promote the approach, the submission argues that it can also make an important contribution to our future prosperity.

Members of the Tasman Transparency

Group steering committee are:

- Denis Hussey, Chairman
- Bill Carmichael
- Greg Cutbush
- Jane Drake-Brockman
- Charles Finny
- Ross Garnaut
- Roger Kerr
- Scott Mitchell
- Andrew Stoeckel
- David Trebeck

The Tasman Transparency Group was formed to explore ways of strengthening the ability of the World Trade Organisation to deliver the national rewards we all expect from multilateral trade negotiations. Our group comprises business organisations and trade policy experts on both sides of the Tasman. It was formed in 2005, when negotiators in the Doha Round were still struggling to produce any agreement after many years of intensive negotiations.

It is now clear that the continuing impasse in negotiations is due to the negative pressures protected domestic interests exercised over the ‘offers’ participating governments took to the negotiating table. These domestic pressures have severely limited the capacity of multilateral trade negotiations to deliver nationally rewarding outcomes for participating countries. The initiative we propose is a response to those negative domestic pressures, which threaten the future of the WTO system.

We recognise that at this late stage the approach we (and others) advocate can have little impact on the outcome of the Doha Round. Its focus is longer-term—to underpin the future viability of the multilateral system. Experience in the Doha Round has confirmed that, without that future underpinning, the WTO system will not be able to deliver the additional national rewards available from liberalising in a multilateral context. In that event, Australia will have lost a unique opportunity to help restore the rewards all countries expect from participating in the multilateral system. And we will have lost an important opportunity to promote those Australian industries that can contribute to internationally competitive domestic economic development--an agreed bipartisan objective of national policy.

The purpose of this submission is to provide an overview of the domestic transparency initiative we propose. It does so by drawing on the more detailed account on our website : www.tasmantransparencygroup.com [1]

Our submission addresses four questions :

- 1/ Why has progress in multilateral trade negotiations stalled ?
- 2/ How can the transparency initiative we advocate help restore nationally rewarding outcomes ?
- 3/ Why should Australia promote this approach ?
- 4/ What other options are on offer for restoring the multilateral system?

1/ Why has progress in multilateral trade negotiations stalled?

Progress in liberalising world markets through the WTO is determined by two separate, and often conflicting, processes. One takes place in the international arena. It involves negotiations by participating countries aimed at reaching agreement to reduce trade barriers. This process occurs between governments, and is part of international trade policy.

The other takes place at home, within individual countries participating in trade negotiations, and involves decisions about what access to domestic markets should be included in their negotiating 'offers'. As has been amply demonstrated in the Doha Round, this second process is crucial to the outcome of negotiations. When governments individually succumb to pressure at home to minimise adjustment for their own protected industries, they cannot collectively (through international trade negotiations) increase export opportunities for their world competitive industries.

The authority and procedures of the WTO are limited to the first process, while the problem that has stalled progress in the Doha Round has its origin in the second. It is now widely agreed, for instance, that reducing barriers to international competition in agricultural markets is being frustrated by the power exercised by protected domestic farm industries over their own governments' decisions on protection. Their influence was evident in the backsliding that occurred from commitments taken on agriculture in the previous Uruguay Round. And it has clearly limited the 'offers' on agriculture that governments were able to take to the negotiating table in the Doha Round. Similar influences have been responsible for the very limited progress in liberalising markets for our services industries.

These negative influences operate at every stage of the multilateral system : in shaping the national negotiating agendas; in influencing the agreements reached; and in causing governments to backslide on their commitments to liberalise domestic markets. For instance, they effectively kept agriculture off the negotiating table for thirty years prior to the Uruguay Round. The Uruguay agreements committed governments to liberalise, yet legitimised action to avoid the domestic adjustment involved in doing so. As a result, the task of making worthwhile progress in opening world agricultural markets still lies ahead.

Similarly, although the Uruguay Round established new disciplines for trade in services, progress in expanding global market access in services has proved dismally slow. The barriers to trade in services are typically in non-border forms, and often involve many opaque layers of domestic regulation. This has made it extremely difficult to bring such ‘behind-the-border’ barriers to account in international trade negotiations, and helps explain why little progress has been made in opening world markets for services.

A recent WTO study confirmed the domestic source of the difficulties facing the multilateral system. After reviewing the experience of forty-five member countries, the major conclusion of the study is that the quality of outcomes from multilateral trade negotiations depends on decisions taken by individual governments at home, about their own trade barriers, and reflects the interaction between private interest groups and national decision-making:

“This compilation of forty-five case studies ... demonstrates that success or failure is strongly influenced by how governments and private-sector stakeholders organise themselves at home ... Above all, these case studies demonstrate that...sovereign decision-making can...undermine the potential benefits flowing from a rules-based international environment that promotes open trade.” [2]

The WTO has no authority to deal with the influence these private interest groups have exercised over the negotiating strategies member countries take to Geneva. It is simply a set of rules and a negotiating forum, driven by what its member governments are prepared to agree to. In this situation no country need accept any responsibility for the failure to reach agreement in the Doha Round. And none has. The US blames the EU for its reluctance to reduce tariffs on farm products. The EU blames the US for its reluctance to cut farm subsidies. The US and Europe both blame developing countries for not being prepared to lower their barriers to imports of manufactured goods and services. Developing countries are reluctant to do that unless Europe and the US concede more on farm trade. So progress in liberalising world markets through existing WTO processes has stalled, and no one is to blame.

The impasse is not the fault of negotiators. Their ability to reach agreement and to open world markets was constrained from the outset, by the limited domestic market-opening ‘offers’ that travelled with them to Geneva and which provide their negotiating remit.

What we have witnessed in the Doha Round is therefore not a failure of the multilateral system, or of those involved in the negotiating process, but the failure of participating governments to provide the support both needed—by promoting greater awareness at home about what is at stake domestically in liberalising through multilateral trade negotiations. For instance, the major gains for the US would have come from cutting its own farm subsidies because it is Americans,

not foreigners, who ultimately pay for them. Those who pay for European farm policies are Europeans. Developing countries bear the costs of their tariffs on manufactures and impediments to international competition in their markets for services.

Any solution to the problem facing the WTO must therefore recognise that its source is in the domestic policy environment of participating governments. The challenge is to tackle the problem, while respecting the autonomy of individual governments over domestic policy. That is the test we set in developing the response we propose here.

2/ How can the domestic transparency initiative we advocate help restore nationally rewarding outcomes from multilateral trade negotiations?

The role of domestic transparency is sometimes described as one of building a coalition of domestic 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 initiative we propose.

It is precisely because the private interests of prospective domestic winners and losers have had such a profound negative influence on national negotiating strategies that the domestic transparency process we advocate focuses on the public, not the private, domestic gains and losses at issue in liberalising through the WTO. The Doha Round has failed to produce agreement about liberalising world markets because of the influence private interest groups had over the market opening offers participating governments took to the negotiating table.

While market access requests were generally structured in response to domestic producers seeking external markets, the reciprocal offers of access to domestic markets were heavily influenced by protected domestic producers who felt threatened by liberalisation. The influence of those interest groups over decision-making has swamped consideration of the economy-wide (national) interest in domestic preparations for multilateral trade negotiations. And it is these larger, economy-wide, gains that provide the economic justification for opening domestic markets to international competition.

Domestic constituents generally find the whole process bewildering. Their response to the prospect of opening domestic markets to international competition has been heavily influenced by the information available to them about the domestic consequences. In the absence of public information about the economy-wide gains at issue for the community as a whole, and in view of

the quite visible costs to the prospective losers, the latter have naturally found sympathy at home. As a result, governments have had difficulty mobilising a strong domestic commitment to reduce their national barriers in a trade bargaining context.

This has profound implications for progress in multilateral negotiations. It is only by having a basis for giving priority to national over sectional interests in domestic preparations for the bargaining process that a closer match can be established between the expectation of national gains from international negotiations and the outcome of the negotiating process itself. Unless participating governments can devise a means of dealing with the domestic political pressures responsible for the impasse in Doha negotiations those pressures will continue to spill over into the international processes of the WTO, which are neither designed nor equipped to accommodate them.

The contribution our proposal is intended to make in restoring an effective multilateral system is therefore to enable national economic welfare to replace domestic political pressures as the driver in domestic preparations for multilateral trade negotiations. Protected domestic producers who felt they would be adversely affected by barrier reductions that are widely perceived to be nationally beneficial would then find it more difficult to gain public support.

The influence of these private interest groups operates in the **domestic** political arena, focuses on **domestic** policy issues, and exercises power over **domestic** decision-making. The transparency procedures we advocate are therefore intended to be operated by, and within, individual WTO member countries.

It would clearly be inappropriate to prescribe a standard form these procedures should take in each country. It is achieving the *objective* of domestic transparency that is important, not the choice of particular institutional arrangements. We nevertheless have suggestions for introducing them. These include:

- encouraging individual WTO countries to establish a domestic transparency institution, independent of government in the management of its work and its recommendations, to provide advice on the likely economy-wide consequences of reducing protection
- giving the institution a mandate to hold inquiries and to prepare public reports on government assistance to industries throughout the economy, and to evaluate these in terms of their economy-wide effects

- requiring it to hold public hearings and make its reports available to both the government and the public, in order to facilitate community understanding of the economic consequences of reducing protection
- requiring it to base its recommendations on the public gains (in national wealth) at issue for the community as a whole, rather than on the private gains or losses for particular domestic economic interests
- encouraging governments to seek advice on this basis from its transparency institution when preparing for multilateral trade negotiations.

The proposal does not involve replacing any existing WTO process. It simply adds a domestic process (shaped, owned and operated by individual participating countries) to help international negotiations yield more rewarding outcomes for participating countries.

The concentrated resources available to protected domestic interests with a stake in preserving the status quo will always be used to oppose trade liberalisation. The mystique surrounding the secretive nature of international trade negotiations has provided an opportunity for them to ensure that the “concessions” affecting their industries were minimised. Without an independent source of public advice on the economy-wide consequences of trade policy initiatives under consideration, their negative influence on national negotiating strategies will prevail.

We believe the highest priority in promoting the domestic transparency response we (and others) propose should be on getting international acceptance of the economic logic on which it is based, and on encouraging WTO member countries to introduce domestic procedures that are their own creation—meeting their own needs. Gaining acceptance of the approach will involve a long journey and patient advocacy. In view of the opposition it will arouse from those protected interests who are best served by existing arrangements, the case must be argued continuously in the international arena until it has the support needed to place it on the WTO agenda. That task is primarily the responsibility of government.

The first step in the journey was taken in July 2007, when the Lowy Institute for International Policy hosted an international conference on the domestic transparency initiative. The proposal was supported by participants from both developed and industrial countries. The clear message from the conference was that the ultimate responsibility for progress in multilateral trade negotiations rests with individual governments. The gains available from liberalising through the multilateral system depend on what each country *takes to* the negotiating table, not what they hope to *take away* from it. Conference contributions are available on our website. [3]

The strength of this approach is that it deals with the problem facing the multilateral system at its source, while leaving national governments in full control of domestic policy. Australia, supported by New Zealand (and perhaps Indonesia), is uniquely placed to promote it. Developing countries advocated a similar approach in the wake of the Uruguay Round [4] and Australia is widely seen as providing a relevant model—in the Productivity Commission.

There will be resistance from protected interest groups within WTO countries, including Australia and New Zealand, who are comfortable with present arrangements. The grounds for the initiative will therefore need to be explained in international forums until it gains sufficient acceptance by national governments to be placed on the WTO agenda. This will involve arguing the case in meetings of world leaders—such as the World Economic Forum—and in international institutions such as the World Bank, IMF, OECD, APEC and UNCTAD.

3/ Why should Australia promote this approach ?

This is a time of prosperity for Australia, but it would be unwise to assume that international conditions will unfold favourably for us over the next decade.

For example, the failure of negotiations in the Doha Round to open markets for minerals, farm products and services sector products has quite important implications for our future trade performance and prosperity. Our services sector, which accounts for more than three-quarters of national output and four out of every five jobs, currently contributes only just over 23 per cent of total exports. Access to markets for services is severely limited by non-transparent behind-the-border barriers. [5]

These opaque ‘behind-the-border’ barriers to international competition often apply at a regional or provincial level. They are therefore unlikely to reach the negotiating table unless the national ‘offers’ prepared for multilateral trade negotiations are consciously structured to secure the gains available from opening domestic markets to international competition. It is only in that context, when the focus is on the major unilateral gains available from opening domestic markets to international competition, that governments are likely to recognise that dismantling these non-transparent ‘behind-the-border’ barriers will also increase their gains from trade liberalisation.

The relevance of the Tasman Transparency Group’s approach, however, is not limited to tackling ‘behind-the-border’ barriers. It recognises that **all** the national gains available from liberalising in a multilateral context depend on what participating countries decide to do

individually about their own barriers. Those decisions are made at home, not in the international arena, and in the face of pressure from protected domestic producers seeking to avoid the adjustment involved for them. When governments succumb to those pressures, as they have in the Doha Round, they not only forego the major unilateral gains as a result of failing to reduce their own barriers. They also diminish the capacity of the WTO to deliver the additional gains available from liberalising in a multilateral context.

If governments continue to approach trade negotiations as they have in the Doha Round, in ways that avoid adjustment for their own protected industries, the scope for Australia to promote export industries based on our real competitive strengths—including those in services and agriculture--will be limited. In the past we have too often responded to limited export opportunities by introducing special schemes to encourage exports in industries that are *not* world-competitive and which need assistance to compete in both domestic and world markets. The contribution to national prosperity of the initiative we propose is to reduce the external impediments holding back the export performance of Australian industries that *are* world-competitive, and which therefore *can* contribute to internationally competitive domestic economic development.

This approach has already been field-tested by successive Australian governments in reducing our own trade barriers and, more recently, in removing other measures and arrangements holding back our economy from a better performance. [6]

4/ What other options are on offer for restoring the multilateral system ?

The Uruguay Response

The response to the problem adopted in the Uruguay Round involved ‘tariffication’ of non-tariff barriers, bringing all existing barriers into future multilateral negotiations, strengthening the international rules governing non-tariff barriers, international surveillance to enforce compliance with agreements and improved dispute settlement procedures.

That response could not overcome the problem, for three reasons. First, the approach operates only after the event. It catches up with today’s non-tariff (including ‘behind-the-border’) barriers only in tomorrow’s multilateral negotiations. Second, the scope for replacing the non-tariff barriers now in use with others, just as effective, is endless. As existing forms are brought under the authority of international agreements, pressure develops for new forms that fall outside their scope. And, because they are in non-frontier forms, ‘behind-the-border’ barriers are seen by

governments introducing them as belonging to domestic policy—beyond the reach of international rules and agreements. Finally, the approach does not address the underlying problem —pressure at home to avoid the domestic adjustment involved in liberalising domestic markets. It takes place in the international arena between trade officials, and not where decisions about reducing protection are actually made. Backsliding from the Uruguay Round agreements confirms that this approach has not resolved the problem.

A Negotiated Response

During the Uruguay Round a domestic transparency initiative similar to that advocated by the Tasman Transparency Group was recommended by an international study group sponsored by the Trade Policy Research Centre in London. It was subsequently introduced into the FOGS (Functioning of the GATT System) Group during the Uruguay Round. Following discussion and negotiation in that forum agreement was reached to introduce another international process--the Trade Policy Review Mechanism--instead. A crucial weakness of that attempt to introduce domestic transparency procedures was that it relied on negotiations between trade officials in Geneva, and did not involve public discussion or consultation at home--where decisions about protection (trade barriers) are made. The result, another *international* process, confirms why this present transparency proposal needs to be explained and promoted initially in meetings of international leaders, and within WTO countries, before introducing it into a WTO negotiating context.

The APEC Response

A third, and more relevant, option has been partially tried in APEC. The basis provided for trade liberalisation within APEC recognises that the pace for each member country's liberalisation should not be determined by international negotiations and commitments, but by national choices reflecting domestic self-interest. The emphasis in that forum has been on respect for national autonomy of decision-making on trade reform, and the reason for flexibility is to encourage governments to recognise that liberalising domestic markets is in their own national interest. This flexibility of approach was necessary to make agreement about trade liberalisation acceptable to member countries. It is significant that the approach to 'behind-the-border' barriers in APEC 2007 recognised that the main game in trade liberalisation takes place in the domestic policy arena of participating countries, and not in international negotiations. The missing link in the APEC approach, however, is a domestic transparency process to help participating governments (and their domestic constituents) work out for themselves why liberalising their own barriers **is** in their national self-interest.

Summing Up

The policy logic on which this approach rests is as follows :

- the greatest rewards available to countries liberalising through multilateral trade negotiations come from reducing their own barriers;
- the domestic barrier reductions needed to gain these rewards are also those needed, in the ‘offers’ negotiators take to Geneva, for the WTO to deliver the additional rewards available from liberalising in a multilateral context;
- both the unilateral gains (from liberalising domestic markets) and the additional gains (*potentially* available from multilateral trade negotiations) therefore depend on improving the performance of trade policy at home;
- the role of the domestic transparency initiative is to counter the negative influence protected domestic interests now exercise over the market opening ‘offers’ participating governments take to Geneva;
- its contribution to strengthening the multilateral system is to help decision-making on protection (trade barriers) by participating governments reflect the interests of the domestic community as a whole, rather than pressure from protected domestic interests;
- it does so by enabling WTO member governments to raise community awareness of the domestic costs of maintaining their own trade barriers, and the economy-wide benefits from removing barriers to international competition;
- as a result, protected domestic interests will find it more difficult to gain community support for resisting market opening commitments widely seen as nationally beneficial.

We submit that, to be both effective and acceptable to member countries, any response to the challenges now facing the WTO system must satisfy three conditions. It must help participating governments develop negotiating ‘offers’ that will deliver the major (unilateral) rewards from liberalising their domestic markets. It must encourage and enable them to address their own ‘behind-the-border’ barriers to trade. And it must leave them in full control of domestic policy. We believe the domestic transparency initiative we propose meets all three conditions. Its central message, confirmed by the unresolved struggle for agreement in the Doha Round, is that any solution to the difficulties now facing the WTO system involves domestic policy decisions that belong exclusively to individual member countries.

END NOTES

Except where otherwise indicated, the references below are to documents on our website:
www.tasmantransparencygroup.com

[1] There may be some small differences of emphasis between the approach outlined in early documents on our website and the initiative we propose here. Any such changes are minor and will reflect experience in the Doha Round since 2005, when the TTG was formed.

[2] WTO Website : ‘Managing the Challenges of WTO Participation-45 Case Studies’, December, 2005

[3] Under ‘Conferences’ on the menu

[4] See ‘Developing Countries and the WTO’, under Other Relevant Documents

[5] 'The Importance of Transparency in Domestic Regulation for Trade in Services', Australian Services Roundtable, APEC Policy Dialogue, Melbourne, 27-28 April 2007, under Other Relevant Documents

[6] ‘Domestic Transparency in Australia’s Economic and Trade Reform : the role of the Commission’, under Conferences