

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

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FOREWORD

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

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 purpose of this supplementary submission by the Tasman Transparency Group is to offer a basis for Australia to act on the government's commitment to support the WTO system, a commitment that was confirmed in paragraph 8 of the review panel's terms of reference. The submission also responds to the following questions in section C3 of the panel's discussion paper:

- Are there new strategies or approaches Australia could be adopting in the WTO or elsewhere to enhance its effectiveness in terms of opening new markets?
- Should Australia support or initiate proposals aimed at reforming the WTO with the aim of improving its effectiveness? What areas should be the focus of Australia's efforts?
- What approaches are likely to be most effective in promoting 'behind-the-border' (i.e. domestic) reforms and liberalisation in the services sector in foreign markets?

Our original submission argued that Australia has an opportunity to help the WTO system restore the national rewards available from multilateral trade negotiations. It recognised that those rewards depend on what participating countries take to the negotiating table, not what they hope to take away from it. It explained why we believe it is in Australia's national economic interest to sponsor the domestic transparency initiative we have proposed, and that Australia's involvement in promoting it among other WTO countries is primarily the responsibility of our government.

The logic underpinning the proposed domestic transparency initiative

There is a growing international consensus that:

- the existing **international** disciplines of the WTO are not providing a persuasive **domestic** reason for lowering trade barriers;
- it is the positive or negative perceptions at home about the domestic consequences of liberalising that determine how much actually takes place; and
- it becomes politically realistic to secure the gains from lowering domestic barriers only when pressure from protected domestic groups, who see liberalisation as detrimental to their interests, is balanced by a wide domestic awareness of the overall domestic benefits from adjusting to the changes involved.

That growing consensus is documented on our website. [1] The role of the transparency initiative we propose is to help restore the national gains all participating countries expect from multilateral trade negotiations, by insulating WTO processes from the domestic pressures that have severely limited progress in the Doha Round.

The logic supporting the initiative is as follows:

- the major 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 would do 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.

Consistent with that logic, our proposal argues that WTO processes should begin with unilateral decisions taken at home, aimed at securing the national gains at issue in liberalising domestic markets, and culminate in international negotiations and agreements—not the other way around. Experience in the Doha Round has confirmed that, without that domestic discipline, outcomes from multilateral trade negotiations will continue to be the accidental result of a balancing act—in the international arena—between the requests of foreigners and the demands of domestic pressure groups.

It would be unrealistic to expect the initiative we have proposed to produce first-best outcomes from multilateral negotiations immediately, but over time it will deliver much better outcomes than the existing approach to negotiations. It is the only solution on offer that addresses the domestic pressures responsible for stalling progress in the Doha Round, while leaving national governments in full control of domestic policy.

Suggestions for implementing the approach

The logic on which the initiative rests is rock-solid and uncontested. It reflects a reality that existing WTO processes cannot address. Given the government's commitment to the multilateral system, and the absence of any other approach to restoring progress in the WTO, we believe the initiative warrants the effort of advocacy and the resources required to secure greater international acceptance of the logic underpinning it. We have argued in our earlier submission why that effort, and the commitment of the necessary resources, is the responsibility of the Australian government, and we have suggestions about how it might respond to that challenge.

We submit that the first step is for the review panel to advise the government that the initiative directly addresses the domestic pressures threatening the viability of the multilateral system, that it also contributes to the government's domestic economic policy objectives, and that it therefore warrants the very considerable advocacy effort that will be required to gain international acceptance of it. [2]

A second step is for the government to formally commit to arguing the case in the international arena for as long as it takes. The effectiveness of arguing it in international forums was field-tested in July 2007, when the Lowy Institute for International Policy hosted an international conference to assess the relevance of the initiative. It was supported by participants from both developed and developing countries. The clear message from the conference was that the ultimate responsibility for progress in multilateral trade negotiations rests with individual governments. [3]

This second step will involve government and officials using the many opportunities that arise in international meetings, and through international diplomacy, to explain why nationally rewarding outcomes from multilateral trade negotiations depend on the decisions individual participating governments take at home, about their own barriers, when preparing for negotiations. Support for improved domestic policy responses to the challenges now facing world trade has been expressed by international institutions such as the World Bank, IMF, OECD and UNCTAD. We might therefore expect a positive response in those forums to an initiative that brings into account the economy-wide rewards at issue for countries liberalising through multilateral trade negotiations.

As was indicated in our earlier submission, we believe consideration of the difficulties facing the WTO system should be pursued independently of trade negotiations. We note that the

2007 Warwick Commission in the UK, established to consider the future of the multilateral system, came to the same conclusion:

“The Commission therefore recommends that a process of reflection be established in the WTO...to consider the challenges and opportunities facing the multilateral trading system and to draw up a plan of action to address them.” [4]

It also identified the domestic source of the difficulties facing the multilateral system, and concluded that responsibility for a solution rests with individual governments. It observed, for instance, that:

“...national political leaders have often failed to explain adequately to the public what is at stake. ...Governments must...confront more directly the vested interests that benefit from protection and the inefficiency it breeds.” [5]

Its recommendation for ‘a process of reflection’ independent of negotiations provides scope, and an appropriate international forum, for discussing domestic transparency arrangements. That is the approach our own government has taken in holding the 2020 Summit on long-term policy challenges facing Australia, before establishing its response to those challenges.

We urge the review panel to encourage the government to publicly flag its support for the initiative and to develop a strategy for winning international acceptance of it. Too often in the past the official response, after offering in-principle support, has been to sideline this approach to strengthening the WTO system on the grounds that it would be either unacceptable to developing countries, too difficult to implement or is already being officially advocated. In that context our website confirms that developing countries themselves proposed the approach we now advocate at the end of the Uruguay Round. [6]

Given the government’s commitment to supporting the WTO, we suggest those who argue it is too difficult to implement should be offered the opportunity to suggest an alternative that will restore the national rewards available from multilateral trade negotiations, while leaving WTO member governments in full control of domestic policy. Finally, after several years of arguing the case for the initiative, the Tasman Transparency Group has received no official indication that it was being advocated or is under consideration. We hope the ambivalence will end as a result of the present review. The logic underpinning the initiative is uncontested, as is the logic that has made support for the multilateral system Australia’s highest trade policy priority.

Implementation of the initiative will require ongoing effort, and it would be unwise to set a timetable for its completion. The importance of the issue for restoring nationally rewarding outcomes, not the difficulties of gaining acceptance of it, should determine the priority given it. In order for Australia’s advocacy to be credible, however, we need to put our own house in

order. Our transparency arrangements have, from time to time, been offered as a model for other countries to follow. But they have been routinely bypassed in our own preparations for trade negotiations. Why should other countries take seriously our transparency arrangements when we ourselves continue to sideline them in our preparations for trade negotiations? What is at issue, for Australia and for our world competitive industries, is too important for that ambiguity to continue.

We believe it is of paramount importance that the relevance of the initiative - for Australia's future export performance and prosperity, and for the future of the WTO system - is addressed squarely and systematically in the review. The verdict hinges on answers to the following three questions:

- Have we correctly identified the major influences that have stalled progress in multilateral trade negotiations?
- Does the solution we propose directly address those influences?
- Are there other solutions on offer that address the problem facing the multilateral system at its source, while respecting the autonomy of governments over domestic policy?

It is sometimes suggested that the Trade Policy Review Mechanism, introduced during the Uruguay Round, provides sufficient transparency of domestic protection policy. While it has a role in monitoring the performance of individual countries in meeting their WTO commitments, it cannot address the domestic influences that have stalled progress in the Doha Round. As an external surveillance process conducted by trade officials it is seen, especially by developing countries, as a reporting requirement that has no relevance for domestic decision-making. UNCTAD, for instance, concluded that:

“The Trade Policy Review Mechanism ...is not a national transparency mechanism. Although this exercise contributes to transparency, its ultimate aim is to increase adherence to GATT rules...The ultimate aim of national transparency mechanisms...is to generate information about, and to promote a wider domestic understanding of, the economy-wide effects of protection in all its forms” [7]

The domestic transparency arrangements we propose will be especially important in opening markets for services, where the barriers to entry are largely in non-border forms. As we have learned in the Doha Round, many of these non-border barriers are extremely difficult to identify. They are therefore unlikely to be included in domestic reform programs or international trade negotiations unless governments, in countries where they operate, recognise that trade barriers in this form also reduce their gains from liberalising. And, because they are in non-border form, they are seen by those who oppose their removal as belonging to domestic policy—beyond the reach of international surveillance, rules and

agreements. A domestic transparency process, owned and operated by countries where these barriers operate, provides the only means of bringing them into account that also leaves governments in full command of domestic policy.

Finally, the major recommendation of the Warwick Commission, that WTO member countries take time (outside negotiations) to reflect on what can be done to restore progress in the multilateral system, provides an opportunity (and an appropriate forum) to promote international discussion of our proposal. Its report observed that:

“Innovative solutions, the most salient of which may well have more to do with the reform of domestic policies than with modifying international trade rules, are needed here.” [8]

Its recommendation for ‘a process of reflection’ provides an opportunity for Australia to explain why there is a need to add a domestic transparency process to the existing international processes of the WTO.

In that context, there may be scope for Australia to seek support from a small group of WTO countries in promoting the approach. Such a group could include Australia, Indonesia, New Zealand, the UK and the US. Australia’s transparency arrangements are widely seen as providing a relevant model. The US placed the issue of domestic procedures on the Doha agenda, although it has not developed it further. The Warwick Commission reflects UK concern to improve the performance of the multilateral system, and has recognised the domestic source of the difficulties facing the WTO. Indonesia has shown interest in introducing the approach, but has not yet settled on what form it should take. As we have suggested, such a core group promoting the approach seems likely to receive a positive response from international institutions like the World Bank, IMF, OECD and UNCTAD.

There already exists a transparency institution in the US—the US International Trade Commission. Given our close bilateral trade relationship with the US, and the fact that it already has a domestic transparency institution, the US represents the logical starting point in forming a core group to promote the approach. The US proposal for improved transparency procedures recognised that implementing such procedures is the responsibility of individual governments, viz:

“Recognising that individual governments bear the primary responsibility for consulting with their own constituents when they formulate trade policy, the US...proposes that WTO members discuss their respective consultation processes...to learn from each other how to ensure that the views of interested members of the public are taken into account.” [9]

That proposal is at one with the approach of the Tasman Transparency Group and with the Warwick Commission proposal for 'a process of reflection', outside the negotiating arena, on the challenges facing the multilateral system. It provides a basis for expecting the US to support discussion of domestic procedures among WTO member countries.

The weakness of present US transparency arrangements is that, while the procedures of the USITC promote transparency, its role is to provide relief from import competition on the basis of criteria that focus on the problems of industries under adjustment pressure.

The broader effects of such competition, on the economy as a whole, are not brought into account when forming its advice on whether to provide relief. That advice may, however, be ignored if the President deems it not to be in the national interest.

Thus in the US system the President receives narrowly based advice arrived at through an inquiry process that involves transparency. He is then required to make up his mind whether to act on that advice by bringing into account economy-wide considerations not covered by the advice. These procedures reverse the roles of advice and decision-making in the approach we propose. They make transparent the problems of ailing industries, but the decision-maker is left to decide on the economy-wide considerations without the benefit of public advice. In the case of the United States, therefore, the action required to introduce the approach we propose is simply to add to the existing charter of the USITC a guideline requiring it to bring the economy-wide consequences into account when providing advice about protecting domestic industries.

Concluding comment

Australia is a small player in world trade, but we have an opportunity to provide the support the WTO needs by the relevance of the approach we offer to deal with the domestic pressures that are undermining multilateral trade negotiations. We can continue to fiddle around the edges of the issue, sponsoring self-limiting strategies aimed at improving our position in particular markets, or we can give substance to our support for the multilateral system by promoting a more comprehensive solution. Choosing the latter option will involve doing the hard yards required to add a domestic discipline to the existing international processes of the WTO. The potential gains for Australia are substantial, as are the costs of doing nothing.

END NOTES

Unless otherwise indicated, the references below are to documents on the Tasman Transparency Group's website: www.tasmantransparencygroup.com

[1] 'An emerging consensus', 12 May 2007, under Other Relevant Documents, confirms that international support has been building, since the early 1980's, for adding a domestic transparency process to the existing international processes of the WTO.

[2] The address by Trade Minister Crean, of 8 April, on 'Australia's Role in Addressing the Future of the Multilateral Trading System', appears to confirm that the government is still considering how to meet its commitment to support the WTO system.

[3] The proceedings of the Lowy conference are on our website.

[4] Recommendation 10 of the Warwick Commission Report.

[5] Warwick Commission Report, p.16

[6] See 'Developing Countries and the WTO', under Other Relevant Documents on our website.

[7] UNCTAD, Trade Policies, Structural Adjustment and Economic Reform, Geneva, July 1992. The Trade Policy Review Mechanism does not involve a domestic transparency commitment. In fact, some countries have expressly forbidden the *domestic* release of TPRM reports.

[8] Warwick Commission Report, p.9

[9] Office of the United States Trade Representative, October 10, 2000, from press release 00-69 on the USTR website: www.ustr.gov