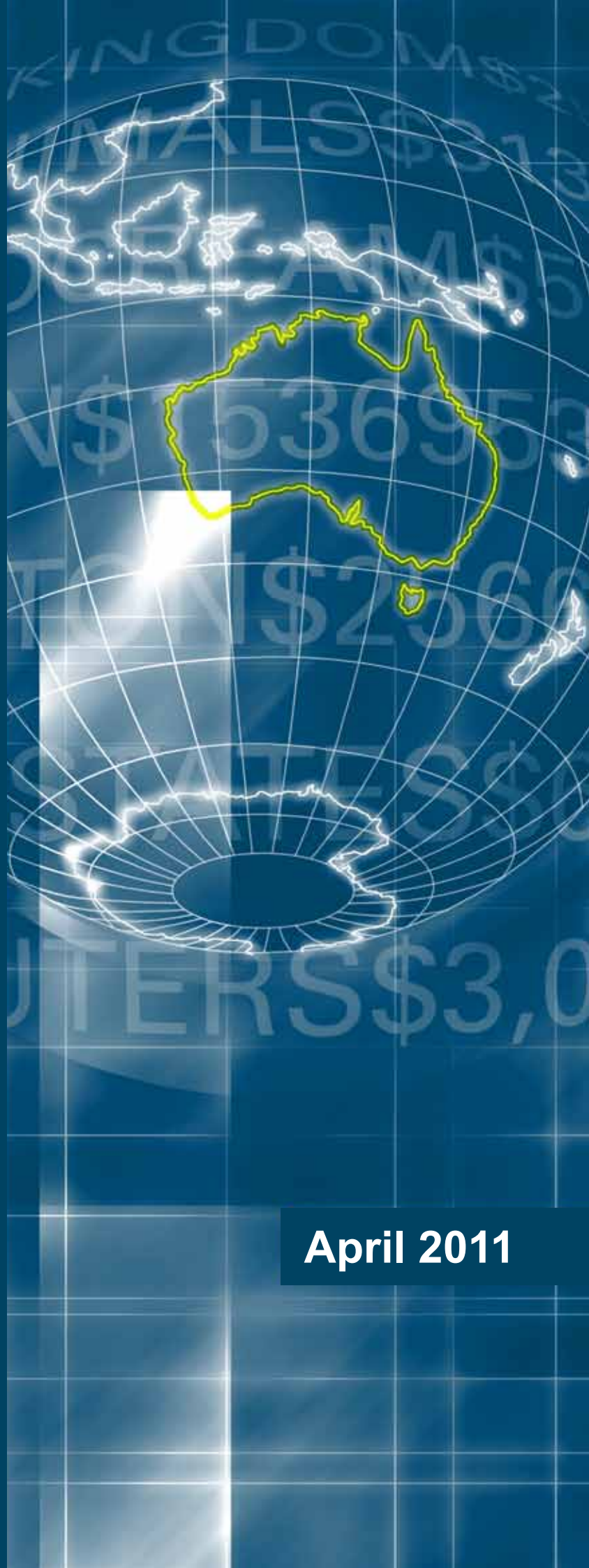




Australian Government

Department of Foreign Affairs and Trade



**Gillard Government
Trade Policy Statement:**

**Trading our
way to more
jobs and
prosperity**

April 2011



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Gillard Government Trade Policy Statement:

Trading our way to more jobs and prosperity

WHY DOES AUSTRALIA TRADE?

The Gillard Government's vision for the nation is a prosperous, sustainable Australia providing opportunity for all. International trade contributes to the fulfilment of that vision by increasing national prosperity and creating high-skill, high-wage jobs. Following the opening up of the Australian economy to greater competition and trade from the early 1980s, our country has enjoyed almost two decades of strong and sustained growth. Among the advanced economies of the world, only Australia has achieved such strong, recession-free growth over this period.

Even during the deepest global recession since the Great Depression, Australia was unique among the major advanced countries in avoiding recession and job losses. While more than 11 million jobs were lost in North America and Europe during the global recession 413,000 new jobs were created in Australia. In addition to the Government's fiscal stimulus and the continuing growth of China, an Australian recession was averted as a direct consequence of the resilience of Australian businesses, large and small. This resilience was born of their exposure to international competition through gradual reductions in industry protection.

The benefits of reductions in industry protection have flowed through to everyday Australians. Opening up the Australian economy to more trade has made Australian households better off on average by an estimated \$3,900 per annum (Centre for International Economics 2009, p. 20). These gains have come in the form of greater income from exports and reductions in the cost of imported and import-competing goods and services.

More trade is a pathway to a high-skill, high-wage future for working Australians. Australians working in export industries on average are paid 60 per cent more than other working Australians (Pink and Jamieson 2000, p.27).

Since the opening-up of the Australian economy initiated by the Hawke Government in the early 1980s, Australia has lifted its trade intensity (exports plus imports as a share of total economic output) from 28 per cent to 40 per cent. Given the small size of the Australian market and the massive size of the global market, the more we trade in the future the greater will be the prospective benefits for everyday Australians. Australia is already a great trading nation; with the right policies we can be even greater.

WHY HAVE A TRADE POLICY?

Businesses engage in trade, so why not leave their buying and selling activities to the market? The answer is that governments are involved in trade transactions between businesses. Government involvement can be through laws and regulations, such as in the services sector or customs duties (tariffs); limits on the amounts of goods that can be imported or exported; quarantine restrictions; subsidies for domestic industries; and taxes, fees and charges applied to all transactions, local and international.

Invariably these laws and regulations have the effect of reducing the amount of trade between countries. In some cases this is the aim of the policy. For example, tariffs applied at a country's border intentionally increase the cost of imported items to local users, giving a price advantage to local suppliers. Government subsidies to local businesses, in the form of cash payments or special tax concessions not available to foreign businesses, are usually designed to give local producers a competitive advantage over foreign rivals. Unlike tariffs, subsidies do not increase the cost of imports to local users, but they do restrict trade by supporting local production over imports.

Restrictions applied behind a country's border might or might not intentionally be designed to limit trade. A foreign business might find the approval and licensing requirements of a national or regional government so complicated and slow that the business is deterred from exporting its goods or services to the country – even though the requirements also apply to local businesses.

Reducing government-imposed restrictions on trade at home has the beneficial effect of exposing local businesses to international competition, compelling them to innovate, to be efficient and to restrain the prices they charge local consumers. And reducing trade barriers at home can enable consumers to buy imported items at lower prices than the cost of producing them at home. For example, clothing and footwear is much less expensive now in real terms than it was 25 years ago when high tariffs and severe quotas were applied to imports. Children's clothing has fallen in price in real terms by 25 per cent and footwear by almost half. The real price of whitegoods has fallen by 46 per cent, consumer electronics by half and motor vehicles by almost 40 per cent (Table 1). Not all these real price reductions have been due to less protection, but tariff cuts and the removal of quotas have certainly helped deliver lower prices of basic items to consumers.

Table 1: Real price changes of selected items since 1985

Item	Real price fall 1985-2010 (%)
Men's underwear, nightwear, socks	28
Women's underwear, nightwear, hosiery	9
Women's footwear	44
Men's footwear	54
Children's footwear	50
Furniture	25
Major household appliances	47
Small electronic appliances	51
Toiletries	25
Motor vehicles	37

Source: calculated using ABS data

These real price reductions for traded goods can be contrasted with real price increases for goods and services that are not traded and have therefore been subject to less competition over the same period. For example, since 1985 the real price of the quintessential non-traded good, the haircut, has increased by 15 per cent, while the price of rents has increased by 17 per cent and the price of dental care has increased a staggering 68 per cent.

By reducing barriers to trade at home, a government can enable productive inputs such as capital, labour and entrepreneurship to move into those industries in which the country is strong compared with other industries and other countries. Sometimes it is suggested that with little or no industry protection a country might not be good at producing anything compared with other countries. But a country does not need an *absolute* advantage over another to gain from trade between the two of them; mutual gains from trade result from *comparative* advantage, not absolute advantage. The other country might have an *absolute* advantage in production of everything over the home country, being capable of producing all tradeable goods and services by using fewer domestic labour resources. But by definition no country can produce all goods and services more cheaply relative to other goods and services. As a result, the other country will gain from specialising in the production of goods and services in which it has the greatest advantage while the home country specialises in producing goods and services in which, comparatively, it has the least disadvantage. By specialising according to their *comparative* advantage, the two countries will produce a greater total value of goods and services and both will gain from trade.

Here in Australia lowering trade barriers and opening up the Australian economy have been well worthwhile in their own right and the benefits from doing so have *not* depended on other countries lowering their trade barriers.

Nevertheless, other countries have been lowering their trade barriers at the same time as Australia, increasing the overall gains from trade liberalisation by improving market access for Australian exporters. Among Australia's major trading partners in the Asia-Pacific region, which buy 70 per cent of Australia's exports, average tariffs have been cut over the last quarter century from more than 25 per cent to around 5 per cent (Productivity Commission 2010, p.41).

Trade liberalisation at home has the important, added advantage of making reform of the entire domestic economy an imperative. Local businesses that themselves are doing everything in their power to be efficient and internationally competitive will nevertheless be hampered if other parts of the economy, especially producers of non-traded inputs, are inefficient and if government regulations, taxes, fees and charges are unjustifiably onerous. For example, if state-owned utilities supplying water and energy to trade-exposed industries are inefficient, charging unnecessarily high prices for these inputs, the trade-exposed industries might not survive on export markets or against imports. The same applies where the costs of excessive regulation on businesses producing inputs into trade-exposed industries are passed on through higher prices, again damaging the ability of Australia's export industries to compete. Trade liberalisation therefore can drive wider economic reform, lowering prices not only to export industries but to the nation's consumers as well.

As the nature of global production and exchange changes, trade policy needs to change with it. The build-and-ship model of production and exchange is giving way to the creation of regional and global supply chains for both goods and services. Consequently, flows of investment are becoming more important in many industries than flows of finished goods. For example, a local manufacturer might lose comparative advantage in the production of a finished product but become internationally competitive in the supply of components. Or instead of shipping finished goods, a business might supply the expertise it has accumulated to a foreign-based manufacturing operation.

Services account for 73 per cent of Australia's economic activity, 85 per cent of employment and around 22 per cent of export revenue. Services such as finance, distribution, information and communications technology and selling are also embodied in most goods. It is impossible to think of a product that could be developed, manufactured and traded without inputs of services. The estimated value of the services embodied in Australia's merchandise exports is \$35 billion, on top of \$53 billion in official services exports (ITS Global 2010, p29).

Opening our services markets to competition improves their range and quality while restraining their cost, generating economic dividends for domestic consumers and our exporting and import-competing industries. The Gillard Government understands this and is pursuing a reform program to ensure Australia has one of the most open services sectors in the world.

Yet it is no good being competitive if access to foreign markets is blocked or heavily impeded. Complementing a set of policy measures to boost the competitiveness of Australian exporters of goods and services, trade promotion policies can increase the penetration of those competitive exports into foreign markets.

Trade promotion can be of a generic nature, seeking to generate a positive consumer association with a country's brand, or it can facilitate exports of a particular industry or a single business. Australia's official agency for promoting exports is Austrade, established by the Hawke Government in 1985. Austrade has more than 100 overseas offices operating in 55 countries. In addition to the resources of Austrade, the Government also regularly uses its diplomatic network to try to resolve impediments to trade and investment.

The Government's trade promotion and facilitation work is backed up by trade enforcement efforts. Australia works actively to ensure our trading partners live up to their commitments and to defend our trade interests, including through our active engagement in the dispute settlement system of the World Trade Organization. More broadly, the Government works to improve the health of the global trading system, not only through its support for the World Trade Organization and regional forums, but through its 'aid for trade' programs. Recognising the link between participation in international trade, economic growth and poverty reduction, the Government is refining the use of these programs to strengthen the capacity of developing countries to participate in international trade.

This extends to the bilateral and regional arenas where economic cooperation has become a feature of Australia's aid-for-trade engagement with developing country partners, as illustrated in the case of the ASEAN-Australia-New Zealand Free Trade Agreement (AANZFTA). Economic cooperation supports these partners in bilateral and regional agreements to engage more fully during negotiations and, following their conclusion, assists them to implement agreements and realise the benefits of these agreements. Economic cooperation will be a core feature of the Indonesia-Australia Comprehensive Economic Partnership Agreement negotiations.

WHAT ARE THE OBJECTIVES OF AUSTRALIA'S TRADE POLICY?

At its most fundamental, the objective of trade policy is to increase the prosperity of a nation's citizens.

Redistribution of prosperity among a country's citizens is usually best pursued through non-trade policies such as income support payments and extending educational opportunities to the disadvantaged. It is easier to pursue these equity goals in a prosperous, strongly growing economy than in a poorer, stagnant one.

Other stated objectives of trade policy, such as job creation and value adding, are at best partial indicators of prosperity and at worst can lead to misguided policies that damage prosperity. Often import restrictions or subsidies are sought by businesses on the basis that the local businesses create jobs or add value. But

any privately profitable business will create jobs; that does not mean it should receive tariff protection from imports or government subsidies. In an economy close to full employment, those jobs will be diverted from other, non-protected businesses.

All business activities add value; it would be a spectacularly unsuccessful private business that sold its production for less than the cost of goods and services it used as inputs into the production process. But it does not follow that any businesses that add value should be subsidised or protected against imports. To illustrate, value is added to bauxite by converting it into alumina; further value is added by converting alumina into aluminium, and even more value is added by transforming aluminium ingots into window frames and aircraft bodies. But governments of bauxite-producing countries should not subsidise or otherwise protect the production of aircraft bodies on the basis that they sell for a higher price than bauxite, alumina or aluminium. Depending on *net* value added, after taking into account the value foregone in alternative uses from deploying capital, labour and skills in the further-stage processing of bauxite, it might be in a country's interest to go up the value chain to alumina or aluminium. However, the sheer act of adding value is not a basis for government protection of any further-stage processing or fabricating activity.

TRADE LIBERALISATION IN AUSTRALIA

Well before Federation, the various Australian colonies imposed tariffs on imports. At Federation the major political parties were split into two camps: protectionists and free traders. For almost three-quarters of the 20th Century the protectionists held the upper hand, as tariffs were applied and, when imports became competitive against domestically-produced goods despite high and rising tariffs, quotas were added to tariffs.

The first Australian government to seek to wind back these seemingly inexorable increases in protection was the Whitlam Government in 1973, which cut tariffs by 25 per cent across the board. Some of the tariff reductions stuck, but not all. The Fraser Government tightened restrictive quotas to the extent that by the time the Hawke Government was elected in early 1983, protection for the most highly protected industries was higher than before the Whitlam tariff cut. By the time of the 1983 change of government, Australian manufacturing was on its knees, unable to compete against imports despite ever-higher protective trade barriers. The tariff on imports of automobiles that were within the designated quota limits reached 57.5 per cent and for automobile imports above the quota restriction the tariff hit 100 per cent. Tariffs on clothing and some textile items soared to 180 per cent.

The Hawke Government set about opening up the Australian economy to competition, refashioning it from supplying a small, domestic market protected by high tariff walls to an open, competitive economy supplying global markets. In this great market-opening endeavour the Hawke Government applied competitive forces to the exchange rate, financial markets, product markets and government business enterprises. Trade policy and microeconomic reform were integral components of the overall economic reform program, intertwined and bound by the open, competitive philosophy. Reducing tariffs and eliminating quotas were tools of trade in fashioning the open, competitive economy, essential in exposing Australian business to international competition.

It is for these reasons that Prime Minister Hawke and Treasurer Keating pressed ahead with scheduled tariff cuts through the teeth of the deep recession of 1991 and why, in that year, they legislated even greater tariff reductions. These policies required enormous political courage and the understanding of a visionary trade union movement. But, as an essential part of the overall economic reform program, they helped lay the platform for almost 20 years of sustained economic growth and job creation.

The Keating Government maintained the tariff reduction program, introduced enterprise bargaining into the labour market and boosted competition at home through National Competition Policy. By subjecting public utilities to competition the Keating Government compelled them to be more efficient, and so reduced input costs for Australian businesses, enabling them to be more internationally competitive.

As a result of these market-opening policies, continued by the Howard Government after an early freeze, average effective tariffs on manufactures fell from more than 22 per cent to below 5 per cent, the tariff rate on automobiles fell from a maximum of 100 per cent to 5 per cent and tariffs on clothing and some textiles fell from rates as high as 180 per cent to 10 per cent with a further reduction to 5 per cent scheduled for 2015. Tariffs on footwear and some other textiles have already fallen to 5 per cent.

TRADE POLICY AND THE 'PATCHWORK ECONOMY'

Trade liberalisation is an indispensable part of an overall economic reform program at any time, but especially when different sectors of an economy are operating at dramatically different speeds. Australia's mining boom is creating a patchwork economy of mining-based industries and regions doing extremely well while other industries and regions are being hampered by the very success of the mining-related industries.

Australia has had a two-speed economy for much of its history. Gold rushes during the mid-1800s, booming wool prices during the Korean War, the stagnation of Western Australia and Tasmania as protection caused the industrial economies of the south-east to expand artificially from the 1930s to the early 1960s, and even the migration to Queensland from Victoria during the early 1990s are testament to that. But in the early 21st Century, the speed of the leading sector – mining-related industries – is truly breathtaking.

While the mining boom is most welcome, adding \$540 billion to the Australian economy since 2006, it has brought with it all the challenges of a two-speed economy, most particularly a high exchange rate and the attraction of capital, labour and skills away from non-mining industries.

The attraction by mining-related businesses of productive resources such as construction equipment, employees, contractors and management away from non-mining businesses is a natural response in an open, competitive economy like Australia's. It should not be impeded by interventionist government policy.

Despite this movement of resources to mining-related activities and locations, shortages persist and will become more acute as a long pipeline of new investment flows into Australia's mineral industries. Given Australia's limited supplies of capital, labour and skills the prices of these inputs are being bid up.

Non-mining businesses seeking to retain their employees and contractors will need to bid for them against extremely profitable mining-related businesses. And since the mining boom is not confined to Australia, overseas bidders have also entered the market for Australian expertise. Similarly, the prices of materials and equipment used in mining-related activities are being bid higher.

An independent, inflation-targeting Reserve Bank, confronted with these price pressures, would be obliged to consider raising interest rates to prevent inflation from rising above its 2-3 per cent band of tolerance. The blunt instrument of interest rates hurts non-mining businesses and regions of Australia, accentuating the patchwork economy.

A further natural economic consequence of the mining boom is a rising exchange rate, the Australian dollar having surpassed parity with the greenback in November 2010 for the first time since well before the currency was floated in 1983. A high Australian dollar has the desirable consequence of putting downward pressure on prices by lowering the cost in Australia of imported goods and services – taking some pressure off the Reserve Bank to lift interest rates. But a high Australian dollar is also damaging our import-competing and export industries, weakening their ability to compete for productive resources against mining-related industries. While this, too, has an anti-inflationary effect, it is more deeply embedding the patchwork economy.

The challenge for Australia is to convert the opportunities created by the mining boom into sustainable gains in national prosperity and jobs. While the reallocation of scarce resources to the leading minerals sector is both necessary and desirable, it leaves Australia's non-mining industries, cities and regions vulnerable to deterioration in their relative competitiveness and potentially ill-equipped to take up the slack in periods of slower mineral export expansion.

That's why an economic reform program designed to re-start productivity growth as the basis for securing the competitiveness of Australian industries, mining and non-mining, is essential.

Yet even in the best of all possible worlds, not all Australian businesses and industries will succeed in competing on global markets and against imports. The laws of comparative advantage dictate that in some industries overseas businesses will out-compete their Australian rivals. We are, for example, unlikely to see Australian flat-screen TVs displacing Chinese imports. Nor are we likely to achieve competitiveness in producing low-value clothing items like cheap socks and underwear. But productivity-raising economic reform gives Australian businesses a better chance of competing by removing business impediments such as skill shortages, inadequate infrastructure and unnecessary regulation.

FIVE PRINCIPLES GUIDING AUSTRALIA'S TRADE POLICY

Consistent with the fundamental objective of trade policy to increase national prosperity, five principles will guide the Gillard Government's trade policy: unilateralism; non-discrimination; separation; transparency; and the grand unifying principle of trade policy as an indivisible part of overall economic reform. Trade policies and priorities have been reviewed against these principles and the outcome of that review is set out in subsequent sections.

Unilateralism

Since competition provides strong incentives for innovation and price restraint, opening up an economy to competition will increase national prosperity over time. Pro-competitive economic reform should be pursued in its own right; it should not be conditional upon other countries reforming their economies. Adopting a bargaining-chip approach of refusing to liberalise at home unless other countries offer trade barrier reductions as a *quid pro quo* only damages the home country's long-term prosperity. Using domestic reform as a bargaining chip in negotiations is akin to an athlete refusing to get fit for an event unless and until other competitors also agree to get fit.

In trade negotiations, Australia should make its offers, our trading partners should make theirs, and where appropriate we should encourage them to go further. If the final deal is in Australia's national interest it should be accepted and if it is not, it should be rejected. But the assessment of national interest should not include how much Australia had to give up, or 'pay', by way of domestic economic reform.

Non-discrimination

The second guiding principle of sound trade policy is the principle of non-discrimination, where reductions in protection offered to one country are offered to all others. The non-discrimination principle is the foundation stone of the World Trade Organization's global trading rules. Called the Most Favoured Nation provision, it is Article 1 of the General Agreement on Tariffs and Trade (GATT). Unfortunately, owing to the proliferation of preferential bilateral and regional trade agreements, where parties to agreements are given preferred treatment over non-parties in the form of lower trade barriers, the non-discrimination principle nowadays is observed more in the exception than in the rule.

Discriminatory trade agreements can divert trade away from more efficient, excluded producers of goods and services to less efficient parties to the agreements. Trade diversion amounts to a redistribution of jobs and prosperity instead of the creation of more jobs and prosperity. Worse, trade diversion is inherently job-destroying and income-destroying from a global perspective.

As countries in the global trading system have gradually reduced tariffs over the last three or so decades, the trade-diverting effects of any particular discriminatory deal are not as great as they would have been 30 years ago. But the number of such discriminatory deals has exploded from less than 10 half a century ago to around 200 in force at present and many more under negotiation. Consequently, the total value of trade diverted from more efficient to less efficient producers could have increased substantially. The empirical evidence at this stage is inconclusive.

There is no good reason for discrimination and therefore no good reason to sacrifice jobs and income through trade diversion. Applying the non-discrimination principle, in negotiations with trading partners the Gillard Government will not seek exclusive or entrenched preferential access to other countries' markets. Non-discriminatory trade agreements offer better long-run returns for Australia. They are more likely to result in trade creation instead of diverting trade from other countries that, in the absence of tariffs, would be lower-cost producers. However, the Gillard Government will vigorously pursue better access to other countries' markets for our exporters of agricultural produce, of manufactured goods and of services.

Many other countries do not embrace the principle of non-discrimination. Australia can encourage them but cannot force them. Consequently, Australia is likely to conclude further preferential deals in the future. But Australia will not insist on entrenching preferential treatment, just an opportunity to compete on level terms. Where our trading partners have provided favourable and discriminatory access to a competitor of ours – as many countries in our region have done since the Howard Government embraced preferential trade a

decade ago – we will want as favourable treatment as the most favoured nation; that is, treatment as good as anyone gets.

Separation

History has taught us that the entanglement of trade policy and foreign policy can have tragic consequences. The formation of discriminatory trading blocs for geo-political reasons contributed to the outbreak of World War II. Entering into bilateral and regional trade deals for the geo-political purpose of excluding others can be fraught with danger.

Moreover, there is no guarantee that the tough process of negotiating trade deals will bring countries closer together politically. Having decided to embark upon a trade agreement that gives each other preferential treatment, thereby discriminating against others, each country might soon find the other unwilling to give ground on issues that are politically sensitive domestically. Negotiations can become stalled, with interest groups in each country criticising the other's government for intransigence. If ground is not yielded, three possibilities arise: the negotiations are abandoned, they are allowed to drift interminably, or a low-quality agreement is concluded to save face. Low-quality free trade agreements are free in name only; they lock in and legitimise protection of each country's market from competition from the other's.

So how does a country like Australia decide which countries should be prospective partners in bilateral trade negotiations? Again applying the non-discrimination principle, the answer is easy: any country that is genuinely interested in reducing its trade barriers is eligible, subject only to the opportunity cost of deploying Australia's negotiator talent in those trade talks. That does not mean a final trade deal should be signed. Any negotiated deal must pass a net benefit test; it must demonstrably be in Australia's national interest.

Transparency

Launching non-discriminatory trade negotiations only with countries or regions genuinely committed to liberalisation has the added benefit of transparency in government decision-making processes. Typically at present, when two countries are considering launching negotiations for a free trade agreement, they seek to justify it on the basis of economic modelling. Modelling in feasibility studies typically includes an assumption of full liberalisation, where an estimate is made of the economic benefits based on the immediate removal of all barriers to trade in goods and services and to investment flows between the two countries.

Negotiations are typically launched on the basis of advising business groups and the general public of these very large dollar amounts. But the final agreement usually bears little resemblance to the hypothetical agreement that was modelled. By this time the hypothetical numbers have been forgotten and the deal is pushed through because it is too late to turn back.

For the sake of transparency, instead of modelling ideal, hypothetical free trade agreements, the results of which can mislead decision makers and the public, any modelling should be of the actual, final deal. And to give confidence to the public in the integrity of the modelling results, any such modelling should be independently peer reviewed and any assumptions clearly spelt out.

Transparency, too, can be served by keeping the public closely informed of the nature and progress of negotiations. This can be achieved by regularly consulting business groups, trade unions and community organisations. Consultation with regional industry and business representatives would also ensure that impacts on regional areas are fully considered. And where discrete stages of the negotiations have been completed, relevant information should be posted on government websites.

While these transparent processes can be time-consuming and give anti-trade interests partial information to use against the government before the public has had the benefit of considering the fully-completed deal, negotiations shrouded in secrecy enable opponents to speculate inaccurately about the content of agreements.

Irrespective of whether proposed final trade deals require legislation they should be subjected to parliamentary scrutiny. The Australian Parliament's Joint Standing Committee on Treaties has been established to perform this function.

Indivisibility of trade policy and economic reform

Trade policy and microeconomic policy are as one; the best trade policy is domestic economic reform – a productivity-raising, competitiveness-enhancing microeconomic reform program supported by responsible fiscal policy.

Applying the indivisibility principle, Australia will not wait for other governments to reform their economies before reforming ours. Australian economic reform is good for jobs, good for prosperity. As reformers, we have never waited for the world and we need not wait for the world now.

Productivity growth has accounted for 80 per cent of the increase in Australia's national income over the past 40 years. In an ageing population and a patchwork economy, productivity growth will need to do most of the heavy lifting over the coming 40 years too. Yet productivity growth began to slide from the turn of this century, starved of a new productivity-raising reform program to build on the Hawke-Keating reforms.

Reviving productivity growth through a new economic reform program is core business for the Gillard Government. Economic reform at home and securing better market access abroad work hand-in-glove in creating jobs and prosperity.

DISCIPLINES IN AUSTRALIA'S TRADE POLICY

The five principles guiding Australia's trade policy logically give rise to a set of disciplines governing the negotiation of trade agreements and their content. These disciplines are:

- Multilateral agreements offer the largest benefits;
- Regional and bilateral agreements must not weaken the multilateral system – they must be genuinely liberalising, eliminating or substantially reducing barriers to trade;
- Australia will not seek to entrench preferential access to markets in trade negotiations, but simply an opportunity to compete on terms as favourable as anyone else's;
- Australia will not allow foreign policy to dictate parties to and the content of trade deals;
- The public will be well informed about negotiations for, and the content of, proposed trade agreements and have an opportunity for input; and
- Australia will press ahead with domestic economic reform irrespective of whether other countries agree to reform their economies.

These disciplines provide answers to the key questions relating to Australia's trade policy as set out below.

WHAT IS THE GOVERNMENT'S TRADE NEGOTIATING AGENDA?

As the world economy resumes growth in the aftermath of the global recession, households, businesses and governments are beginning a process of reducing their levels of debt. This de-leveraging will limit the pace of the recovery now underway. Governments of major economies are to be commended for resisting strong protectionist pressures during the global recession, heeding the lessons of the Great Depression whose severity and duration were exacerbated by a resort to protectionist policies.

But during the present recovery there is little obvious appetite among a number of major economies for further trade liberalisation through the Doha Round of multilateral trade negotiations. Governments are fearful that further global trade liberalisation would put further pressure on domestic industries still struggling with the after-effects of the recession and shifting patterns of comparative advantage. While the world has not gone backwards into protectionism it is not going forward towards free trade. Having learned the lessons of the Great Depression and resisted protectionism, the world has not learned the lessons of global trade liberalisation through the establishment of international trading rules in 1947 following the Second World War.

During the present economic recovery, further trade liberalisation through completion of the Doha Round would create more jobs and prosperity, averting a zero-sum squabble over the distribution of a fixed number of jobs and a set amount of prosperity. Yet major and emerging powers appear indifferent to these opportunities. In this sea of indifference, the range of possible approaches to trade negotiations is bounded by: continuing to press hard for a successful completion of the Doha Round and the preservation of the global trading rules; and giving-up on the multilateral system and negotiating discriminatory bilateral and regional trade deals.

Applying the principles and disciplines of the Gillard Government's trade strategy – and consistent with the Productivity Commission's 2010 report on trade agreements - the Government's negotiating agenda will steer a middle course of championing and protecting the multilateral system while seeking to negotiate high-quality, truly liberalising sectoral, bilateral and regional trade deals that do not detract from but support the multilateral system.

The Government's trade negotiating priorities are set out below. Later this year the Government will again assess each set of trade negotiations against the principles and disciplines outlined in this Trade Strategy, in the light of progress on the various negotiations.

MULTILATERAL AGREEMENTS OFFER THE LARGEST BENEFITS

The Doha Round

A multilateral trade deal offers the greatest prospective benefits. Successful completion of the Doha Round would create a new wave of global trade liberalisation and strengthen the integrity of the global trading rules to achieve greater gains from trade.

Global prosperity is maximised in a global market observing global trading rules. Multilateral trade liberalisation allows countries to specialise according to their comparative advantage, creating more jobs and prosperity instead of simply redistributing a fixed number of jobs and a fixed amount of prosperity among the countries of the world. By avoiding discrimination, multilateral trade liberalisation avoids potentially costly trade diversion to countries that are not the best at producing particular goods and services. As Peter Corish, former President of the National Farmers Federation observed:

“There is only one way we will get any meaningful reform, and that is through results at the World Trade Organization. If you do a deal in the World Trade Organization then you effectively get 144 FTAs all at once.”

Mr Corish made that statement in 2002. Today, the figure would be 153 trade agreements all at once, since there are now 153 members of the World Trade Organization. In fact, it would be even better than this, because Australia's trade with each of the 153 countries would not be tied up with restrictive rules of origin that are deployed in discriminatory trade deals.

The Gillard Government will continue to press for an ambitious, comprehensive outcome of the Doha Round that liberalises trade in agriculture, manufacturing and services.

ASIA PACIFIC ECONOMIC COOPERATION (APEC)

The Gillard Government will continue to champion the Asia Pacific Economic Cooperation (APEC) forum, which was established in 1989 at the initiative of the Hawke Government. Though not a trade negotiating forum, APEC has proven to be an effective grouping for trade liberalisation in the Asia-Pacific region. Following the adoption in 1994 of the so-called Bogor Goals for free and open trade and investment in the Asia-Pacific (by 2010 for industrialised economies and by 2020 for developing economies), countries of the region have gradually lowered their tariffs, confident that other countries were lowering theirs too. By 2009, APEC economies had reduced their tariffs to an average of just over 6 per cent, down from around 16 per cent in 1988.

Longer term, Australia and other APEC members aspire to the formation of a Free Trade Area of the Asia-

Pacific (FTAAP) spanning all APEC economies. FTAAP is a logical extension of APEC's Bogor Goals but there are no prescribed paths for achieving it. The Trans-Pacific Partnership Agreement (TPP) is one possible pathway to FTAAP. It is the most advanced one, with negotiations currently taking place towards a binding regional agreement which could be expanded over time to other APEC members. The Comprehensive Economic Partnership for East Asia (CEPEA), involving the 10 ASEAN members plus Australia, China, India, Japan, New Zealand and the Republic of Korea, and other ASEAN-centred processes aimed at closer economic cooperation and liberalisation in the region, could also lead towards an East Asia-wide free trade agreement.

Comprehensive Regional and Bilateral Agreements

World Trade Organization rules explicitly acknowledge the desirability of increasing freedom of trade through high-quality and comprehensive trade agreements. The Gillard Government will not enter into any trade agreement that falls short of the benchmarks set by the World Trade Organization or the benchmarks we set ourselves of high-quality, truly liberalising trade deals that support global trade liberalisation.

Trans-Pacific Partnership (TPP)

The Gillard Government's highest regional trade negotiation priority is the conclusion of the Trans-Pacific Partnership Agreement (TPP). The Australian Government will pursue a TPP outcome that eliminates or at least substantially reduces barriers to trade and investment. The TPP is more than a traditional trade agreement; it will also deal with behind-the-border impediments to trade and investment.

It is intended that the TPP be a living agreement that remains relevant to emerging issues and allows for membership expansion. While expanded membership of the TPP is desirable, those seeking membership would need to demonstrate commitment to early and comprehensive liberalisation so as to maintain the momentum that has been generated by existing TPP parties.

Australia-Korea Free Trade Agreement

The Republic of Korea is Australia's fourth largest trading partner. The Gillard Government is seeking to complete negotiations on a Korea-Australia Free Trade Agreement in 2011. Our objective in the negotiations is to put Australian exporters on an equal footing with US and EU competitors which have obtained improved access to the Korean market. The agreement would also include strong liberalising commitments by Korea in services while Australia would eliminate its remaining tariffs on auto imports from Korea and would liberalise its foreign investment requirements.

Japan-Australia Free Trade Agreement

Japan is Australia's second-largest trading partner and a significant source of direct foreign investment. Negotiations on a Free Trade Agreement between Japan and Australia commenced in 2007. Japan released a new Basic Policy on Comprehensive Economic Partnerships in November 2010 which makes clear that the Japanese Government is seeking greater engagement and economic integration within the region as a means of revitalising its economy. The Basic Policy suggests a major commitment to fundamental reform of Japan's agricultural sector.

Implementation of the Basic Policy should create new opportunities for agricultural producers, like Australia, wanting to export to Japan. The Japanese Government has proposed to the Australian Government that negotiations for the Free Trade Agreement be restarted and, if possible, completed in 2011. Based on this new approach to agriculture, the Gillard Government has agreed to new and accelerated negotiations, which would offer benefits across goods, services and investment.

China-Australia Free Trade Agreement

China is Australia's largest trading partner and the Gillard Government is committed to negotiating a high-quality China-Australia Free Trade Agreement. The negotiations, which began in 2005, are complex, covering an array of sensitive products and issues, including agricultural tariffs and quotas in China, manufactured goods, services, temporary entry of people and foreign investment. In discussions in Beijing in October 2010 between the Australian and Chinese Trade Ministers it was agreed that fresh efforts would

be made to find ways of overcoming the present impasse. It is anticipated that proposals to unlock the negotiations will be discussed when the two Trade Ministers meet for the annual Joint Ministerial Economic Commission in mid-April 2011.

Other trade negotiations

Malaysia-Australia Free Trade Agreement (MAFTA)

Malaysia is Australia's 13th largest trading partner. Australia is seeking commitments from Malaysia that go further than AANZFTA and result in a commercially meaningful package between the two countries. The Australian and Malaysian Prime Ministers have recently jointly committed to press for the finalisation of MAFTA by March 2012.

Indonesia-Australia Comprehensive Economic Partnership Agreement

Indonesia is Australia's 11th biggest trading partner. Its economy, with 234 million people, has been growing rapidly and in 2009 was the 18th largest economy in the world. The Indonesian Government is pointing to strong recent growth as evidence that its GDP can be in the top 10 globally by 2025. The Australian and Indonesian Governments agreed in November 2010 to launch negotiations for a Comprehensive Economic Partnership Agreement to build on the liberalisation provided for in the AANZFTA.

Gulf Cooperation Council Free Trade Agreement

Achieving a trade agreement with the Gulf Cooperation Council is commercially significant for Australia, with two-way merchandise trade of almost \$9 billion in 2010. Automotive exports are a key opportunity, and agriculture, mineral commodities, services (particularly education, engineering and construction) and investment are all important. The Gulf Cooperation Council has paused its trade negotiations with all partners pending a review of its trade agreement policy.

APPLYING THE PRINCIPLE OF NON-DISCRIMINATION

The Gillard Government will not make it a condition of agreement with another country that Australia be treated more favourably than its competitors. Where a trading partner has already given Australia's competitors access to its markets on terms more favourable than those available to Australian exporters, the Australian Government will seek parity with those competitors.

Australia will offer high-quality, truly liberalising trade agreements to all our negotiating partners. Decisions on whether to enter into and conclude negotiations will be based solely on the quality of the deal on offer, not on geo-political considerations. The Government reserves the right not to sign up to a trade deal that is not truly liberalising. Rather than engaging in a bargaining chip approach, the Gillard Government will make its offers and will consider the offers made by other parties to the negotiations. If the result would be a low-quality trade deal – a Free Trade Agreement in name only – the Government would not sign it. The Gillard Government is not interested in collecting trophies for the national mantelpiece: empty vessels engraved with the words Free Trade Agreement that formalise and validate existing trade restrictions. The Government is willing to conclude a trade agreement with any country willing to sign up to a high-quality and comprehensive bilateral or regional trade deal that is consistent with the global trading rules.

While the Australian Government will not encourage its trading partners to exclude some competing countries from their trade liberalising offers, Australia cannot insist that they embrace the principle of non-discrimination. If a trading partner were to provide access to Australian exporters on terms more favourable than those provided to our competitors the Australian Government would, consistent with the fundamental non-discrimination principle of the global trading rules, have no objection to those favourable terms subsequently being extended to all other countries.

DOMESTIC REFORM NOT DEPENDENT ON OTHERS

The Gillard Government will continue the Labor tradition of unilateralism in economic reform. The removal of unnecessary regulations and the streamlining of burdensome regulations are integral to ongoing productivity-raising economic reform.

If an economic reform is in Australia's national interest it would be absurd for an Australian Government to refuse to implement it on the basis that trading partners are unwilling to reform their economies. Reform in Australia would boost the productivity of the Australian economy and through it the competitiveness of Australian exporters, giving them an added advantage over rival businesses from countries that do not undertake economic reform. Any unwillingness by other countries to undertake domestic economic reform should therefore strengthen rather than weaken the resolve of an Australian government to continue the process of competitiveness-enhancing economic reform.

In Australia's open economy, our businesses need to be as productive as possible if they are to succeed against tough international competition. While exposure to competition provides strong incentives for businesses to innovate and reduce costs, it also obliges governments to remove unnecessary impediments to business success.

During the period of high trade barriers, heavily-protected Australian businesses sold their products and services not into a single Australian market but into a set of small, fragmented markets. As governments have gradually lowered protective barriers the Australian economy should have been making the transition to a single national market – a seamless national economy. Yet Australia actually went backwards on services and product market regulation during the early 2000s, causing the Business Council of Australia in 2007 to lament that:

“The creeping re-regulation of business and the introduction of policies that are inconsistent and overlapping across jurisdictions are ... examples of how the benefits of past reform can be quietly eroded over time” (Business Council of Australia 2007, p. 5).

The Labor Government has responded to business calls to create a seamless national economy by removing unnecessary state business regulation and streamlining unwarranted differences among the states in their regulatory systems.

If Australia is to move to a seamless national economy it will need a national school curriculum and a national industrial relations system. For the first time since Federation, Australia is set to have a single, national industrial relations system. The Federal Government has secured the agreement of all States other than Western Australia to refer their powers to the Commonwealth.

For the first time in our history, schoolchildren will be able to move interstate with their parents without facing the disruption of tuition under a different school curriculum. Not only will this be good for the children it will enhance the mobility of working Australians, better enabling skill shortages to be eased.

Business costs, too, can be lowered through reforms of Australia's land transport regulations and the implementation of a national ports strategy, both of which are being pursued.

NON-TRADE OBJECTIVES

Trade policy might legitimately be deployed to help achieve labour, environmental, health and community safety objectives. For instance, Australia applies national export controls to regulate trade in a range of sensitive goods and technologies which, if exported irresponsibly, could have international security implications and potentially harm Australia's international reputation. However, trade policy measures should not be used as a backdoor way of imposing trade barriers to protect local industries. It is perfectly legitimate for a country to restrict or prohibit the importation of products that have been harvested and produced illegally, including from rare and endangered species such as ivory and illegally harvested timbers. Imports of illicit drugs, chewing tobacco and snuff might be banned on health grounds where local production is also prohibited. Similarly, the importation and domestic production of automatic firearms might be prohibited on community safety grounds.

Quarantine restrictions are legitimate in reducing the risk of imported pests and diseases but should not be used as a surreptitious measure to protect domestic primary industries against competition from imports. The Gillard Government's decision to accept a World Trade Organization ruling on the importation of apples from New Zealand is testimony to its commitment not to use quarantine as an artificial trade barrier. The entry into Australia from January 2011 of apples from China is a further case in point. These decisions send a clear message to our trading partners that the Gillard Government is committed to a science-based quarantine regime that does not create artificial barriers to trade.

The Gillard Government will preserve the right of Australian governments to make laws in important public policy areas. In particular, the Government will not support provisions in trade agreements that constrain our ability to regulate legitimately on social, environmental or other similar important public policy matters.

Labour provisions in FTAs are intended to encourage improved working conditions, human capital development, higher labour productivity and sustained economic growth. They are not intended to be punitive in nature or to come at the cost of competitiveness, enterprise growth or trade relations.

During the great debates about protectionism versus free trade of the 1970s and 1980s, it was common for businesses to complain that competition from countries with 'cheap labour' was unfair and they should be protected from it so as to establish 'a level playing field'. It didn't seem to occur to them that cheap land gave them an advantage against Japanese imports and cheap capital against imports from most developing countries. Owing to different skill levels there will never be a single global wage rate. And as long there are differences among countries in wage rates there will be gains from specialisation and trade according to comparative advantage.

Australia has so far entered into two trade agreements that contain labour and environmental provisions. The Australia-United States Free Trade Agreement (AUSFTA) includes detailed provisions to enforce our labour laws and uphold the *International Labour Organisation Declaration of Fundamental Principles and Rights at Work 1998*, including special provisions on dispute settlement applicable to the labour and environment chapters. There is more limited reference to cooperation on labour and environment matters of mutual interest in the Australia-Chile Free Trade Agreement.

Australia is now involved in a number of other negotiations where the inclusion of labour and environment provisions is under active consideration, including with Korea, Malaysia and in the Trans-Pacific Partnership. Any such provisions will not, however, constitute disguised protectionism.

INVESTOR-STATE DISPUTE RESOLUTION

Some countries have sought to insert investor-state dispute resolution clauses into trade agreements. Typically these clauses empower businesses from one country to take international legal action against the government of another country for alleged breaches of the agreement, such as for policies that allegedly discriminate against those businesses and in favour of the country's domestic businesses.

The Gillard Government supports the principle of national treatment – that foreign and domestic businesses are treated equally under the law. However, the Government does not support provisions that would confer greater legal rights on foreign businesses than those available to domestic businesses. Nor will the Government support provisions that would constrain the ability of Australian governments to make laws on social, environmental and economic matters in circumstances where those laws do not discriminate between domestic and foreign businesses. The Government has not and will not accept provisions that limit its capacity to put health warnings or plain packaging requirements on tobacco products or its ability to continue the Pharmaceutical Benefits Scheme.

In the past, Australian Governments have sought the inclusion of investor-state dispute resolution procedures in trade agreements with developing countries at the behest of Australian businesses. The Gillard Government will discontinue this practice. If Australian businesses are concerned about sovereign risk in Australian trading partner countries, they will need to make their own assessments about whether they want to commit to investing in those countries.

TRADE AND INVESTMENT PROMOTION

The Trade Commissioner Service in Australia has a long and proud history with Trade Commissioners flying the Australian banner in places like China since the 1920s. As part of the Hawke Government's commitment to strengthening Australia's commercial engagement with the world, it established the Australian Trade Commission (Austrade) in 1986 as an independent statutory authority. This incarnation brought together the functions of the Trade Commissioner Service, elements of the then Department of Trade, the Overseas Development Corporation, the Export Development Grants Board and the Export Finance and Insurance Corporation to support Australia's export effort.

Since 1986 Austrade has been progressively called upon to take on new responsibilities while retaining

most of its existing activities. This has caused a loss of focus and the spreading of its resources too thinly. Despite these changes in Austrade's functions and responsibilities, there has been no comprehensive review of Austrade since 1990.

Austrade's future activities need to be based on sound economic and commercial principles. A lack of access to relevant information in international markets can impede Australian businesses from identifying foreign commercial opportunities and entering new markets, reducing Australia's ability to realise the benefits of trade and investment liberalisation.

Market information is a public good: the use of the information by one firm does not reduce the total amount of information available to others. Left to private markets, the search costs that would need to be borne by a single firm, particularly in an emerging or frontier market, can be prohibitively high. Just as a government can correct for market failure in mineral exploration by conducting early geological survey work and disseminating the information obtained to all private exploration firms, there is a legitimate role for government in generating information in emerging or frontier markets and disseminating this freely to interested firms.

The strongest rationale for government support for trade and outward investment promotion therefore is one of addressing market failure. There is a far less compelling case for government to promote and assist exporters generally in the absence of market failure.

The most obvious information deficiencies are in emerging, frontier and transitional economies; where governments play a significant role in the economy; where language and business culture can provide a barrier; where there may be less openness of regulatory frameworks and transparency of business processes; where there are greater difficulties accessing distribution channels and commercial connections; and where the value of the 'badge of government' is highest. Austrade's trade promotion activities will be reoriented towards these markets.

For investment attraction, the general market failure argument for government involvement is not as specifically related to the nature of the market *per se*. It makes sense for Austrade to concentrate its investment promotion activities on countries with a surplus of investible funds, rather than on frontier markets.

CONCLUSION

Under the Gillard Government, Australia's trade policy will be driven by ongoing productivity-raising domestic reform coupled with the negotiation of improved access for exporters to overseas markets. The best trade policy is domestic economic reform designed to boost the productivity and international competitiveness of Australian businesses. Improved access to overseas markets will be sought not on the basis of preferential treatment but as an opportunity to compete on level terms with other countries. Negotiations will seek the maximum possible opening of markets but Australia will not hold back on domestic reform if other governments refuse to reform their economies. Far from being a necessary evil in bargaining for better market access abroad, domestic reform will be pursued in Australia in its own right and for its own benefits.

The Gillard Government will continue to press the primacy of multilateral trade negotiations. Support for multilateral liberalisation will extend beyond the Doha Round to strengthening the global trading system at every opportunity, great and small. The Government will pursue high-quality, comprehensive regional and bilateral trade deals only where they offer net benefits to Australia and do not impede progress on the multilateral front.

In its trade negotiations the Gillard Government will seek to reduce foreign tariff barriers and quantitative restrictions on Australian exports of primary commodities and manufactured goods. But it will go much further. The Government will work to reduce non-tariff barriers at the border and behind-the-border restrictions that impede trade in services as well as in goods. The nature of negotiations on behind-the-border restrictions is more complex than simply dealing with conventional tariff rates at the border. Behind-the-border impediments can take such forms as licences, permits, complex domestic regulations and burdensome and time-consuming processing of applications. Negotiating changes in these restrictions inevitably will involve engaging not only with trade officials but with domestic regulators at both national and regional levels.

The Gillard Government will continue to provide financial support for developing countries willing to undertake domestic economic reforms, including mutually-beneficial trade-creating economic reforms, as it has been doing through the Asia Pacific Economic Cooperation capacity-building program.

While continuing Australia's effective quarantine service, the Gillard Government will not use quarantine as back-door protection. Similarly, while the Government will seek the inclusion of reasonable labour and environmental standards in trade agreements it will not use them as disguised protection against imports. Foreign businesses investing in Australia will be entitled to the same legal protections as domestic businesses but the Gillard Government will not confer greater rights on foreign businesses through investor-state dispute resolution provisions.

The trade and investment promotion activities of Austrade will be refocused. Greater emphasis in Austrade's trade facilitation activities will be given to emerging and frontier markets such as Mongolia (I announced on 23 February 2011 that Austrade would open an office in Mongolia), Colombia, parts of Africa and Central Asia. In these markets the search costs for individual Australian businesses are especially high but the potential rewards are also great. Austrade's inwards investment promotion activities will centre on established source countries in North America, Asia and Europe.

Australia's trade policy priorities will be reviewed annually against the Gillard Government's stated principles and disciplines in light of progress made in the preceding year and of emerging opportunities for further liberalisation. Ongoing domestic economic reform will proceed in its own right and for its own benefits, independently of progress on international trade negotiations.

The Productivity Commission's report into bilateral and regional trade agreements released in late 2010 has been closely considered in the preparation of this review, and its policy positions are highly consistent with the Productivity Commission's recommendations. Attachment 2 sets out the Government's response to each of the report's 10 recommendations.

References

- Business Council of Australia (2007), *Policy that counts: reform standards for the 2007 federal election*, Melbourne.
- Centre for International Economics (2009), *Benefits of Trade and Trade Liberalisation*, Research Report prepared for Department of Foreign Affairs and Trade, Canberra and Sydney
- ITS Global (2010), *Services International Linkages*, Research Report, Melbourne, November
- Pink, B. and Jamieson, C. (2000), 'A Portrait of Australian Exporters,' Australian Bureau of Statistics, Australian Trade Commission, Canberra and Sydney.
- Productivity Commission (2010), *Bilateral and Regional Trade Agreements*, Research Report, Canberra, November.

Attachment: Government responses to recommendations of the Productivity Commission report on bilateral and regional trade agreements

	Recommendations	Government response
Chapter 12	<p>Recommendation 1: The Australian Government should only pursue bilateral and regional trade agreements where they are likely to:</p> <ul style="list-style-type: none"> • afford significant net economic benefits; and • be more cost-effective than other options for reducing trade and investment barriers, including alternative forms of bilateral and regional action. 	Agreed – consistent with the approach articulated in the Statement.
	<p>Recommendation 2: The Australian Government should ensure that any bilateral and regional trade agreement it negotiates:</p> <ul style="list-style-type: none"> • as far as practicable, avoids discriminatory terms and conditions in favour of arrangements based on non-discriminatory (most-favoured-nation) provisions; • does not preclude or prejudice similar arrangements with other trading partners; • and does not establish treaty obligations that could inhibit or delay unilateral, plurilateral or multilateral reform. 	Agreed - consistent with the approach articulated in the Statement.
Chapter 13	<p>Recommendation 3: The Australian Government should adopt the composite model for rules to determine origin in merchandise trade, as in AANZFTA, as the basis for rules of origin in any future preferential trade agreement. In adopting this model:</p> <ul style="list-style-type: none"> • a choice of Regional Value Content and Change in Tariff Classification rules for determining origin should be afforded for each item of merchandise; • the least restrictive variant of each test should be adopted, consistent with preventing trade deflection; and • Australia should seek a waiver to rules of origin requirements where the difference between the most-favoured-nation tariff rates in the partner countries is 5 percentage points or less. 	Agreed.
Chapter 14	<p>Recommendation 4: The Australian Government should not include matters in bilateral and regional trade agreements that would serve to increase barriers to trade, raise costs or affect established social policies without a comprehensive review of the implications and available options for change.</p>	Agreed - consistent with approach articulated in the Statement.

Chapter 15	<p>Recommendation 5: The Australian Government should improve the scrutiny of the potential impacts of prospective trade agreements, and opportunities to reduce barriers to trade and investment more generally.</p> <p>a) It should prepare a trade policy strategy which identifies impediments to trade and investment and available opportunities for liberalisation, and includes a priority list of trading partners. This trade policy strategy should be reviewed by Cabinet on an annual basis, and be prepared before the pursuit of any further BRTAs. A public version of the Cabinet determined strategy should be released.</p> <p>b) Before entering negotiations with any particular prospective partner, it should undertake a transparent analysis of the potential impacts of the options for advancing trade policy objectives with the partner. All quantitative analysis and modelling should be overseen by an independent body.</p> <p>c) It should commission and publish an independent and transparent assessment of the final text of the agreement, at the conclusion of negotiations, but before an agreement is signed.</p>	<p>Agreed in part.</p> <p>Recommendation 5(a): agreed.</p> <p>Recommendation 5(b): agreed in part – an assessment of the benefits of a proposed free trade agreement should be transparent and credible. However, over-reliance on highly abstract quantitative analysis can be very misleading.</p> <p>Rec 5(c): not agreed. Quantitative analysis can be highly misleading, with conclusions heavily dependent on simplifying assumptions used in modelling. Agreements will be presented for consideration by the Joint Standing Committee on Treaties before ratification.</p>
Chapter 13	<p>Recommendation 6: If it is deemed that capacity building should be part of a trade agreement development process, the Australian Government should fund and deliver capacity building programs in a manner that minimises potential (or perceived) conflicts of interest. Any such programs should not impose an obligation to negotiate a trade agreement.</p>	<p>Agreed.</p>
Chapter 7	<p>Recommendation 7: To enhance transparency and public accountability and enable better decision making regarding the negotiation of trade agreements, the Department of Foreign Affairs and Trade should publish estimates of the expenditure incurred in negotiating bilateral and regional trade agreements and multilateral trade agreements. These should include estimates for the costs of negotiating recent agreements.</p>	<p>Agreed.</p>
Chapter 12	<p>Recommendation 8: The Australian Government should examine the potential to further reduce existing Australian barriers to trade and investment through unilateral action as a priority over pursuing liberalisation in the context of bilateral and regional trade agreements. The Government should not delay beneficial domestic trade liberalisation and reform in order to retain ‘negotiating coin’.</p>	<p>Agreed - consistent with the approach articulated in the Statement.</p>
	<p>Recommendation 9: The Australian Government should support worthwhile efforts to achieve multilateral liberalisation. Should meaningful progress within the WTO prove elusive, the Government should weigh up with like-minded countries the feasibility of appropriate broadly based agreements to advance reform.</p>	<p>Agreed - consistent with the approach articulated in the Statement.</p>
Chapter 12	<p>Recommendation 10: The Australian Government should lend support to initiatives directed at the establishment of domestic institutions in key trading countries to provide transparent information and advice on the community-wide impacts of trade, investment and associated policies.</p>	<p>Agreed – consistent with the approach articulated in the Statement.</p>