



COMMONWEALTH OF AUSTRALIA

Official Committee Hansard

JOINT STANDING COMMITTEE ON FOREIGN AFFAIRS,
DEFENCE AND TRADE

TRADE SUBCOMMITTEE

Reference: Scrutiny of the World Trade Organisation

MONDAY, 24 NOVEMBER 2003

CANBERRA

BY AUTHORITY OF THE PARLIAMENT

INTERNET

The Proof and Official Hansard transcripts of Senate committee hearings, some House of Representatives committee hearings and some joint committee hearings are available on the Internet. Some House of Representatives committees and some joint committees make available only Official Hansard transcripts.

The Internet address is: **<http://www.aph.gov.au/hansard>**

To search the parliamentary database, go to:
<http://parlinfoweb.aph.gov.au>

JOINT COMMITTEE ON FOREIGN AFFAIRS, DEFENCE AND TRADE

Trade Subcommittee

Monday, 24 November 2003

Members: Senator Ferguson (*Chair*), Mr Brereton (*Deputy Chair*), Senators Bolkus, Cook, Eggleston, Chris Evans, Harradine, Hutchins, Johnston, Sandy Macdonald, O'Brien, Payne and Stott Despoja and Mr Baird, Mr Baldwin, Mr Beazley, Mr Bevis, Mr Byrne, Mr Edwards, Mr Laurie Ferguson, Mrs Gash, Mr Hawker, Mr Jull, Mr Lindsay, Mrs Moylan, Mr Nairn, Mr Price, Mr Prosser, Mr Bruce Scott, Mr Snowdon, Mr Somlyay and Mr Cameron Thompson

Subcommittee members: Mr Baird (*Chair*), Senator Cook (*Deputy Chair*), Senators Eggleston, Ferguson and O'Brien and Mr Bevis, Mr Brereton, Mr Hawker, Mr Jull, Mrs Moylan, Mr Nairn, Mr Prosser, Mr Bruce Scott, Mr Snowdon, Mr Somlyay and Mr Cameron Thompson

Senators and members in attendance: Senators Cook, Eggleston and Ferguson and Mr Baird and Mr Jull

Terms of reference for the inquiry:

Scrutiny of the World Trade Organisation

WITNESSES

CUTBUSH, Mr Gregory Charles, Senior Economist, ACIL Tasman Pty Ltd.....	1
DRAHOS, Professor Peter (Private capacity)	1
DRAKE-BROCKMAN, Ms Jane Elizabeth (Private capacity)	1
FISHER, Dr Brian, Executive Director, Australian Bureau of Agricultural and Resource Economics	1
GARNAUT, Professor Ross Gregory (Private capacity).....	1
GOSPER, Mr Bruce Charles, First Assistant Secretary, Office of Trade Negotiations, Department of Foreign Affairs and Trade.....	1
OXLEY, Mr Alan, Chairman, APEC Study Centre.....	1
PEARCE, Mr David, Director and Principal Policy Analyst, Centre for International Economics	1
PODBURY, Mr Troy Michael, Principal Economist and Theme Leader, Agricultural Trade Reform, Australian Bureau of Agricultural and Resource Economics.....	1
STOLER, Mr Andrew Lynn, Executive Director, Institute for International Business, Economics and Law, University of Adelaide.....	1

Subcommittee commenced at 9.08 a.m.

CUTBUSH, Mr Gregory Charles, Senior Economist, ACIL Tasman Pty Ltd

DRAKE-BROCKMAN, Ms Jane Elizabeth (Private capacity)

DRAHOS, Professor Peter (Private capacity)

FISHER, Dr Brian, Executive Director, Australian Bureau of Agricultural and Resource Economics

GARNAUT, Professor Ross Gregory (Private capacity)

GOSPER, Mr Bruce Charles, First Assistant Secretary, Office of Trade Negotiations, Department of Foreign Affairs and Trade

OXLEY, Mr Alan, Chairman, APEC Study Centre

PEARCE, Mr David, Director and Principal Policy Analyst, Centre for International Economics

PODBURY, Mr Troy Michael, Principal Economist and Theme Leader, Agricultural Trade Reform, Australian Bureau of Agricultural and Resource Economics

STOLER, Mr Andrew Lynn, Executive Director, Institute for International Business, Economics and Law, University of Adelaide

CHAIR—I declare open this roundtable hearing into Australia's engagement with the World Trade Organisation conducted by the Trade Subcommittee of the Joint Standing Committee on Foreign Affairs, Defence and Trade. This is the second annual roundtable on Australia's engagement with the WTO.

I would like to welcome our participants who include leading experts in economics, trade and the WTO and from the Department of Foreign Affairs and Trade. Australia is an active member of the WTO and is supportive of the development of free multilateral trade. Today's roundtable hearing is intended to bring together a range of international trade and WTO experts to inform the committee on the key issues surrounding developments at the Cancun ministerial meeting in September 2003 and their possible implication for Australia's engagement with the WTO.

In terms of procedure, I would request that all comments be directed through the chair. The basis of our meeting today is looking at Cancun—the reasons for its failure, where we go from here and what are some of the real impediments. It has been suggested that we break down the hearing into the following sessions: session 1, what caused the Cancun collapse; session 2, new WTO country groupings and their implications for the Cairns Group and Australia; session 3, odds of a successful completion of the negotiating round and possible alternative outcomes; and session 4, the future of Australia's engagement with the WTO, bilateralism versus multilateralism. I open it up to the representatives here to make some opening statement about

session 1, what caused the Cancun collapse, and then we will take it on in terms of questioning. Mr Gosper, as you were there, maybe you would like to kick it off.

Mr Gosper—Thank you, Chair. I would like to make a few preliminary comments about the cause of the collapse of the meeting at Cancun and a few preliminary comments about the key issues that played an important role. Perhaps I should preface my remarks by saying that, notwithstanding the claims that have been made by some WTO members, I do not think decision making—the processes in Cancun that were followed by the WTO in discussing issues, guiding the ministerial meeting and making decisions—was a particular or even a significant problem in the context of the meeting. It has been claimed by some, principally the European Union, that the decision-making process was ‘medieval’ and that reform of that decision-making process is essential for the round to move forward. We certainly disagree with that, as would many other members.

CHAIR—If I can just stop you on that point: is it 148 members?

Mr Gosper—It is 148 members with the additional two members in Cancun, yes.

CHAIR—Does that not kind of suggest being a little medieval? I sat in a cabinet of 20 in New South Wales, and it was difficult. I would think of 148 as being an amazing number that you would try to bring together. Do you think that works adequately?

Mr Gosper—It is certainly a large number. There is no doubt that, with the increase in membership over the last half a dozen years, from the 80 or 90 that we had at the beginning of the Uruguay Round to the 148 that we have now during the Doha Round, it is certainly a different situation and it brings its own problems and complexities. There is no doubt about that. But the meeting in Cancun did not break down because the decision-making process was at fault. The key issue here is that the European Union seems to be saying that, until that decision-making process is reformed—and I must admit that its definition of the problem is changing as the days go on—the negotiations cannot move forward.

We do not deny there is a need for review and perhaps reform, but that would need to be done in its own due course. Our immediate concern is that discussion of decision-making processes and description of them as medieval is really diverting attention and resources from what needs to be done to get the round back on track and under way.

CHAIR—So we have found what was not; what was the problem then?

Mr Gosper—I would like to refer to four particular problems. The first problem is a relatively minor one, but I think it is nevertheless significant for some of our trade policy activity, and that is the role of some non-government organisations. This has been commented on by many participants in the meeting, including Alec Irwin, South Africa’s trade minister, who has pointed to the fact that some non-government organisations had a very negative, even destructive, influence on the meeting in Cancun. That was typified in many ways by their obvious presence on the delegations of many countries, principally the African countries, and by their behaviour during various parts of the meeting—the cheering that took place on the basis of political and rhetorical statements, the welcome that they expressed when the meeting actually broke down and the faulty analysis they provided of many issues.

CHAIR—This is the NGOs, is it?

Mr Gosper—Yes, that is right. I wanted to make that comment up front. I am not saying that it is a significant factor in the breakdown at Cancun but it is a factor that is relevant to the way in which we engage all the members of the organisation and where we move forward from here.

CHAIR—Was their role more significant than in previous rounds?

Mr Gosper—Slightly different. If I can characterise it this way: if we go back to 1999 and look at the Seattle meeting, the non-government organisations and others largely disaffected with the WTO or other parts of the globalisation agenda were very prominent in the press and very noisy on the streets. They had a big impact on the public perception of the meeting but they did not really have any particular role inside the meeting itself. They were not immediately apparent.

If you move to Doha a couple of years ago, it was noticeable that NGOs were represented on many delegations. They were writing briefing papers and participating more actively. I think it has gone a further step in respect of the Cancun meeting where, again, they were more visible and they were supporting the developing countries in Africa and elsewhere more clearly. I want to make clear that we are talking about only some NGOs here. There are other NGOs that have played a very positive and constructive role in the negotiations overall. I am talking about organisations such as Oxfam, for instance, and many others. Nevertheless, there is a core of NGOs that you could characterise as anti-growth, anti-trade, anti-WTO.

CHAIR—Which NGOs are we talking about?

Mr Gosper—The Third World Network is one prominent example of an organisation that has taken such an approach to the negotiations.

The three key issues I would like to identify for the committee as contributing to the breakdown at Cancun are: first, the cotton issue; second, the Singapore issues; and, third, the agriculture issue. I think that is approximately the ascending order of importance to the breakdown at Cancun. In other words, I want to suggest that agriculture was the main problem that we faced at Cancun.

The cotton issue basically relates to the proposal that was put forward by four West African countries for some means to address the problem they faced on the world cotton market as largely unsubsidised producers of cotton and in particular the distortions to the world market that, in large part but not entirely, relate to the high level of subsidies provided by the United States to cotton producers.

There was certainly much discussion undertaken at Cancun on this issue. It was facilitated by the Director-General, Dr Supachai, who focused in particular on this issue. Just as other ministers were asked to facilitate discussions on issues such as agriculture, industrial products and the Singapore issues, so Dr Supachai took on the task of facilitating a discussion on cotton. It was not an issue that, in the view of most members, was satisfactorily resolved.

The draft declaration largely seemed to many to sidestep the question and pointed at a solution that would basically involve the international financial institutions in supporting the structural

adjustment of these West African countries to deal with the problems they faced on the world cotton market. That seemed to many to be a somewhat perverse result—that an organisation like this would essentially suggest that these poor West African countries, who derived a large proportion of their GDP from the cotton production and trade, should in essence adjust out of production of cotton because of the distortions on the world market. That did not seem to many to be what the organisation should have been about. In some ways, that result was inevitable given the way the discussion was structured.

When we come to perhaps the third item on your agenda, which is talking about where we go to from here in the negotiations, perhaps we can talk about the approach that members are seeking to take now. Certainly, there was a poor view taken of the way in which this issue was handled and its implications for the negotiations. That did have its impact on the overall climate.

Then we come to the Singapore issues. These were the four issues that were put on the agenda in that fashion as the Singapore issues at the Singapore WTO ministerial in 1996; namely, trade and investment, trade and competition, trade facilitation, and transparency in government procurement. They were certainly a big focus of the meeting and are commonly seen as the immediate cause of the breakdown in the meeting. That primarily results from the reaction to the proposal that was put forward by the chair of the meeting, the Mexican minister, Dr Derbez, which foreshadowed negotiations on two of those issues and a halfway house on a third—the very negative reaction that was seen from many developing countries to that discussion.

I will just describe how events actually unfolded, because it might be helpful for the committee to see the role of this issue in the breakdown of Cancun. The Derbez text of 13 September was released on the Saturday morning. Delegations were asked to go away and consider this document and then come back in the evening at about seven o'clock to give their immediate reactions to it. I think the intention of the chair was that, after a round of discussions, he would move fairly quickly to a more intensive 'green room' type process to actually consider whether there was the basis for an agreement across all areas of the text.

It became readily apparent early in that Saturday evening that there was a large and quite forceful reaction from many developing countries to the text, centring in particular on the Singapore issues and the way in which this discussion had been set up. The reaction at the beginning was from countries such as India and Mauritius but then fed through many developing countries, many of the African countries, the LDC group, the ACP countries and so forth. That discussion led to an unusual sort of atmosphere—one where quite lofty rhetorical statements were made by some members which were greeted by applause and cheering by others. It was quite an unusual atmosphere at that phase of a negotiating meeting—not something I had experienced in quite that fashion before.

Although we anticipated this would take several hours, it went into the small hours, past midnight on that Saturday. I think it was at that point that Dr Derbez decided that he did not really have the basis to move to a more inclusive process, a smaller more intensive process, immediately. He first had an issue to deal with on the Singapore issues. In the early hours of Sunday morning, he convened a very small group—comprising largely the EU, the US and some of the core opponents of the Singapore issues such as India and Mauritius and a couple of the Caribbeans and so forth—to see whether he could find some consensus on these Singapore

issues, because obviously they were emerging as something of a roadblock in the discussions. That took place for some time before it concluded.

Then the chair decided that he would convene the green room process at approximately 9.30 on the Sunday morning, which he did. There were approximately 30 countries involved. So it was a little bit larger than the green room process that took place in Doha, which included about 20 countries. I think that was largely because of the nature of the issues that were being discussed and in particular the opposition from the sorts of groups I have talked about: the LDCs, the ACP countries—that is the beneficiaries of preferences into the EU—the Caribbean countries and so forth. That discussion started at about nine o'clock.

Dr Derbez decided he would start on the Singapore issues more or less immediately rather than the other three key issues that remained to be addressed during the meeting. It proceeded in that fashion until just after midday—all the time on Singapore issues and with no obvious consensus emerging on these issues. The significant thing that happened during the morning was that Pascal Lamy, the EU trade commissioner, decided to offer some flexibility on the Singapore issues. It was done in a way that was a little bit unclear as to where precisely he was offering flexibility, but in fact he offered to take two of the four Singapore issues off the table. The way he broached it was not off the table but out of the negotiations, indeed out of the WTO. Many would now assume that the issues he was talking about were investment and competition policy.

Still negotiation proceeded without any clear consensus. Many developing countries clearly were not satisfied with that. As an example, Malaysia had a very strong view on transparency and government procurement and was taking the position that none of the Singapore issues was appropriate for negotiations. Around one o'clock in the afternoon, Dr Derbez decided that he would ask for a one-hour break and he asked that, during that time, the Africa group and other groups go away and consult with their broader membership on the concession, the proposal that Pascal Lamy had made, and come back at approximately two o'clock for a further discussion.

So members broke and went away to do their consulting. The meeting reconvened at approximately two o'clock. Dr Derbez asked pretty much up front what the results had been of these consultations, and I think he asked it of Botswana which was part of the discussion and convenor of the Africa group at that time. The view that came back was that many developing countries remained of the view that there should be negotiations on none of the Singapore issues. Dr Derbez allowed the discussion to proceed for some short time, 10 or 15 minutes beyond then, and then said that, in his view, his job as chair was now completed. It was clear there was no way that consensus on this issue of Singapore issues could actually be achieved. Without saying it directly he implied that it was a fundamental part of the overall agenda for many members and therefore with a blockage on this particular issue there was nowhere for the negotiations to proceed. So he said that he would be calling members together to announce the conclusion of the meeting, and that is precisely what happened. There was a lot of confusion and uproar.

A lot of members were obviously very disappointed at that, while others seemed to be, at least at the time, pleased with that outcome. Members reassembled in full plenary to hear from Dr Derbez. He made a short statement and then essentially the meeting was concluded. His short statement, which I think members will have, basically outlined his decision to call the meeting to a close, the need for members to move forward with the negotiations to capture the work that was already done thus far in the negotiations, and proposed that senior officials meet in Geneva

in mid-December to look at where negotiations should go from here. That is part of the overall context for understanding why the Singapore issues were the immediate cause for the breakdown in the negotiations.

CHAIR—I would like to just ask two questions. It would appear that the criticism I have seen in some of the commentaries, such as from the *Economist*, suggesting some people had thought that Dr Derbez had terminated the meeting too quickly does not sound to have too much validity.

Mr Gosper—There has been such criticism. We do not accept it ourselves. We would have certainly appreciated the opportunity to continue with the negotiations and have some opportunity over the next 24 hours that were essentially remaining to see whether we could get somewhere on the remaining key issues, which included the industrial negotiations and the agriculture negotiations.

But I think the reality is that the European Union, having had part of its agenda peeled off and spurned, would have found it very difficult politically to go back to its member states and say, 'We need additional flexibility to meet the demands that many such as Australia, the Cairns Group and the G21 are making in the area of agriculture.' Whatever the desire there might have been for further negotiations, the practical effect of the discussion on Singapore issues was probably going to be that it would have been even more difficult to actually reach agreement on agriculture and industrial products.

CHAIR—Do you think that the Europeans were a bit slow in withdrawing two of the items? There was some suggestion in the *Economist* that, if they had moved a bit faster, it could have saved the round.

Mr Gosper—I do not think it helped. Many members, including Australia, had been saying for some time that, although we were prepared to participate in these Singapore issues and contribute on all four issues, they needed to be 'unbundled', to use the jargon that is used; in other words, not taken together as a package but unbundled and each issue looked at separately on its own merits and perhaps with different sorts of negotiating modalities and frameworks to apply to each of those issues.

We always thought it was a mistake to keep all four issues bundled together. It includes some issues such as trade facilitation which, to use the words of the Hong Kong minister, is 'motherhood and apple pie'. Trade facilitation is things that we should all be doing, and many are doing in one way or another. It is quite different from investment and competition which can be much more sensitive issues and on which there is much stronger views both for and against.

The second thing was that there was a miscalculation about how flexibility would be dealt with at a meeting like this. I think, very much in retrospect, it is clear that it was perhaps too much to hope that, in the sort of hothouse atmosphere of a negotiating meeting like that, on such a large and important subject as the Singapore issues, you could signal flexibility on investment and competition in a way that was a little bit ambiguous, not quite clear, and expect within the space of several hours that countries would go away and coordinate and discuss with their broader membership—bearing in mind, of course, that the bulk of the membership are developing countries but think about the numbers of countries that are involved in the LDC or Africa and the ACP country group—this new flexibility and respond in an entirely coherent or

even rational way. I think in retrospect we could say that was a somewhat risky strategy to play brinkmanship, if that is the way it was intended, and to expect that you could get that sort of response in that sort of atmosphere and in that sort of time frame. I think that was clearly—again in retrospect—a miscalculation.

The Singapore issues clearly had a big impact on the meeting. They are obviously the immediate cause of the breakdown in the way I have described and they are obviously an important point of contention for the overall negotiations. However, I do not think that is necessarily the most important issue that came out of Cancun. I would like to talk a little bit about agriculture, which in many ways was the underlying dynamic of the meeting and perhaps the most important dynamic of the meeting.

As you might appreciate, the immediate discussion in Cancun on agriculture was to some degree centred on this paper that the US and the EU had put to the membership some weeks before. That paper itself was the outgrowth of a meeting that occurred in Montreal in August, a so-called mini-ministerial meeting that involved about 30 countries. Just as there had been mini-ministerials in Sydney, Tokyo and Sharm el-Sheikh over the last year or so, this meeting in Montreal was focused on the actual problems we would face in Cancun in negotiating particular outcomes.

A key issue for discussion there was agriculture, and in particular the problem that members were having on the market access component of the agriculture negotiations. The Cairns Group had a particular position. If I can characterise it this way, there was a difference between the EU and the US on the formula approach that would apply to agriculture tariffs. I am sure Dr Fisher will be talking about this in his presentation a little later.

The European Union was basically proposing a repeat of the so-called Uruguay Round formula which has certain average cuts and achieves a fairly modest outcome that provides a lot of flexibility to preserve sensitive lines. The US was proposing a Swiss formula type approach, which basically means that higher tariffs will be cut more deeply. It has the effect of addressing much more efficiently many of the tariff peaks that exist in this particular area. There was obvious disagreement on these sorts of issues. The Cairns Group has been a proponent of a much more ambitious approach to tariff reduction. So we were certainly arguing that the Uruguay Round approach was not sufficient and that, unless you had some quite significant cuts agreed of a much larger level than were agreed in the Uruguay Round, you would end up with probably removing a lot of the water in existing tariffs but not actually increasing trade. Of course, we saw the Doha mandate was all about increasing trade through the market access negotiations.

CHAIR—Removing the water?

Mr Gosper—The water in the tariff. In other words, tariffs are set at a level much higher than is necessary to actually prevent trade. The negotiations would essentially be to take a lot of that water out and reduce the tariffs to levels which are more like those levels of tariff at which trade will actually flow over the tariff, but probably not quite there so that in fact you would not see much increase in trading arising. You would perhaps position the negotiations for subsequent negotiations which might actually make cuts that would really cut into protection and lead to tariff increases, but that would be for a subsequent negotiation.

So the US and the EU were asked at the conclusion of this discussion to see if they could come up with some sort of resolution of the differences between these two perspectives on market access negotiations. Other members, other ministers in the room, decided that they would ask the US and the EU to go away and do this. That was seen as an approach which may be necessary—it was probably going to happen anyway. The US and the EU do talk about these issues, as we have seen in this past. So it has its inherent risks. However, I do not think everyone expected that what they came back with would be so comprehensive or quite so self-serving. The document that the EU and the US brought back to the table was a framework proposal, if I could use it that way, the skeleton of the sort of agreement that you might expect to come from a meeting such as Cancun. It went through all three pillars of the agricultural negotiations: it went through domestic support and export subsidies as well as market access. It had a few other additional very interesting elements to it.

It drew a very strong reaction from all members. On domestic support, although it captured essentially what the EU was proposing to do in terms of its CAP review, it did not go any further and indeed it proposed a solution which did not have the US contributing much to reductions in domestic support at all on some analyses. On market access, it had a hybrid between the Uruguay Round approach and the Singapore issue approach but accompanied this with very little by way of measures that would give you confidence that it would do anything more than take some of the water out of the tariff and certainly almost nothing on TRQ, on tariff rate quota expansion—another problem.

On export subsidies we think it went a step backwards. In fact, our view is that it allowed the EU to take half a step, just a little shuffle, backwards on—admittedly on some interpretations—not entirely concrete language of the Doha mandate on export subsidy elimination in a way we thought was quite positive. It combined all this with a clause which seemed to target the major developing country agricultural exporters—read Brazil—for treatment that was somewhat different from what would extend to other developing countries, and that itself was a quite negative contribution to the overall debate.

When we went to Cancun, it was in the context of a debate that was very much centred on this quite negative proposal that had been put forward by the US and the EU which had been reflected, along with many other proposals to some degree or other, in the texts that were presented to members immediately before and at the Cancun meeting, and a lot of concern about whether the US and the EU were prepared to show flexibility of the sort that we thought would be required to actually move the agriculture negotiations to a level that we thought would be consistent with the Doha mandate. That would have required some significant improvements in all three pillars of the agriculture negotiations.

We kept getting told, by the US certainly, that it was prepared to participate in the negotiations and to be flexible. I must say that, from the EU, there was slightly less indication that it was prepared to be flexible. It was certainly prepared to talk but, whenever we pushed for detailed discussion, it was very unclear whether there was flexibility available on the part of certainly the EU and perhaps the US. In any event, we did not get to test it. We did not get the final discussions that were necessary in that green room context to test the level of flexibility that the US and EU were prepared to show on agriculture. So in a sense we will never know, but clearly the text was some way short of what we thought would be required for a satisfactory outcome. It

would have taken quite an effort, I think, to get the whole membership over the line on that issue.

That is an important underlying dynamic of the meeting. I think many of the statements which have come out since Cancun reaffirmed that it lies at the core of the interests of the great majority of members. There is a lot of dissatisfaction with the position that was set out in Cancun, certainly with the EU-US text which has been rejected roundly but also with the Derbez text which is seen by most as totally unsatisfactory. I think that is where a lot of attention will necessarily centre in the months to come.

CHAIR—Thanks very much for that quite extensive briefing. I suppose we could regard you as the primary source and the official source. In terms of opening up the discussion, I do not know whether it is appropriate for one of our two professors to kick it off. As we have seen something written from you, Professor Drahos, would you like to make some comments?

Senator COOK—Mr Chairman, before you do that: I am going to have to leave before the end of this and I wonder whether I can mention a few questions I have that might want to be addressed by the discussions as we proceed.

CHAIR—Sure, that is fine.

Senator COOK—I thank you, Mr Gosper, for a comprehensive and quite considered presentation of what led to the breakdown. Can I just raise a couple of contextual elements of what might have led to the breakdown, too.

The first is one of the biggest concerns I have had for some time and that is the proliferation of bilateral trade negotiation and, to use the jargon, that this has sucked the oxygen out of the multilateral round. There might be some comment as to whether that background option that major powers within the WTO have had laid out for them has meant that their energy in the round has been less than necessary to get the round moving. That may not be a comment about the trade ministers but may be a comment about capitals' views about the economic options facing their nations rather than the riding instructions of the negotiators—but it may be a bit of both.

The second is the dominant global concern at the moment: security. In security and in alliances to combat terrorism, we are confronted with an interesting problem. Alliances mean you build alliances to combat the effects of terrorism. Security to me means that you build a regime to deal with the causes of terrorism. The global security debate is about dealing with the effects at the moment rather than the causes. Very little effort is being put into investigating and dealing with the causes at this stage—I hope that will come.

From the little we know about causes, disempowerment is a cause, ignorance is a cause and poverty is a cause—not in its own right but as a recruiting ground for fanatics. Disempowerment is economic disempowerment as it is loss of national identity or whatever else—religious disempowerment. If we focus on alliances, we focus on bilateral negotiation to build a coalition; if we focus on security, we focus on underlying causes—multilateral solutions to improve the global economy. Do any of the discussants wish to comment on whether there is a link there or whether they think I am wrong about that?

The third question I mention is the nature itself of the WTO. Just as in the United Nations where all countries sign on to notions of democracy when some are patently undemocratic, in the WTO all nations have signed on to the goals of free trade when some of them by their behaviour and their opinion do not believe it and act against it. One of those may be, for example, India. It is possibly contagious in the sense that you might finger another as possibly Brazil. What they have done is bring down the edifice based on a consensus decision-making structure, with developed countries giving justification for that because of their obdurate attitude on agriculture.

You have mentioned cotton. Cotton is, I think, a criticism of the United States. There is no economic or moral justification for not doing anything on cotton, or it may just be that the US political structure is unable to deal with how you undertake structural adjustment in an industry like that which is so politically sensitive. Therefore that requires a bit of a rethink about the WTO and how the cogs of the WTO mesh to produce a result if you have an in-house lobby group supported by articulate but anti-WTO NGOs fuelling that argument as well. One of the things that we as parliamentarians need to think about is the longer term and the bigger picture. In that context, we need to be thinking about whether this is a perfect structure and if there is something that we can contribute to the debate about how it might be improved. They are three matters that I would like to post.

CHAIR—Did you want a comment on that now from Mr Gosper?

Senator COOK—With some of these comments that I have made, it is probably inappropriate for Mr Gosper to comment and I would not want to put him in that position. But other discussants might feel free to do so. The last one about the WTO is probably something more directly in his bailiwick.

CHAIR—Mr Gosper, did you wish to comment?

Mr Gosper—On the last issue, yes, I think we touched on this at the beginning. There are obviously some challenges and problems that the membership are facing in the way they approach decision making in a negotiating context, and probably more broadly as well. Those relate to the much larger membership that the organisation has now, many of whom are small developing countries, some without Geneva representation, and we are asking them to keep pace with an organisation which has a complex agenda. It has a very wide agenda nowadays with many of these issues—not only the implementation of the Uruguay Round structure with its added elements and a very dynamic dispute settlement system, rule making in action, but also a negotiating agenda which is quite wide. That is no doubt a challenge that we are all still grappling with.

We ourselves find that it takes a lot of work to keep pace with what is happening across the entire organisation, particularly with a very busy dispute development agenda. We do not deny for a moment that review of the way the organisation operates and its decision-making processes is appropriate. I think we have, in essence, a very cautious approach to these issues because we are very much of the view that we do not want to see the organisation go the way of the United Nations system where it seems progress can often be stymied by those who seek no change, no progress, no movement of any sort. It does not seem to us that would be a particularly positive way for the organisation to go. But there may be areas in which improvements can be made and adjustments can be considered.

Our immediate concern is that that not be something that diverts too much attention at this point in the process. It is a difficult area; it is one that could potentially absorb a lot of effort on the part of the membership. I think if you were to enter into a review now, as the EU seemed to be proposing at one point of the medieval decision-making structure—I think it used the word ‘neolithic’ at one point as well—then probably the organisation would be totally preoccupied with that for a long period of time. It does not seem to us that is a very productive use of resources at this point. Rather, we should be getting the negotiations back on track, making sure that we capture what work has already been done in these negotiations and putting in place a process which over the coming months—dare I say longer and I am sure we will come to that question—will ensure that we actually reach an outcome. There will be a time and a place to address these sorts of issues.

Reference was made in particular to the role of India on these sorts of issues. Obviously, this is one of the dynamics of this organisation now. We have a number of big developing countries—India, China, Brazil and South Africa perhaps as well—who are all looking to exert as much influence and control over the process as they can at the moment. That is something we are all going to have to deal with.

I will talk about one country’s position, India’s position: it has always been somewhat disturbing to see the game it has played in these negotiations. India has a tariff structure which, for instance, is quite unlike China’s now. If you look at both manufactures and agricultural products, its tariffs are considerably higher than China’s. We see evidence that India is looking at how it can address this problem, but that certainly does not come through in any negotiating context.

Senator COOK—Part of the problem is that at least China has made a decision internally to open its economy while India has not made that decision. As long as it does not make that decision, it will probably remain in this role in the WTO.

Mr Gosper—It seems so. One of the big developments of the last few years has been the way in which India has become the largest user of antidumping measures. It is now the largest initiator—and has been for the last three years, I seem to recall—of antidumping measures, and many of them employed against big developing countries. So its position, which is one we have seen in the agriculture context where we have had to see if we can find a way to deal with its concern for additional levels of special treatment, is also being seen in the industrial negotiations where again we see attempts to carve out from any form of discipline, any level of cut, a large proportion of trade and tariff. That is a problem that we are going to have to deal with. It is a problem all members have to deal with, because many other developing countries have interested in what India does as well. That is certainly an impediment, an issue we will have to deal with at this point.

CHAIR—Thank you. Before we start again, we had several people join us just after we commenced. I understand there were problems with flights this morning. We welcome Mr Jull and Senator Eggleston. I also welcome Professor Garnaut, Mr Stoler and Jane Drake-Brockman. Could you please state the capacity in which you appear before the committee today before we ask you to comment.

Ms Drake-Brockman—I am appearing in my capacity as Managing Director of Trade and Environment Solutions, my consultancy company. I did attend the Cancun ministerial meeting. I was present at that meeting as convenor of the Australian Services Roundtable, which naturally influences some of the views that I would put. But I am here presenting my personal views.

Prof. Garnaut—I am here in my personal capacity. I am a professor of economics at the ANU and have participated in discussion of Australian international trade policy for a long time.

Mr Stoler—I am currently the Executive Director of the Institute for International Business, Economics and Law at the University of Adelaide. Prior to that, I was WTO deputy director-general. I was at the Cancun meeting as well.

CHAIR—We will proceed now to some comments from both my colleagues and our participants here today. Please feel free to dive in at any time. Either Professor Drahos or Professor Garnaut can kick off in terms of commentary on what you have heard regarding reasons for the failure of the round.

Prof. Garnaut—Chairman, can I ask Bruce a couple of questions?

CHAIR—You certainly can. Yes, it is free flowing.

Prof. Garnaut—Bruce was very negative about the chairman's text. My question is: in that context, how should we read the unanimous declaration of APEC leaders to go back to Doha Round negotiation on the basis of the chairman's text? Secondly, I might have missed it and do not worry if I missed something that you said, but I did not hear a detailed description of the European Union position on subsidies that was put belatedly to the Cancun meeting. I wonder if you could tell us a bit more about that.

Mr Gosper—Professor Garnaut, on your second issue, I am not quite sure which EU position on subsidies you are referring to—agricultural domestic support?

Prof. Garnaut—Agricultural subsidies in general, domestic support and export subsidies.

Mr Gosper—I do not think there was anything belatedly put to the meeting that was not encapsulated in the EU-US text, which in essence for domestic support seemed from our perspective to capture what the EU had decided to do through its CAP reform process. Essentially it was talking about bringing down the bindings for domestic support, amber and blue box support, from some \$US100 billion—I forget the exact figures—to some \$US70 billion. That was sort of where things were coming down to.

The immediate problem we had with that was that the way in which they were constructing it involved pushing some support into a new sort of version of the blue box. This seemed to us to be an artifice that was designed to get around the US problem with harmonisation. The US said it had a problem with levels of support vis a vis the EU. It said it would find it very difficult to get its Congress to actually make cuts in domestic support while the EU was allowed to have levels of support that were many times greater than the US. So the artifice that the EU and the US came up with to capture what the EU was willing to do as part of its CAP reform process

was one that allowed the US potentially to keep quite high levels of support. They do not currently use the blue box but some support would be pushed into a new version of the blue box.

The calculation we came up with was that, if you took reasonable assumptions into account—reasonable assumptions about, for instance, what sort of cuts you could expect to amber box support and the like—you could expect reductions for the EU of the sort I have said but, for the US, they would go from some 25 billion to potentially something between 24 billion and 29 billion. So that is not necessarily a cut. The US had fixed its harmonisation problem but on the back of itself potentially making no cuts at all to domestic support, and doing this in a way that entrenched the notion of a blue box, call it what you like, with very little concern for any relevant criteria for how you could discipline some of the support that would go into that box.

So on domestic support it seemed that the EU, fair enough, was offering what it said it was going to do unilaterally—not necessarily anything more than that although you could well take the view that they add a bit of coin, a bit more negotiating flexibility that might come to the fore at some point in the negotiations. They might cut 65 per cent rather than 55 per cent or something like that, but we never got the chance to test that. The US itself was not really doing much. It seemed to us that, for the US to be driven to cut more, the EU was going to have to itself cut more because the US obviously has this problem with Congress and harmonisation between the two.

Then on export subsidies, the big problem we faced there was that the language had become much vaguer on whether there should be an end date for export subsidy elimination. Certain wording was used in the EU-US paper, then a slightly different version of it emerged in the Castillo text immediately prior to Cancun, and then a different version in the Derbez text—all of which jumping around this question of whether there should as part of the negotiations be agreement to a specific end date for the elimination of export subsidies. It was getting to the stage where a lot of importance was attached to whether you say ‘an end date’ or ‘the end date’ and words like that. There were a lot of lawyers doing work trying to attach more or less meaning to formulations like that. But, in any event, we thought that the EU had been allowed to take half a step back on this issue.

We all know now that there is a direction to EU agricultural reform, and you could probably say that extends to export subsidies as well. I think there is a broad political level consensus now that export subsidies are something that the EU has to move away from. The point is having a program to do that that gives us confidence—bindings, of course, but confidence—and, from our viewpoint, a specific end date. The end date does not have to be five years or 10 years, but there has to be an end date of some sort of another. Although we have plenty of signals from individual member states and from others in the EU that the direction of policy is certain, providing some transparent certainty to that is what we are really looking at.

I do not think the EU brought anything else to the table on subsidies that I am aware of in the immediate lead-up to Cancun and certainly in the discussions that we had in Cancun—Australia and the Cairns Group had meetings with the Americans and the Europeans—there was not much more than a sort of ‘trust us, let’s see what we can do’ sort of approach. There was no new specific initiative that I saw.

On the question of the APEC declaration, which was a formulation that we actually initiated in the sense of going out to all the APEC membership, and in particular the US, to get their support, the point is that we have to have a starting point. The words that we have chosen have been careful, quite deliberately, because in this world when you start talking about things as 'a base for' or 'a basis for', you start to wander into all sorts of different interpretations. The reality is that no-one can agree to the Derbez text as it is. And some would say that, on specific elements such as agriculture, they would require very significant change or improvement before there could be a satisfactory basis for conclusion. That has certainly been our position.

But the point is we have a negotiation to move from. If we do not have a starting point, then what is our starting point? Do we go back to the Doha mandate? Are some people going to look to reinterpret the Doha mandate? Do we go back to the Harbinson text, which most members explicitly rejected. Where do we go to? Do we start again? And, if so, do we start with the mandate, as indeed some members are implicitly suggesting now. I am sure we will get to that. The easiest way to deal with this is to say that the Derbez text is a starting point and implicitly we are saying that it and other contributions during the negotiating process are relevant. But we have to start at some point and get the negotiating process back on track at this point. This is probably the most appropriate way to do it.

CHAIR—Thanks, Mr Gosper. We have had the official position, and I think it is now appropriate we have commentary on that position. I do not know who would like to start it off.

Ms Drake-Brockman—I would like to comment briefly on the set of issues that Bruce Gosper has suggested were the cause of the failure. I largely agree with the set of issues: the NGO behaviour, the cotton problem, the Singapore issues and agriculture. There has been a suggestion that the lack of business support for the WTO agenda around the world was another contributing factor. I actually do not think that was the case but I do think that the NGOs rather drowned out what was a business presence in Cancun, so I would agree with Bruce Gosper that that was a part of the problem.

I would like to comment on two specific things. I think I could largely agree that the US-EU deal on agriculture was the underlying cause of the failure. However, we have seen EU-US deals on agriculture before. Of course, we saw one in the Uruguay Round in the form of the Blair House accord. The real question is not why did the US-EU deal happen; the real question is: why was it a problem? Why was there no third force, as there had been in the Uruguay Round mainly in the context of the Cairns Group, to knock that deal into acceptable shape once the ministerial meeting took place? I think some analysis of that question is critical to understanding why there was a failure.

In my view, it does come down to the fact that different Cairns Group members felt more strongly about different pillars under the agricultural three pillars and, as Bruce Gosper explained, the Australian government position was more focused on market access and export subsidies and the government's problems with the deal on those two issues. The Latin American countries were more focused on the failings they saw in that deal on domestic support. I would argue that the one issue that you cannot deal with in the context of a bilateral FTA or in the context of a regional agreement, but where the WTO and only the WTO can help, is precisely domestic support. I think it was an area of policy making which was influenced by different member countries' approaches to bilateral FTA negotiation. There was a clear element on the

part of some of the Latin American countries that they could achieve market access and export subsidy outcomes in the FTAA and other bilaterals with the US but they really needed the WTO to focus on domestic support. While the Cairns Group was critical, as everyone was critical, of the US-EU deal, it was less critical on the domestic support issue.

There was an argument floating around Cancun that, if you are a neighbour of the US and if your economy is more closely integrated with the US, you will care more about domestic support than if you are geographically further away. I have never heard that argument come from officialdom before. I think it is a question that requires some deep economic analysis. It is not clear to me that Australia should in fact be less concerned than, say, Brazil is concerned by the US Farm Bill.

I would therefore just like to add to Bruce Gosper's analysis that, had we moved to looking at the agricultural part of the text, the EU would have been in trouble—and I would like to say that so would the US. The US also would have been in trouble, and doubly so because cotton is precisely part of the US domestic support program. A lot of the heat in the new developing country alliances that formed in Cancun was precisely focused on US domestic support issues.

I would also like to add on the Singapore issues that this is one area where I would have to agree that there was a WTO process problem. The key process problem was the fact that nobody knew quite what Commissioner Lamy had said in those final moments because no minutes are taken, because there is no written record and because you are relying on one minister who represents 20 ministers to leave the room and report in a variety of languages. While some of the focus now on process issues is very unfortunate and I agree it is largely a distraction, I do believe that the lack of clarity on what was said at that critical moment was an important problem.

I also feel on the process side that the lack of capacity building, particularly in the African region and particularly on the new issues including the four Singapore issues, was another major process failure on the part of the WTO. The superficial failure at Cancun based around the four Singapore issues need never have happened and should never have happened. While I would agree that agriculture was the underlying thrust, we ought to have been able to get to test agriculture and there were largely process issues that got in the way.

CHAIR—Mr Stoler, I understand that you might have some views in terms of the role of various groupings, particularly groupings such as the G21?

Mr Stoler—I will give you my views on that, but I would just like to say for a minute that I think that nobody who understands these negotiations well went to Cancun with the feeling that that meeting was going to be a success. Over the past year we have been polling experts every six weeks to get their viewpoint as the negotiations evolved on these particular issues. In the poll that we conducted at the end of July, we found that only 29 per cent of the experts expected to walk away with any sort of agreement at Cancun. So this was a failure that was a long time in coming. It was not a surprise.

I think basically the failure had its roots in the Harbinson text, which was a major strategic error at that point in time and really set back the agricultural negotiations. I say it was an error because, if you look at the Harbinson text compared with all the others, you will see that it is the only one that had numbers in it, and it had numbers in it to the extent that it allowed a lot of

people to forecast what they thought would be the outcome of the negotiation, which is why so many of them rejected it. So things began falling apart there and, by the time we got to Cancun, I do not think it was any big surprise.

The group dynamic I would like to comment on a bit at Cancun is this so-called G21—or today I guess people would call it a G17 group because it has lost a lot of its members since then. I had a number of conversations with people whom I would regard as sort of moderate members of that G21 group, developing countries who really were in the negotiation to see liberalisation in agriculture—countries like Chile and Costa Rica. I asked them why they had aligned themselves in that group with countries like India, which obviously had no real interest in seeing the negotiation produce the same sort of result as the Chileans and Costa Ricans wanted to see. Their answer, and I think they were being quite frank with me, was that they had always intended that this would be a short-term shock type of group that was designed to pull the negotiation back from the extreme of the US-EU text on the one hand towards the centre, and that once it had achieved the objective of bringing the negotiation back towards the centre the group would probably go its own separate ways. But they did not quite have a strategy on how they were going to do that.

At the very beginning, the existence of the group and its motivations were also misjudged by the United States. Bob Zoellick set out to kill the group as a major objective in the Cancun meeting and he has been trying to kill it off ever since. It has lost a number of members because Zoellick and members of the US Congress have said, 'If you are in the G21, you are not going to get a free trade agreement with the US.' So the Costa Ricans and others have dropped out. If the G21 had thought about their strategy a bit more carefully and had an exit strategy and if a few of them had explained that ahead of time to some of the other major players, they could have achieved the result through their radical approach of bringing the negotiation back towards the centre and we could have had a different outcome.

Bruce Gosper was talking about brinkmanship, and of course a lot of people use that tactic in the WTO. But another tactic that a lot of people use, both in the WTO and in negotiations generally, is to propose something outrageous just so that you get something reasonable. I think that was what the G21 was doing.

Prof. Garnaut—I have just a few comments, Chairman. On the very important discussion of the EU-US offer and especially the EU component of it on agriculture, I think we have to be a little bit careful about dismissing something that seems to be mainly water in the tariff, if only because what is water and what is solid liberalisation depends on the real exchange rate. And binding protection, whether through subsidies or through tariffs at a certain level at one exchange rate, may have no liberalising impact at that exchange rate but an exchange rate appreciation makes that same protection level consistent with higher levels of trade. We saw the same thing in Australia where we gave away water in the tariff in the late 1970s with the Fraser government's offer in the Tokyo Round. But it was actually liberalising subsequently when the appreciation of the real exchange rate during the resources boom raised the general cost level in Australia.

Over the last year, we have had a huge appreciation of the euro against the US dollar. So binding protection levels that look like water in the tariff at the exchange rate of early 2002 would have a very different result today. I see a bit more substance in what the Europeans were

offering. Whether or not they were aware they were offering real substance is a separate question.

I think there is lots of evidence in the muddle at Cancun of underdone diplomacy, of poor preparation involving many countries. You should not get as many surprises as everyone seems to have got in Cancun if everyone has put real effort into working through positions. One has to ask the question: why was not the groundwork done as thoroughly as at equivalent stages of the Uruguay Round? I think the answer includes the point that Senator Cook raised of preoccupation with bilateral and other trade policy issues. It may include preoccupation with other international policy issues in the lead-up. However, there is something in Pascal Lamy's characterisation of the failure—in his talk to the *Journal of Common Market Studies* in London a few weeks ago—as a car accident on the way to a wedding, something that was not based on any fundamental irreconcilability of personalities or interests but an accident.

Bruce Gosper's analysis correctly focuses on the poverty of US commitments to liberalisation in the Cancun discussions. These last three years have been very unhappy times for liberal trade in the United States, with the Farm Bill, the steel protection and now some of the uses of safeguards against developing countries. I cannot think of a first three years of a presidential term in the postwar period that has gone backwards as far as this.

I wonder if we have all given enough priority to using our high standing in the United States to put a view that it is in the United States's interest economically as well as strategically to have a more open global economy and therefore in the United States's interests to be prepared to put more on the table at this critical time in support of multilateral liberalisation.

Bruce Gosper correctly has described the different dynamics of this meeting in trade terms with minor developing countries playing a much more forceful role. I wonder if there is a way out of that if we continue to see countries that are minor players in the international system as major players in the WTO. I think that too much emphasis is being placed on reciprocity from minor countries and at the same time too much emphasis placed on their capacity to hold up negotiations. I think we would all be better off if the major participants in international trade, accounting for most of world trade and most of the growth prospects, took a fairly hard-headed view of their interests and made it clear that they were not insisting on reciprocity for minor developing countries but at the same time were not going to be stopped or tripped up by the sort of representations that Botswana made on behalf of African countries. I think those two issues are different sides of the same coin. You have to accept some free riding if you are going to not let minor developing countries play a veto role.

Finally, I think not only in the United States but in the world as a whole there has been a deterioration in recent years in many countries in support for trade liberalisation for the benefits that it brings the country itself. In the end, you only get major liberalisation if there is strong support for it within the liberalising country. Tit for tat negotiations in the WTO or in bilateral agreements have not made much difference over the past several decades. The really big expansions of world trade as a result of trade liberalisation have come from individual countries, the politics within those countries deciding that liberalisation is in their own interest. That is the way we did it; that is the way New Zealand did it. Most importantly for the international system, that is the way China has done it with the most radical liberalisation the world has seen in the past couple of decades. That is the way Korea, Japan and Taiwan did it on manufactured goods,

although I accept that on agriculture the WTO negotiations were very important in those three cases. It is the way Indonesia did it in the 1980s and early 1990s. It is the way the Philippines did it under Ramos in the first half of the 1990s. It is the way that Malaysia did it in a series of steps from the early 1970s. It has been the important progress in liberalisation affecting Australian export prospects.

I agree with Bruce's view that the right thing to do following the car crash on the way to the wedding is to get back to the understandings that preceded the car crash even though individuals may see some change in the arrangements as being in their own interests, and I very much welcome the Australian initiated declaration of APEC leaders for that reason. But alongside that, I think it would be useful to do one other thing that comes out of the Australian experience with trade liberalisation, and that is to seek to institutionalise a process in individual countries of transparent independent analysis of the effects of trade policy changes. Suggesting this and reaching agreement on it may not be controversial because it does not force anyone to do, but an agreement on the establishment of a process for transparent independent analysis which can over time have a public educative effort on trade policy issues may in the end be the most important thing that we can do to get out of this domestic gridlock on trade policy that has become very important in the United States but increasingly important in a lot of other countries, including our own.

CHAIR—Fine. I also welcome Mr Alan Oxley. We had a few who were delayed, so you are not alone. We were hoping to finish this segment by 10.30. Because Mr Gosper's briefing was reasonably extensive, perhaps we could extend it by another 10 minutes before morning tea. Then we will proceed on to session 2 after morning tea. This is an important segment of the hearing. Do any other people want to make comments at this stage?

Mr Pearce—Could I give a bit of perspective in a sense from the other side of the coin from the point of view of developing countries. As an economic consultant, I spend a lot of time in developing countries advising officials, particularly officials who are responsible for doing analysis of trade issues, on how to go about doing it. A few interesting things emerge in that process. One is the point that Mr Gosper made about including the Singapore issues within the round. If you look at some of those Singapore issues, the kind of analysis you need to do to understand them is quite different from the kind of analysis you would do to understand trade reform. Lowering tariffs and removing quotas are things that there is a lot of experience in. There is a lot of experience in countries having done it. That requires one form of analysis. But understanding what sort of domestic competition policy regime is in the interests of your own country is a quite a lot more complicated. We have observed that the analytical abilities within developing countries to understand some of these issues are limited in some cases. They are growing, and of course the WTO itself and various organisations provide support. But it is a difficult issue. So lumping lots of different issues along with the traditional issues of trade reform is a problem from the point of view of developing countries.

I would like to echo Professor Garnaut's points about domestic transparency within these developing countries. A lot of times there is limited understanding of why the country would want to go into a trade negotiation. Even from the low level of the bureaucracy, it is seen as being a 'get something, get a concession; do not give anything away' sort of process. As Professor Garnaut has pointed out, you need a domestic constituency that supports and understands liberalisation before anything will happen.

We see it particularly in countries that have not yet joined the WTO but are thinking about it or working towards it. They are always looking for ways to get something without supposedly giving something away, when really it is in their interests to continue their process of domestic liberalisation. I think that is an issue for the future for the WTO. It, in part, gets at one of Senator Cook's points about how can those opposed to free trade within the WTO countries bring the whole edifice down. If the WTO can be part of the process of independent domestic transparency that Professor Garnaut talked about, you lower the odds of that happening quite significantly.

The third point is that, in some of the ways the WTO is structured, in a broad sense it contains some of the seeds of its own destruction. It actually contains a lot of Trojan horses for protection, and I am thinking of things like antidumping. In a country like Vietnam where we do a lot of work, the first thing they seem to be concerned about is getting antidumping up and going. In fact, they almost feel it is compulsory for them to have an antidumping policy in place before they can join the WTO.

For a country like that, at the stage they are at in their development, antidumping is really a major distraction. But you can see it is a way for protectionist elements within the country to slip in some protectionist sentiment through the back door. The same holds for some of the other so-called safeguard measures. They can always be called upon to maintain levels of protection if certain domestic interests feel that trade reform is not in their interests.

Finally, on Senator Cook's point about the causes of terrorism or the issues about global security, again domestic transparency issues can help there, because a lot of the income inequality and problems we see in some of the countries where terrorism is emerging is due to a lack of transparency in government policies. So, again, domestic transparency is a major theme that I think is very important.

Mr Oxley—I apologise for missing Bruce Gosper's presentation and, if I cover ground others have covered, excuse me. I want to make comments briefly on some of the systemic causes of Cancun. It suited Pascal Lamy to call it a road crash because I think he contributed to one of the systemic reasons for it failing.

With the exceptions of the New Zealanders and one or two of our dairy people, I do not know any experienced trade negotiator or official who thought that the Doha Round could finish at the beginning of 2005 or that achieving a result on agriculture was possible within that time frame or within the framework set up for it. Why did I mention Pascal Lamy? Some of us wonder whether Lamy and Zoellick between then actually genuinely did believe it was possible to get an agricultural result in the four years. That may be a consequence of their lack of adeptness at multilateral trade work; it may explain why they were surprised; it may explain why Lamy was quite clumsy in the way in which he handled the removal of two of the critical issues in the negotiation.

Normally in a negotiation, when you build relationships and coalitions, you tell your friends when you are going to change your position if you have led them into it. Commissioner Lamy did not tell the Swiss, the Koreans or the Japanese that he was going to take investment and competition policy off the table in the room. And, when he did, they put up their hand and said, 'No, we do not go along with this.' All of this seems pretty clumsy, but the basic clumsiness

behind it was setting up the negotiation with a genuine expectation by some of the players that getting a real result in agriculture was possible within that four-year time span. Psychologically, therefore, that may have been one of the background issues to the failure at Cancun, because in negotiations people do not make an effort if they do not think things are going to produce a result.

On that score, I would be surprised if we see a substantive result in mid-December when the negotiators are supposed to patch up what they tried to do at Cancun. Their time frame and picture of what is to be done would be something as follows: everybody knows that during a presidential election year, you really cannot expect any progress on trade as you get nearer and nearer the federal election. Realistically, even if there had been agreement to rebuild the consensus on negotiating agriculture, which was intended to be the key business at Cancun, that gave the negotiators from then—which was last September and begin work in November—through until June at the latest, which is eight months, to put together a serious program for reform in agriculture. There is no evidence—inside the US administration and I would argue that what the Community did certainly was not going to be the basis of any substantial reform—that those two administrations were in a position to move to that point. The practical expectation of everybody was that Cancun would have basically rejigged—in fact, removed a basic weakness in the agriculture text.

Again, the question of competence may arise here. Andy Stoler made the observation that there was something wrong with the Doha mandate for agriculture. By golly, there certainly was, because that mandate required the negotiators mid-negotiation—by March, I think—to have set the targets for the negotiations in agriculture, the targets for reductions. The agriculture negotiations are like any other. In any big negotiation, in any big deal, in any merger or in anything you like, the final thing decided is always the price. You settle the procedures, you settle the issues to be covered, you settle the ground you are going to take and the last thing you settle is the price. In the agriculture negotiations, the price is how big are the cuts: how much are you going to cut subsidies; how much are you going to cut the tariffs.

Yet they set up this negotiation where they were supposed to settle the price before doing the rest. It was not going to work. I never understood why the negotiators did not make an effort to basically step away from that. It was sensible when Doha was launched to put pressure on everybody to come to the party. But some of us have a nagging suspicion that maybe Zoellick and Lamy actually believed that maybe that would work. The reality is that, had Cancun succeeded on agriculture, they effectively would have turned around that awkward, unachievable mandate and created a mandate for continuing the negotiations.

Everybody expected that at a certain point when things slowed down—when by June it became pointless, because nobody will negotiate with the US administration when they know they cannot deal, so the EU would not have been serious either—they would have convened a meeting, preferably had the meeting at the end of the period of time, and given the negotiation another two or three years, which is where it should be put out into the zone where there are prospects for internal shifts on agricultural policy in the EU and in Washington. Lamy and Zoellick probably will not be around with the next administrations, and that is another expectation. So I do not think people are going to take a process seriously if they cannot see how it will work and they do not believe the key players who are saying, ‘We will do this and we will do that’ will be on the scene.

The second systemic issue, which I believe Bruce Gosper touched on, is that there has been a demographic shift in the WTO—it is called the Africans. The night after the collapse in Cancun, I was talking to some of the senior people in the secretariat and they made a very interesting observation. One of them said, ‘We have always felt very guilty about the failure at Seattle because we knew that bad preparation of the secretariat was a contributing factor.’ I do not know if you are aware but, when you go back to that period, the long fight over appointing Mike Moore basically left a rudderless secretariat and they had much too little time to prepare for Seattle. Seattle was a disaster waiting to happen. They went there with so many things unagreed that it was not going to work. He said, ‘But we look back at Seattle and we now see more semblance with Seattle than at Cancun,’ and a common semblance was the Africans, because the Africans emerged as a newish group. To put this into context, when the Uruguay Round finished the WTO had high 90s in members, 88 or 90 members. Now we have about 140, and 40 of those are African countries. They have successfully joined over this period of time. The 40 African countries have a world share of trade of two per cent.

Mr Stoler—Less.

Mr Oxley—Take South Africa out, and it is less because South Africa accounts for about half of that. Therefore, in substantive terms, they do not have a real interest in world trade and, frankly, they behaved like it. The issues that they focused on at Doha were not core trade issues. They talked about AIDS, which was never a trade question. It was a political thing they threw in and played around with. I went to a number of meetings where African trade ministers were standing up talking about AIDS and health issues. They remain there as a problem. The very fact that it was the minister from Botswana who sort of despatched the final session by saying that the Africans refused to discuss something as non-contentious as trade facilitation in a way symbolised their relative lack of seriousness about the endeavour.

If they remain a fixture, it will be a significant problem, because what they have basically exported into the WTO are all the shenanigans that are typical of UN meetings. To give you an example, nobody would try to have a UN meeting and to deal with things as serious as were grappled with in the WTO in four days. The UN meeting would last for about four weeks. They would spend two weeks of it with speeches from ministers, shopping, playing golf, mucking round. Then about halfway throughout the second last week the serious work would start and the opportunities for grandstanding, being seen and being heard, which is really what a lot of the UN area is about, would be worked through. The Africans can have their day in the sun; the processes of consultation can be more elaborate. Maybe one of the problems of the WTO is that it has not adjusted for this phenomenon. But I fear there may be something in deeper behind it.

That brings me to the next point which I think is a systemic problem, and that is that maybe it was a serious error to call this the development round, because the expectation and initial position of the Africans, the position that Brazil took to galvanise the group of 21, was basically to say, ‘Trade liberalisation is something for rich countries not poor countries. We should not have to cut tariffs.’ That was really the position that the Africa group took. It relates to a very dismal attitude that I see where we are now talking increasingly about the problems of failed states, lack of governance and lack of government responsibility in Africa; and we are seeing that exported into trade negotiations, where the Africans simply say, ‘Well, it is not our fault. Colonisation is the problem. Rich countries have high trade barriers.’

The reality of course, if you look at the numbers, is that average tariff barriers in the developing world are much higher than in the industrialised world. I actually take issue with Professor Garnaut saying, 'Do not worry about the reciprocity.' In one sense it is true; in another, it is actual death to the WTO. The operating premise of the WTO is not that it is a development organisation; it is an organisation for reducing trade barriers; it is an organisation where the fundamental philosophy has to be taking responsibility for your own interests and acting to cut trade barriers to improve your own economy. The fact that such a large number of developing countries hoisted themselves onto the flag of saying, 'We don't have to do anything. It is a rich country problem' really is a serious problem for the culture of the WTO.

In that respect, linked to that may be a change of attitude by the major powers, and I think what we have seen here is a fairly serious warning earth tremor. It is the second time something like this has happened in the space of four to five years, if we look at Seattle as the first. If the Americans and the European Community decide they cannot really be bothered putting up with all this, they have an option; they have an option to walk. Those who would actually suffer would be us principally, because unless they are in the game we are not going to see the WTO delivering results in agriculture and we are not going to see the WTO putting pressure on other countries to reduce trade barriers. Most of our trading partners in the Asian region still have significantly higher trade barriers than ours in the global average. I think we should be deeply concerned about what happened at Cancun, because if these things that I pointed out are systemic rather than accidents we may have to have a big rethink about how we approach the whole thing.

Prof. Drahos—Some of my comments actually echo Alan Oxley's. I think it is important to bear in mind the trade. If you look at the history of trade talks, they indeed break down. The Uruguay Round broke down on a number of occasions. The question is whether this breakdown in Cancun signals something which is qualitatively different.

I agree with the analysis by Mr Bruce Gosper as to the particularities but, more generally speaking, one of the reasons the talks broke down was the costs of resistance that the United States is incurring in the WTO. The same thing happened in the Uruguay Round and the way in which the United States dealt with those costs of resistance was to do some bilaterals and, of course, it also had NAFTA running at roughly speaking the same time as the Uruguay Round. Eventually, when it achieved a certain set of standards within NAFTA and some crucial bilaterals during the 1980s, we saw the Uruguay Round come to a successful conclusion.

It may be that we are seeing a similar process repeating itself here where the costs of resistance in the WTO are very high at the moment because of the sorts of reasons that Mr Oxley has articulated—the Africans are indeed extremely active in the WTO, particularly in certain councils such as the council for TRIPS. The United States may well take the view that, for the time being, it is better to operate in regional and bilateral fora where the costs of resistance are lower and achieve an outcome on a set of standards that is important to it. And then, when the time is right, it may shift back to the multilateral forum. This, of course, assumes that the multilateral forum in the process itself is not irretrievably damaged in some way. But the US will probably do enough to keep its reputation intact for some subsequent deal.

Dr Fisher—I will make a couple of introductory comments and then get my colleague to talk about some of the specifics that have been raised. The first thing I want to reflect on is the point

already made by Alan Oxley about the nature of the process that we are now involved in in the WTO. As has already been observed, we have gone from about 90 members to 150 members since the end of the Uruguay Round. And we have inherited now in the WTO elements of the UN that are complicating the process. Not only are there elements of a UN style negotiation happening in the WTO now; there is also this role of NGOs.

There have always been NGOs, including business NGOs, involved in these negotiations but the style of the interaction of those groups is now much different. That is as much to do with changes in society more generally as it is to do with the nature of the negotiations themselves. It does not matter which negotiation you go to today, you will find a whole range of elements of what would be referred to in Canada as a civil society involved very explicitly in the negotiations. As Bruce Gosper has already observed, many of those groups are now involved directly in the delegations rather than on the outskirts of the negotiations so they can have a substantial impact. That is something that we see much more in the UN than we are typically used to seeing in the WTO.

In addition to that, when you have a large number of new countries such as the African group joining a negotiation like this and they are faced with complexities such as competition policy, investment et cetera, you are bound to run into problems with capacity to deal with those issues. I think Mr Oxley's observation is correct that a UN negotiation of this style would be taking several weeks and you cannot compress this style of negotiations into a few days. It is not possible to deal with those sorts of issues. This comes back to some of the points that Mr Gosper was making about process, and I am sure we do not want to dwell on that. But at some point it is going to be necessary to recognise that what we are dealing with in the WTO now is radically different from what we dealt with in the Uruguay Round.

It seems to me that there remains a fundamental problem with respect to agricultural policies in Europe and in the United States. It seems to me that Europe is now distracted by expansion of the European Union. The notion of taking on another 10 members is a very difficult task indeed. So we have a domestic situation in Europe that is diverting—which is perhaps the right term—their attention to other things. Professor Garnaut has already made the point that we need domestic drive for domestic policy reform, and that has the potential to facilitate action at an international level. My observation would be that the domestic drive is almost in neutral, I would suggest, in Europe with respect to agriculture and that makes it very difficult. Indeed, we also face difficult problems in the United States. We have struggled for many, many years indeed with US farm policy. Other speakers have already observed that there is not much progress or perhaps negative progress with respect to domestic US farm policy. Faced with that and the circumstances in Europe, it makes it difficult indeed.

The last point I would like made is that, if you have a look at the role of India in this negotiation, India is effectively a closed economy. India has something less than 10 per cent of its GDP contributed by the export sector compared with China at about 25 per cent. Over the last 25 years, China moved to effectively a relatively open economy. India is a relatively closed economy, and India has taken into the WTO negotiations the sort of stance it often takes into a UN negotiation. Once you have that, you have the potential for all of those G77 style issues that we encountered in the 1970s to be injected into a trade negotiation, which makes the dynamics very difficult. Perhaps I could get Mr Podbury to comment on some of those other elements that Professor Garnaut raised.

Mr Podbury—As a starting point, and I will take off from where Brian and a lot of other speakers have touched on, there has been a lot of talk about why Cancun failed. Fundamentally, Cancun failed because there was a lack of commitment to reform by a lot of WTO members. We have heard about the EU, the US, India and the African countries. But another one of the reasons for the lack of commitment to reform was preferential access, either straight preferential access or access through bilateral or regional free trade agreements, whereby the exporting countries are actually getting the price in these supported markets. Therefore, if there is any liberalisation that actually takes place, these countries will actually have a reduction in the prices they get on their products. This is one of the problems we have faced in the WTO negotiations, particularly on the market access side.

Touching on something that Professor Garnaut said in relation to water in the tariff and in particular the effects of exchange rates, it is probably important to note that the water in the tariff analysis that ABARE initially did in 2001 was actually updated just before Cancun. Yes, exchange rates did have a big influence, but the other thing to note is that prices did respond when you had the US and the EU having significantly different exchange rates so that it was not just a simple calculation of taking the exchange rate difference. Second, with the EU having reduced some of their internal administered prices as part of their mid-term review of their common agricultural policy, what we actually saw with the EU was that the water in the tariff was actually increasing rather than decreasing.

You also mentioned a concern over the lack of technical work that had been done to date and whether people were prepared to go into these negotiations. I will touch on something that David Pearce said, which is that the issues that were being dealt with were a lot more complicated. In addition to the agricultural side and the non-agricultural market access, we were talking about reasonably complex formulas on the market access side so that it was difficult for people to analyse what the impact was going to be. While a lot of work has been done, it is very difficult, even when you have a lot of good people. We have had a lot of people at ABARE working on this and on the non-agricultural access side. There has been a really good group at the Productivity Commission that has been giving some advice to DFAT and, even with all that work, all that computing power and the time that has been put into it, it is very difficult to give clear-cut answers on what will or will not be achieved.

If we are having difficulties doing this, the African, South American and Asian countries of this world are also having these difficulties. We are with DFAT trying to address some of these difficulties. We have a training course in modelling happening next week with some Thai people. AusAID is funding some training through the Centre of Policy Studies in Melbourne for some South African trade policy people coming in. If we want to progress the negotiations, we have to make sure that these other countries have the ability to analyse these things—first of all to make some good input into the direction that needs to be taken; and, second, to overcome a suspicion that is there in terms of the analysis that is coming out of the EU, the US and even Australia about whether we are saying things that are beneficial for those countries or we are just trying to sell what is going to be good for Australia and trying to convince them against what they should be convinced. So, in that respect, it is important to make sure that not only they can do the analysis themselves and publish it but also they can do the analysis themselves to support their negotiators.

Mr Cutbush—I am one of those who thinks that distractions have caused a lot of what has resulted at Cancun, and of course some of them are inevitable things about which no-one could have predicted to do with security. But also there has been a rash of bilateralism that itself must ultimately be sheeted home to something faulty with the fundamentals. To my thinking, and to echo many of those who have spoken already this morning, the fundamentals essentially are the domestic atmospheres for trade policy reform in the countries that are members of the WTO. I would think there is nothing more important than institutionalising domestic trade policy analysis. If we could get that to become part of what the WTO was headed towards—in other words devoted to—we would be making progress on a timetable that is more realistic and on the sorts of considerations Alan Oxley raised that would attend to the fundamentals in a long time span. It seems to me that is the key thing.

One of the reasons I am here without much announcement this morning is that I would have been in Laos for a week contemplating these questions on behalf of the Laotian government. The Laotian government wants to join the WTO, and I was contemplating what I would have said, as you could imagine, to persuade the Laotian government to take the WTO seriously. I do not know that I would have been putting too much energy into that. I think the serious thing for the Laotians to do is to introduce in their country institutions like we have that ensure there is transparent analysis of trade policy issues and that a constituency for trade reform is built in that way.

CHAIR—A final comment for this session?

Ms Drake-Brockman—I want to comment briefly on the second aspect of the discussion on country groupings. We heard from Andy Stoler what the US is doing to undermine, kill off—or however you want to see it—the G20 plus, but I would hope that quite independent separate efforts are going on to rebuild the Cairns Group's own profile and credibility. The big trouble at Cancun for us was that the Cairns Group just was not a player. Part of rebuilding credibility for the Cairns Group and part of rebuilding our leadership of it is precisely bringing some distance again between the US and the Cairns Group. So relying on US efforts to undermine the G20 plus is not in itself enough. I really just want to emphasise the critical need for independent efforts to be going into this.

China, for example, was a country that Australia never thought would join a group. It did join a group. It is a potential Cairns Group member. Maybe Australia needs to think about some new ways of handling the Cairns Group membership: maybe the chairmanship should be revolved; maybe we should allow a bit more democracy within the group, if you like. I rather feel that we as Australians have felt that, on the technical aspects, we were the only ones that really knew how to do it and come the hard yards in the negotiations naturally Australia would have to lead. But perhaps that is too arrogant a position; perhaps it is time for Australia to rethink how it takes the Cairns Group forward. I do not know the answers. I only know that we do need to be thinking about those questions, and independently of thinking about what we do about the G20 plus.

CHAIR—I really appreciate the professional input from this morning's session. It has been comprehensive and very valuable, so thank you for that. We will have a short break for morning tea. Then we will proceed on with the issues of where we go from here.

Proceedings suspended from 11.05 a.m. to 11.15 a.m.

CHAIR—Before we commence on this segment, Mr Gosper said he would like to respond in relation to the G21 and the Cairns Group. Thanks, Mr Gosper.

Mr Gosper—I wanted to respond to a few points that were made on the Cairns Group and G21, because I did not get a chance in my earlier comments to focus on this. The first thing I wanted to say was a little bit about the background to this group which lies not so much in the economic sphere as in the political sphere; that is, cooperation between Brazil, India and South Africa in the context of the UN Security Council and other issues. Over the last few months, what has happened is that that cooperation has jumped species, if you like, from the political world to the trade world and, with the addition of a few others, has taken a particular role in the agriculture negotiations. People have mentioned in particular the group which at one point during the Cancun meeting was 23 countries and is now 17 countries. Nine of those 17 countries are Cairns Group countries. The members who have departed are entirely countries from the western hemisphere. The group has met a few times since then.

Australia did have some discussions with Brazil early in the piece on what they were intending to do with India and South Africa and others and the position that they were taking in response to the US-EU text. We were presented with something of a dilemma, because obviously they had decided tactically that one of the ways they would respond to the US-EU text—in particular their position on domestic export—was to propose a text which was a Cairns Group position. They took the positions that were taken by the Cairns Group on, as we would call it, 2½ of the three pillars. In other words, if you think of each of the pillars as having a developed and a developing country commitment, they took the Cairns Group position on all issues except for the market access commitment to be made by developing countries.

That put before us a great dilemma because it was not something that all of the Cairns Group could agree to. A number of members of the Cairns Group, and I am thinking of countries such as Canada, New Zealand, Uruguay and Malaysia, would not agree to such a position. As chair of the Cairns Group, it was therefore very difficult for us to support that sort of position at all. But obviously with the sort of political momentum that had been built up in consultation in the political sphere, these major players were intent on moving forward in this way. There was the additional impetus for Brazil because of the approach the US-EU text had taken on the commitments to be made by the major developing country agricultural exporters. So there is a large overlap in membership between the two groups and in fact a large overlap in positions—2½ of the three pillars, as I have said.

Clearly that was a complication in Cancun for us. But we were all able to manage that in a way, because the Cairns Group continued to meet, including with the members that are also participating in the G21. Overlapping membership of these sorts of groups is nothing new, of course. But the Cairns Group met daily at ministerial and senior official level. It met with all members of the group: it met with the EU, with the US and with other groups. I think the group continued to have the same role. We consulted very closely with Brazil in particular because it was taking a prominent role in the G21 on these sorts of issues. If you had asked us at one point for our decision when faced with a stark choice between the EU-US text and the piece of paper that the G21 put on the table, I think our choice would have been very clear—it would have to be the G21 paper because essentially that was a Cairns Group position. Except for one area where

we did have a significant difference, as I said, it was essentially a Cairns Group position, so much closer to the interests of the overall group.

Since Cancun and the discussions we had there, we have spent quite a bit of time in Geneva and in capitals talking with members of the group. We have just had a senior official through Uruguay, Argentina, Brazil and Chile to talk about the Cairns Group. We have been quite pleased with the response we have got. The group is meeting back in Geneva and has met several times. All members of the group have reaffirmed their commitment to the Cairns Group. They see its enduring value and they have all expressed their commitment to the group. The group itself has decided that it will meet at ministerial level early next year, and arrangements for that are in train. So I think the Cairns Group will continue to have its role within the negotiations. It will continue to have a role where we seek to work with other members of the organisation—and that includes individual members such as China, Egypt, Kenya, Uganda, Pakistan or India even on agricultural trade liberalisation—and it will work with other groups, be it G21 or any other group that has a similar interest in agricultural trade liberalisation.

At the bottom, one can wonder about whether this group will be sustainable in the way that the Cairns Group has been sustainable, whether it will be able to do the hard yards of negotiating detailed positions over an extended period of time on issues where members have slightly different national perspectives and interests, but it may well be around and the Cairns Group will need to work to it. At the very least, of course, the Cairns Group itself has spent quite a bit of time over the last few years reaching out to countries such as China and India and, for the first time, these countries are now taking an active engagement in the negotiations on agriculture. This is not something that has occurred before. There is a certain positive dynamic to that. That is perhaps all I will say at this point about G20 and the Cairns Group.

CHAIR—Thanks very much for that, Mr Gosper. Perhaps we could proceed on to the agenda items that we have for this session: firstly, the odds of a successful completion of the negotiating round, which we have talked about in some ways, but I suppose it is more focused on why the whole round failed in terms of Cancun and possible alternative outcomes. The second aspect is the future of Australian engagement with the WTO, whether it is in terms of bilateralism or multilateralism and focusing very much on what should Australia be doing. The other participants that are here beside Mr Gosper will be able to provide suggestions in that regard. Shall we kick it off in terms of: what are the odds of successfully completing the round? Is it going to take us eight years or will it just collapse?

Mr Stoler—Thank you. I am going to take advantage of the fact that the institute is right now in the middle of another one of its polls of the trade experts from around the world to comment a little bit on what I see the direction being there. I think the immediate future for the WTO negotiation is not very bright. In fact, the levels of expectation are going down rather than up. We have about half of the responses in from the latest poll. Out of those responses, only about 20 per cent of the respondents think that the mid-December meeting is going to achieve the sort of objectives that were set for that time frame. In fact, most countries are no longer planning on sending senior officials, because they have downgraded that December meeting.

CHAIR—Can I just ask about the survey: did it go out to all participants or to the trade ministers, the bureaucrats? What level of response have you had? Are they G21 countries or the 40 acceding African countries? Where are they from?

Mr Stoler—First of all, there are slightly more than 100 people that are covered in this survey, and about half of those people are in Geneva. They are the countries' trade ambassadors. It is usually the ambassadorial level. They include developing countries as well as developed countries. There are people in the WTO secretariat and there are high-level trade policy officials in Brussels, Paris, Washington, Ottawa, Canberra, Wellington and Tokyo who also participate in this poll.

CHAIR—Your response rate has been?

Mr Stoler—I get a good response rate. Sometimes it takes a couple of weeks to track all these people down. This is now the sixth poll we have done in 2003, and they have not missed the mark on most of the things that they have predicted in their responses.

CHAIR—So you have a 100 per cent response rate?

Mr Stoler—No, we would probably get about a 90 per cent response rate most of the time. Sometimes you have people travelling or something else so they do not get back to us. However, if people miss two polls, they do not get included in the next one. At any rate, most of these people actually doubt that we will even have an agreement on a framework for agriculture some time in the first quarter of 2004, and 2004 is becoming more and more seen as a sort of water-treading year.

There is no-one to speak of in the respondents who believes that the round could possibly end on schedule at the end of 2004. Most people are now taking the time frame of two or three years longer to bring about this exercise, in part for the reasons that Alan Oxley and others have commented on earlier today. But the bright side of all this is that—like a friend of mine likes to say, 'I have seen this movie before'—most people do not expect the round ultimately to fail. They expect it to succeed but it is going to succeed over a longer time frame. A certain number of things will have to be done differently from how they have been done so far.

CHAIR—Other input, or shall we speak to our primary source first?

Mr Gosper—I can talk a little bit about the process that has been engaged in in Geneva and what that means for December and thereafter. As I said before, ministers agreed in Cancun to a meeting of senior officials in mid-December. Since that time, the chair of the general council, Carlos Perez del Castillo, the permanent representative of Uruguay, has been managing a process in Geneva with some assistance from the director-general, Dr Supachai, designed to see what broad consensus there can be on what can be achieved in December and thereafter. He has been undertaking—rather well, I would say—a process of bringing people back to the table as the first step.

One of the products of the efforts of various people, including Australia, has been to have everybody basically say that they are willing to re-engage. By and large, with some exceptions, including a notable exception, they are willing to engage on the basis of the Derbez text as a starting point. The notable exception is the EU whose position on some issues is still not clear. Early on in this process, Castillo identified the four key issues that need to be addressed over coming months. I think it was somewhat welcome at the beginning of the process that developing countries basically decided that they would not insist that some of their traditional

issues—implementation and special and differential treatment—would be for a moment put to one side so that members could concentrate on these four key issues: agriculture, industrials, cotton and the Singapore issues.

On agriculture, I do not have too much more to report. Members for the most part have said they are willing to work from the Derbez text as a starting point. You do not have to proceed very far in a discussion, however, to see there is no sense that people are bidding to coalesce around specific outcomes. In fact, the gaps in positions are still quite significant and will be very difficult to cover.

On industrial products, there too it is clear that it would have been very difficult to get agreement in Cancun. In fact, from the perspective of many, including Australia, the Derbez text on industrials went backwards rather than forwards because it added a new paragraph 7 to the text, which would effectively have given many developing countries, in addition to the special and differential treatment or the less than full reciprocity required under the mandate, an additional level of flexibility which would have enabled them to carve out from any level of reform commitment a significant percentage of their trade—perhaps four per cent or five per cent of tariff lines—which we know in most economies can affect a much larger proportion of trade. Where we go forward from here on industrials is very difficult. I must say that, from our perspective, this is one area where we would be quite happy to start afresh, because we think the industrials text is so badly flawed at the moment that it does not meet the mandate. It certainly does not meet our ambitions.

Then we have the cotton issue, which has a certain political importance and potentially the same sort of symbolic role as the access for medicines issue has had over the last couple of years. We have taken a position and encouraged others to see this issue in a certain light; that is that it is very difficult to see that you can actually get a positive solution on cotton outside the context of the agriculture negotiations. In other words, this issue should be best integrated into the agriculture negotiations, because it is there where you will see the systematic application of improved disciplines for agricultural subsidies of the sort that are necessary to produce outcomes on cotton. And, more to the point, it is unrealistic to expect that you can produce a result on cotton which is so clearly an issue predominantly for the US to address because it is the country that pays these large subsidies to cotton producers. So it is best integrated into agriculture. I think there is an emerging consensus, including amongst the four West African proponents, that cotton remains a critical issue, one that needs to be addressed, but that it is best done within the context of the agriculture negotiations.

As a small aside to that, Australia has also made very clear that, although that is the best way to deal with the issue, if for instance you took the EU-US text and analysed what that would produce, it would actually do nothing to resolve this issue, because it provides no particular outcome that will guarantee that you will cut cotton subsidies in the US market. So it has to be addressed within the context of agriculture but a much more significant outcome than the US was proposing previously.

CHAIR—Going back to comments by Dr Fisher: is this a lot to do with the US presidential year and the enlargement of the EU in the same year, 2004?

Mr Gosper—I think addressing any major cut in US agricultural support is going to be something that is difficult with the US Congress and for the administration, and probably this coming year is going to be particularly difficult. Yes, I would agree.

The fourth issue is the Singapore issues. Here we have a significant problem because the EU has not yet formalised its position on these issues. It has initially taken the position that, because its offer to withdraw two of the issues was not accepted at Cancun, that proposal is no longer on the table and no longer available. Until it completes its internal process, which will most likely be early December, it is not quite clear where it will come out on these issues—whether it will be able to accept negotiations on a smaller number of the issues, perhaps only two of the four, and more particularly what that means for the other issues—how they should be addressed.

Here, of course, there is the prospect that they might seek a plurilateral approach to those issues; that is, an approach which in essence involves a more limited number of WTO members negotiating outcomes and not the full range of membership participating in negotiations or participating in the concluded outcome.

The chairman of the general council has suggested that it should be a two plus two proposal; that is, two issues would be ones on which negotiations on modalities would proceed, and the other two would be dropped off or dealt with in some other way. Some developing countries have made clear that that is unacceptable to them and that they cannot accept any of the Singapore issues or cannot accept anything more than trade facilitation. So it is very unclear where that issue will lead to at this particular point in time.

As Andrew Stoler was saying, I think there has been some lowering of expectations as to what can be achieved in December. Most members are now seeking to not overestimate what can be achieved at that juncture. At this point the chair, Perez del Castillo, is considering precisely what can be agreed and what sort of process would go forward from December, particularly into the first and second quarter of next year. A particular issue in that context is how we take forward agriculture and whether, as some members would say, we seek to do what we missed in Cancun—that is, to conclude a framework agreement which does not have all the relevant numbers—or whether we should now proceed to the negotiation of full modalities, that is, to negotiate what in essence is likely to be the fuller detail of a negotiated settlement, including all the numbers for particular cuts. That is a much more difficult exercise and will take much more time, and whether that can be progressed in any reasonable time frame is very unclear.

For our part, we have made clear that we should aim for the maximum ambition. We do not want to push it further than can be sustainable amongst the membership. We certainly do not want another failure in mid-December. But, equally, if we cannot get all the membership to agree, we certainly would like to establish a reasonable work program for early next year that can continue this work particularly on agriculture and industrial products.

The next major juncture will be the general council meeting in early February, which will no doubt consider where negotiations are going as well as a whole lot of issues which potentially will distract attention for a month or so, and that is the question of replacing all the chairs—the chairs of committees, the chair of the general council and the chairs of negotiating groups. Stuart Harbinson, the chair of the agriculture negotiating group, has already indicated his intention to

stand down. So that is a distraction that the membership is going to have to handle early next year. Perhaps that is what I will say about the process at the moment.

CHAIR—Can we have comments on that in terms of the chances of a successful completion and then we might move on to what Australia should be doing.

Prof. Garnaut—One general comment, Chairman: we have been presented with a view of the round going forward and having some prospects of an unambitious conclusion on an unambitious timetable, and I think that is probably right—but still conclusions that represent a substantial step forward from where the multilateral system is at the moment. That is where the dynamics of the politics of trade policy in a number of countries at the moment are leading us. At the same time, we have a rather rapid deterioration of the international trading environment going on. One question in my mind is whether at some stage realisation of how serious this is may provide part of the impetus to do something better. We have had very little real trade growth over the last few years in volume terms. In US dollar terms, we have had a bit more this year because of the weak US dollar.

There has been a recent proliferation of preferential trading arrangements, which is progressively increasing transaction costs in international trade. It has been becoming important in the last year or so in our own region, the western Pacific region, which was the region most free of preferential arrangements in the past. This is particularly damaging for Australia because of the momentum behind arrangements involving North-East Asian economies on agriculture that would exclude us. But it is important for the East Asian economies themselves which are binding themselves into rules of origin in different bilateral trading relationships that are inconsistent with each other. These are likely to increase the costs of trade and slow down trade growth in the world's most dynamic region. All of this over time will quite seriously damage global growth prospects. We will be one of the very big losers but I think we will all be losers. Analysis can foretell these prospects.

One question in my mind is whether a real focus on the costs of the breakdown in the system that is currently occurring might increase the sense of urgency about reform, because it is only really a substantial strengthening of the multilateral system and real progress on multilateral liberalisation that at this late stage can do much to improve this very unhappy situation. I cannot point now to anyone reacting to the gathering problems in a way that would be helpful. But I wonder whether analysis and real focus on the costs of what is happening might make more ambitious outcomes possible in the multilateral round.

Senator FERGUSON—I would like Professor Garnaut to elaborate on what sort of directions he thinks the reform should take. I missed some of the session so it might have been covered, and I apologise if I did. But there seems to be a low sense of expectation of what might come of the existing structure. I wonder if you could elaborate on what directions you think the reforms should take.

Prof. Garnaut—My worry is not only low expectations from the Doha Round but that we are losing what we have already got. We did have non-discriminatory access to the rapidly growing markets of East Asia. As from 1 October, we do not have that in agricultural access to China. That will get much worse on 1 January because of the Chinese 'early harvest' commitments in its proposed FTA with ASEAN. And it would get progressively worse, with the same sorts of

discussions involving ASEAN, Japan and Korea that you have had involving China. So it could get very much worse.

My first objective would be a conservative one—stopping things getting worse, quite independently of how we might make things better with a good outcome from the Doha Round. But, in the end, the conservative objective becomes very closely tied to the liberal objective, because I think we are going to have to get more progress in the multilateral system to put a brake on the deterioration of what we already have now.

I wonder if analysis of the costs of the breakdown of the multilateral system into preferential arrangements could be fed into the discussion, and perhaps a standstill on these damaging developments could be part of what a lot of countries see themselves as having an interest in as an outcome from the multilateral discussions. But I think the most important thing is something we covered in the earlier session. At a time when in many countries, including the major countries, there has been a serious breakdown in domestic political support for liberal trade, putting into the multilateral framework support for institutions that can conduct and manage processes of independent transparent analysis of the effects of trade policy reforms would be useful. In Australia, we know that having the Productivity Commission publicising its analysis of the costs of protection ended up being quite important in supporting domestic liberalisation. I really wonder whether we are going to get far in changing direction in the US, for example, without institutions with a mandate to undertake and support independent transparent analysis playing an important role.

Mr Oxley—I want to go back to options and alternatives for the WTO but I just feel obliged to make a comment in respect of Professor Garnaut's remarks. To state that there is a breakdown in the world trading system is not to say there is one. There are plenty of analyses around which have looked at the impact of regional and bilateral agreements. The World Bank did a very big study about three years ago called *Trade blocs* which I commend.

Prof. Garnaut—The damage to which I am referring is in the last three years.

Mr Oxley—It still bears out my point that to assert there is damage and breakdown is simply the assessment of one person and, as he correctly points out, there is no analysis which actually supports his contention. I would be more than happy to see it done because I do not think the dire predictions that are being made are actually supported by the facts.

CHAIR—Is there a third view on that?

Mr Oxley—Could we come back to that. I would like to come back to the question of the WTO because, to a degree, the central presumption that we can fix things by rebuilding the WTO I do not think is available to us. I would like to discuss the unthinkable, and that is that something quite serious does happen to the WTO. If we get a Seattle-Cancun mark III, the options of the Americans and the Community walking away from it are quite real. What would be the consequences and why would that be a practicable option?

The reality of world trade today—this is why I do not think predictions of the collapse of the system have much in the way of substantial basis—is that about 85 per cent of world trade is bound at tariffs below about five per cent under WTO rules. Where it is not bound and where it

is still protected are the problem areas that we know about—that is agriculture, and clothing and textiles. We still have antidumping rampant, probably the new form of protection. But we actually have a trading system in which the industrialised economies have used the WTO system to tie their markets open. Those who have not have basically been the developing countries, which is the grim tragedy of their carelessness at Cancun and their fecklessness about whether they care to enter commitments to reduce their trade barriers through the WTO.

The Americans and the Community find agricultural liberalisation difficult. In fact, it would politically be quite attractive for them to say, ‘To hell with this; we will just leave it, and we will go about our reductions whenever we feel like it.’ If the developing countries are not going to play ball and contribute to a comprehensive approach to trade liberalisation, which is the price we need to make the political commitments to cut protection, we just leave the system stand as it is. What would that actually give us? That would give us a set of rules and networks that are very comprehensive. As I say, already about 85 per cent of the world is tied into open commitments where most trade in industrialised countries is in this system.

Then the most important thing about the WTO becomes the dispute settlement system. We have not paid enough attention to this because it is a system which, if you look at it from a legal standpoint, is legally quite weak and it is being asked to deliver a great deal. But, if that becomes the arbitrating body for maintaining world open markets, it is going to get increasingly important. It is not being treated with nearly the degree of priority that it should have in this round in order to try to make it more effective. That I would contend is a real option. It would be quite a shame for us all. It would mean that we might see liberalisation in agriculture which did not give countries like us or many developing countries a fair shake, but it is a practical option.

There is one other thing going on in the trading system which we have not discussed, and it is relevant, and again what is going on at the WTO has some bearing on this. The really big threat to the trading system is not the rise of bilateral and regional agreements; it is the emergence of a powerful impulse in the EU to temper its commitments to open markets with environmental regulation. In the last 10 years, the EU has unilaterally introduced at least 20 significant environmental control trade measures and has embarked on an environmental policy path which is already starting to divide world markets, and we see it most plainly in the wine industry.

We are all familiar that the wine industry is divided between old world and new world winemakers. But sitting in behind that is a fundamental difference of philosophy about how you regulate trade in technical areas. We all now know that the French describe wine as industrial wine from the new world—by that I mean American, Australian, Chilean, South African and New Zealand wine—which by and large in the mid ranges is of higher quality and better priced than the French wine, which is why Australian wine is now replacing French wine in the UK market and why Australian wine is close to replacing Italian wine as a major supplier in the US market.

The EU is starting to embark on a series of technical controls that are very similar to the instruments used in its environmental policy. It is seeking to prescribe chemicals and additives. It is seeking to set levels of toxicity for additives that are not scientifically based. It is seeking to apply non-trade controls on wine by geographical indicators, for example. It is seeking effectively to apply the consequences of what it calls the precautionary principle, which is also starting to apply in food policy. We are probably at a point now where the Codex Alimentarius

Commission, which is a joint group of the WHO and the FAO that sets world health food standards, can probably no longer function because the EU is starting to insist that standards need to reflect what it calls the precautionary principle, and by that it basically means a no-risk policy as opposed to managed risk.

We, the United States and Canada—these are the same people as the new world wine producers and there is a good reason for this—actually believe that we should be basing our regulation on sound science and market forces. So we are getting a significant cleavage occurring here, and it is fairly profound. One of the things we need to be concerned about here is the extent to which the EU is attempting to change the global trade rules to enable it to alter trade on these bases. It is directing a broad strategic position that this will be a broad condition for its liberalising on agriculture. It is currently isolated, but this was the fundamental importance and strategic significance of it getting environment on the agenda for the Doha Round.

I do not have a short answer to this. If we are going to be confronted with a problem, just contemplate for Australia's sake what we do if the EU says, 'Sure, we will cut and reduce trade barriers. In return we want legalised right in the WTO to use these other forms of restrictions.' I just do not quite know where that would run for us. But what it does mean is that we need a very durable dispute settlement system in the WTO that means that that system cannot be misused to secure results that do not work. And that, in fact, has already happened on some environmental issues. That is the major threat to the global trading system that is emerging, because the direction in which the EU is moving on environmental policy seems to be deeply rooted in a philosophy of environmental regulation. It is not coming out of trade policy areas; it is coming out of industry policy; it is coming out of environment policy. It is very difficult for EU regulators to manage this. Basically their trade people are on the back foot here. If everything were going smoothly in the WTO, if we did not have groups of developing countries who do not have much commitment to the trading system, I think we would be deeply concerned about this.

I am not sure that I would necessarily directly connect that to the options of what to do, although plainly a WTO that is stalled and simply only worked on the basis of using a dispute settlement system might provide a bulwark against this long-term trend, but we pay a high price. I do not think there are any easy options here. But I do think one of the consequences is that we should be elevating our focus on making that legal system durable and not susceptible to judicial activism, because currently there is still too much scope for that in the WTO system. I have some other comments to make later on about bilateralism and multilateralism.

Mr Cutbush—I agree with a lot of things that Alan said actually, but there are a couple of things that I think should level his thinking in relation to the wisdom or otherwise of preferential trade agreements. It seems to me that the bible has been written on this by the Productivity Commission in a staff paper that was published in May this year. I would recommend it as required reading for anyone considering the question we have in front of us here in session 2, item 4. It seems to me to be a most persuasive piece that broaches the subject on all levels. There is a verbal presentation, a diagrammatic one and an econometric one. In a word, the book explains that, on the econometric evidence, 80 per cent of preferential trade agreements that are looked at have not worked. They have not created more trade. These failed trade agreements include some that people have thought worked well, at least in the rhetoric. They include NAFTA, the North American three-way trade agreement, and even the CER with New Zealand.

We do not need to say that we do not have the evidence. There is evidence there that these things are troublesome and that they do not work on the whole. That is the first point.

The second point to make is that, if we were considering restoring our leadership over the next couple of years in a WTO context, there are some things we could get about doing here ourselves unilaterally. There are two that come to mind, and this bears a lot on some of the things I agree with Alan on, and that is to do with the encroachment of biodiversity considerations into protection and this sort of thing in Europe. The first thing is that we could rejig our own quarantine rules and have them re-established on a basis which pays proper regard to cost-benefit principles. They are infamous at the moment partly because the WTO framework allows that sort of scope. Now there is a double-headed problem there: first, perhaps to fix our own rules; and, second, to propose something a little more robust in the WTO framework.

The second thing that stands out as a unilateral thing that Australia could be doing is to abandon the antidumping amendment bill that has been on the table—languishing admittedly—over the last few months. It seems to me to be deliberately an anti-Chinese bill. It is intended simply to permit administrative procedures which would enable antidumping action to be taken almost willy-nilly. I would not be surprised if a great number of the developing countries that we need to persuade back into a more Cairns Group frame of mind would be interested in an initiative on our part to clean up the antidumping world too. I leave those with you as a couple of thoughts about things we could actually do.

CHAIR—We are interested in that, definitely. Further input?

Mr Stoler—I just wanted to make one observation about the Productivity Commission report that Mr Cutbush just referred to, because I think it is a very interesting report too. He is right that the report makes a number of findings in respect of trade diversion and trade creation. But I think the interesting part of the report is what it says about investment, and in particular what it says about investment-creating effects of what the Productivity Commission calls third wave agreements. The type of agreement that the United States and Australia are negotiating today is certainly what the Productivity Commission would call a third wave agreement. Third wave means that it incorporates features that are not yet in the WTO, such as investment and competition disciplines. What the Productivity Commission found there is that there is a lot of evidence in the direction that third wave agreements tend to be investment creating. So, if you are going to be looking at that study, you should not ignore that part of it.

Ms Drake-Brockman—My view is that we have no acceptable alternative other than to continue to push very hard for successful completion of the Doha Round. The only alternative option is to remember and reassert what we seem, like so many other countries, to have forgotten, and that is that we can gain ourselves through unilateral trade liberalisation. If this round takes too long and we are holding back in our own offers in order to maximise our negotiating coin, the time will come economically when we will have to remember to get on with our own reform process regardless.

I wanted to quickly mention the importance of focusing not only on agriculture as we move forward in this round but also genuinely on the whole Doha agenda and ensuring that Australia plays a constructive mediating role in some of the other issues. It is extremely important not to be too one-eyed about where we see our own interests as lying. I personally believe that we have

as much to gain from liberalisation in the services arena as we do from agriculture. At the business level in Australia, the services industries have been trying to pull together support for more rapid outcomes on services in this round, which brings me to a point about the relationship between the business community and government as we go forward into the round. The government has made an effort to consult and galvanise business interest in the free trade agreements. Perhaps equal effort needs to go into galvanising business interest in this country into real support for constructive outcomes in the round.

I wanted to quickly mention the Productivity Commission report which I have now submitted to the secretary. It is true, as Andy Stoler says, that it does show some positive investment-creating outcomes from preferential trade arrangements but it then also says that that very investment creation itself has very large potential trade-diverting outcomes of its own. So, again, the jury is out. There is no clear positive evidence in the investment analysis. But it is a very important study to look at.

I would like to refer to the World Bank study that Alan Oxley referred to. Its key conclusion was that the motivation behind preferential trade arrangements is chiefly political. It concluded very strongly that, if it is not politically feasible to not negotiate these things, then the politically feasible option is to design them better and to design them to ensure minimum trade diversion and consistency with the multilateral system.

I do not know how one wants to define 'breakdown', but one thing is sure that we do know that the proliferation of free trade agreements is happening. There is absolutely no question on the evidence of that. Yes, we do not have a full understanding of what it means or what it might mean and we do need more work in this area. I wanted to table another document, which is some research that has been done in the UK by Christopher Dent at Leeds University documenting the spaghetti bowl that has emerged in the Asia-Pacific region over the last three years. It is particularly interesting documentation of what is going on at arm's length from this region. I will leave it at that.

CHAIR—We may want to provide focus in terms of what should Australia be doing. Ms Drake-Brockman, you mentioned in your comments the need to provide a negotiating role and, secondly, that the institutions in Australia need to be encouraged to be more supportive perhaps than they have been in the past. I would have thought that where the institutions needed to be more supportive is in some of the countries that are providing some of the problems, perhaps members of the G21 group?

Ms Drake-Brockman—I would like to answer that from a business perspective. In terms of services, for example, where Australian companies would like to see more offers, what the Australian business community can do and is trying to do is form alliances with services coalitions around the world, including in some of those countries which have not come forward on the services front yet, and try to build business constituencies around the world. I think that all of the Australian business associations should be doing similar work, because it is possible for business and government to work hand in hand to generate greater interest in some liberalising outcomes.

CHAIR—Mr Gosper, did you want to make some comments?

Mr Gosper—If I can make some comments about a couple of things that have come up in the last period, one is that I wanted to mention in particular the agenda for the round and where we go from here, because there is a particular issue that is at play here, and that is the European response to the likely prospect that not all of the Singapore issues or perhaps not any of the Singapore issues will be part of the negotiating agenda.

We have heard over the last few weeks a good deal about this. The European Commission makes clear that it thinks the Singapore issues are for the systemic good of the overall membership and therefore it should not have to pay any price for them. Nevertheless, if not all the issues are part of the negotiating agenda then some rebalancing of the agenda might be in mind. I am not quite sure whether this is actually the commission's view, but we hear it often enough and we hear it from some of the member states.

It could imply a number of things but perhaps if part of the agenda the Europeans have brought forward for the round is that the Singapore issues are not a full part of the round agenda, perhaps some other things should be moderated or changed as well. That could be, for instance, the level of ambition for agriculture is ratcheted down or some other issues that are not currently part of the negotiating agenda should be ratcheted up. Amongst those issues you could include, in particular, parts of the trade and environment agenda, whether it is changes to 2.2 of the TBT agreement and 5.7 of the SPS agreement to reflect the precautionary principle, or whether it is the issue of recognition of geographical indications as part of the negotiating agenda—or all of those things.

From our perspective, we have made a couple of things clear. One is that with respect to agriculture the horse has bolted. The overwhelming expectations of the membership and of the global community that this round can only truly be an acceptable one or a successful one if it seriously addresses agriculture is quite clear now, so we could not accept any moderation in level of ambition for agriculture. We believe that where there could be some change is by increasing ambition in the area of market access for agriculture, for industrial products in which the Europeans have an offensive agenda, and for services on which the Europeans and others like Australia have an offensive agenda as well. That would be the most appropriate response to the situation we have at the moment.

However, there is a big problem here, and that is that the business community by and large does not seem highly engaged in these negotiations. It is a problem globally, I think. You do not see too many expressions of business support or even disappointment on setbacks like Cancun. I think we have seen a little bit more over the last few weeks about Cancun than we have seen previously. Efforts, such as the one that Jane Drake-Brockman is talking about, that draw linkages between the business communities—say between European services roundtable and the services industry coalition in the US and our own services roundtable—are particularly important. And similar efforts on the part of our other industry sectors which are all designed to ensure strong business support for the trade negotiations and to reinforce what I think everyone agrees with—and that is the primacy of the multilateral system and the importance of the negotiating agenda in ensuring that we have continued momentum in the system—is one area in particular where the government would be very keen to work further with groups such as Jane's in doing some of that outreach work.

Just one last short comment: Greg Cutbush talked a little bit about antidumping and changes to the system here. Unfortunately, if you look at the list of say the top 10 users of antidumping actions nowadays, six or seven of them are developing countries, including countries like South Africa, Argentina, India and many of the countries in this region. In some of them, such as South Africa, we spent money 10 years or so ago helping them to learn about antidumping and some of them seem very quick learners. Even though we ourselves are obviously a large user of antidumping, I wonder in 10 years time what the interests will be on this issue. I suspect that we will all have to grapple with the fact that this is an instrument now that is in the hands of developing countries and being used more and more actively against other developing countries and against developed economies.

Prof. Garnaut—On Andy Stoler's point about the potential value of bilateral agreements for what they can do to investment regimes and related regimes, almost none of the valuable investment elements of bilateral agreements need have the framework of an FTA under article XXIV of the GATT and article V of the GATS. All the valuable elements could be implemented without that framework and could be implemented within a non-preferential arrangement like the Australia-Japan or Australia-China trade and economic framework.

On Alan's point about there not being evidence yet of costs of the growing preferentialism, we know that, for the first time in any of our lifetimes, as from 1 October Australian agricultural exports to North-East Asia are being discriminated against relative to some of our major competitors. We know that will get worse on 1 January; and we know there are discussions in train that would make things worse still. One could wait until we could measure all of these consequences in three or four years time and start worrying then, but I think it is wise to start looking at where the system is heading right now.

Similarly, we know that there has been a substantial increase in transaction costs as a result of widely varying rules of origin in different trading relationships. These have got worse very recently. We will be able to measure how much damage they did in three or four years time. But I think it is not sensible to leave these things out of our minds until the damage has already been fully realised in the statistics.

Mr Oxley—What is going to happen on that date?

Prof. Garnaut—Under the early harvest of the China-ASEAN free trade agreement, as from 1 October there is duty-free access of Thai fruit and vegetables to China. As from 1 January, there will be duty-free access of 200 agricultural products from ASEAN into China.

CHAIR—Plus the widening of the EU provides special access for their producers as well.

Mr Oxley—Product lines matter—at ANU there is some work being done trying to demonstrate that Australia will be discriminated against with exports of agriculture to Asia. It overlooks a fairly simple fact that most of our exports are temperate zone, and most of the exports from the ASEAN countries are tropical zone and there is actually very little crossover. I would be very interested if the Chinese have given the Thais access on sugar—I bet they have not. Even if they have, it is manageable.

Prof. Garnaut—Mr Chairman, that is a very specific comment and a reference to work at ANU. Australia is a major competitor in oilseeds exports to China and North-East Asia with South-East Asian suppliers. Our canola, a major product of the temperate agricultural areas of southern Australia, competes with palm oil from Malaysia and Indonesia. Sugar is directly competitive and Northern Australian fruit and vegetables in the North-East Asian market are directly competitive with South-East Asian fruit and vegetables. Alan Oxley might think that oilseeds, sugar, fruit and vegetables do not matter in Australia. There are a lot of Australians who think they do matter.

Senator FERGUSON—Is oilseeds done on 1 October?

Prof. Garnaut—No, it is fruit and vegetables from October.

Senator FERGUSON—When does oilseeds start?

Prof. Garnaut—Some oilseed products are amongst those 200 commodities from 1 January.

Senator FERGUSON—Including canola?

Prof. Garnaut—It does not have to be canola. Canola competes with palm oil.

Senator FERGUSON—It does not seem to have affected the canola price unduly right now.

Prof. Garnaut—The oilseed discrimination has not yet begun, and the effects will be felt over time.

Mr Oxley—Since the Productivity Commission report has been introduced and commented on and evidently leading to a suggestion that maybe that should be a framework for work of analysis of trade agreements and it had been suggested that the Productivity Commission should do an analysis of the impact of the Australia-US free trade agreement, we should focus for a moment on that Productivity Commission report. I have read it in detail. Unfortunately, like many Productivity Commission reports, it takes a long time. I am sorry that David Robertson is not here to discuss it.

The report does not model the agreements as suggested. What the report does is trial the methodology for trying to assess how you might measure liberalising effects in bilateral agreements. There are some very serious weaknesses in the methodology. The number of agreements included in fact include some agreements which are not free trade agreements, which is a very peculiar inclusion. It creates a weighting to try to measure the relative impact of whether agreements are effective to encourage liberalisation or not, which includes measures not normally included in agreements. It provides a weighting for factors for which there is no substantial analysis to try to calculate what the impact is in particular rules of origin.

If you go through the weighting, it significantly skews the system on the presumption that you can prove there is a transaction cost in rules of origin when there is no evidence of that whatsoever. I think looking at the rules of origin would be quite an interesting thing. Australian business has gone through that looking at the Thai and US agreements and does not seem to consider that the requirement to use different rules of origin, which has been stipulated by the

Americans and I think used in the Thai agreement, will be a significant impediment or cost in managing the trade with those countries.

The second factor which is never discussed is the likelihood that the use of IT systems and paperless trading probably means there is a far greater capacity when trade crosses the border to have much more complicated controls and measurements of trade at no cost simply because of the power of computing. That is a rough guess off the top of my head, but it is no rougher than the assertions that this system will increase transaction costs. If anything is going to increase transaction costs, which we have not discussed and probably we should have, it is the consequences of September 11, the stars arrangements in which quite significant controls are now being put on trade, which should be studied because that is significantly increasing transaction costs. It is a far more important issue than rules of origin in these agreements.

If the Productivity Commission report is to be used, it needs to be subjected to a much more rigorous analysis for the value, quality and effectiveness of it. The most astounding thing about it is that it reported that the Australia-New Zealand free trade agreement had negative effects on both countries. Nobody else has ever said that. It is completely contrary to intuitive reasoning. It does lead you to worry deeply about how much informed knowledge is brought to bear by the Productivity Commission analysis. What normally a modeller should do when they get a counterintuitive result is go back and look at the methodology.

Mr Pearce—There are a lot of complicated issues here. As an economic modeller, the issue of modelling preferential trade agreements is a very difficult one and the problem is that we tend to lump them all in together. But it really is the nature of the beast that matters. There are some preferential agreements which are quite different from others.

We did an analysis for the Department of Foreign Affairs and Trade of the Australia-US free trade agreement, which came out essentially positive, but that is driven entirely by one or two particular assumptions about what would happen. We do not know what is actually going to be negotiated. And after the fact, after we see the actual negotiations, the results may well be quite different. So the nature of the beast is very important here. It is very difficult to say generally that these sorts of agreements are good or bad.

We know from general theory that things that divert trade are bad, but there are other things which in an agreement can offset any trade diversion. For example, if there is significant income growth in either country as a result of, say, productivity improvements from the agreement, that can sometimes offset trade diversion which may otherwise have taken place. So it is an issue where I think a lot more analysis is needed. The final word has not been said, although it is important to note that the principle of non-discrimination is a fundamental founding principle of the GATT and the WTO. So it must be of some concern to the WTO that the non-discrimination principle appears to be increasingly violated without a good understanding of what effect this is going to have in the future.

A second comment on Mr Gosper's point about antidumping: the people who are using antidumping increasingly are people that we trained, in a sense, and I think that is a big problem. As I said before, one of the first things a developing country want to do, when they join the WTO or when they are thinking about it, is set up antidumping procedures—a fundamentally antitrade thing they want to do on the first day of joining a trade liberalising organisation. That is

a big problem. It shows that in a lot of these countries they have not quite got the point of what it is about.

Again, that comes down to issues of domestic transparency. It also comes down to the way that antidumping is structured in the WTO. It looks entirely at a very narrow producer focus; it does not take an economy wide focus. One simple change to the rules of the WTO could fix that and just simply say, 'You must demonstrate that it is in your economy wide interest not just in your producers' interests to undertake this action.' Antidumping is a bit of a Trojan horse, and I suspect those and other antitrade measures which are actually in the WTO will come back to bite us in the future.

Ms Drake-Brockman—I would just like to make a quick point about the importance of trialling new methodology when we look at free trade agreements. Most of the free trade agreements, certainly in the Asia-Pacific part of the world, in recent years have not been about agriculture; they have not even about manufacturing; they have been about services, about competition policy, about investment policy, about intellectual property, about government procurement—a whole series of things often called non-trade provisions. So we are not talking about tariffs or quotas. It is very difficult to measure the impact of liberalisation in these areas. It is very important that we trial and develop new methodologies and try to work out, rather than just get guess or assume, what is the tariff-like component of the liberalisation that we are working for in these FTAs. It brings us back to designing agreements that are good agreements. The critical issue here is to design something with a positive economic outcome.

CHAIR—As we seem to be winding towards the end of our discussions, could we just focus very much on that issue of what we can do in Australia to assist the process. We will then allow Bruce Gosper to do the final summing up. Is there anything further? Quite a bit has been mentioned already.

Mr Oxley—Mr Chairman, in a sense, I think the government is doing what it is practicable for it to do in these circumstances, and I am going to say something here which would appear to be at odds with the implications of many of the comments to date. There is no question that we are having difficulty getting countries to commit to liberalisation. I do not share the view that has been put that we are going backwards; if anything, we are simply marking time.

But in some respects we are making progress. Reference was made to China. China's liberalisation program and its commitment to join the WTO is probably one of the two or three most important things that have happened to the global trading system since it was opened up for negotiation. To me, it is a dismal commentary on relevance in Europe and among NGOs who want to spend all their time trying to nail down the WTO and turn it into something else to actually weaken its capacity to meet its primary mission, when here it is with a critical strategic role to play to underpin the leadership of China's commitment to open up their markets—and not just them but the rest of eastern Europe and central Asia as well. Now is not the time to be weakening the WTO and putting bells and whistles on it with these other non-trade issues; now is the time to consolidate it and let it get to work.

Regrettably, you find almost no consideration of this in the broadscale attack that has been launched on the WTO by NGOs and by groups that claim to be quite respectable. I do not mind citing Oxfam and the World Wildlife Fund. They have become the leading anti-WTO, anti-free

trade groups in the world. They run this prescription about what is to be done to the WTO which pays no regard to this critical role that it has to play in basically enabling this great shift in this quarter century from those communist and central command economies into free markets. We know how important that is.

China aside, we have to remember that Vietnam is lining up, so is Laos, and Cambodia has just joined. But in the rest of the region the commitment to liberalisation is weak. The Asian currency crisis put in place a number of things which have not been properly undone. We are seeing in Japan an economy which certainly is not a paragon of a market economy where the government does not interfere with the way in which the processes are run. Yet we see these governments reluctant to take the lead in liberalising, except that we are starting to see some changes in interesting areas, and that is through these bilateral agreements.

If you cannot make progress in the WTO, it makes sense to encourage countries to take liberalising actions in particular areas. The Singaporeans initiated an agreement with the United States. It was done for political reasons, as Jane Drake-Brockman observed. Most of the bilateral agreements are done for political reasons, but some of them will remain just political documents while others will generate real returns. The Singapore agreement is quite interesting because the Americans succeeded in getting Singapore to accept in a treaty, in international law, some restriction on the right of the government to intervene in the economy, which before had never ever been allowed by Singapore. If you do business in Singapore, you know that you are basically doing it by grace and favour of the Singapore government. Everybody knows that the legal system there is basically under control. So if anybody gets a step aside of the legal system where the government wants them to be, the results are always predictable.

However, in that Singapore agreement, the Americans put pressure on them to do that. The Americans put pressure on them to start to reduce the degree of government involvement in the Singapore economy, which is quite intense, and put pressure on them to start to open their services sector. Despite the fact that Singapore claims to be the freest economy in the region, relatively it is but only in its goods sector. Its services sector is heavily regulated. This has been quite significant. The Singaporeans themselves now recognise there is too much government intervention in their economy and they have used this instrument as part of the process of starting to open up their own economy.

The Australia-Thai agreement was something of a surprise. Thailand has been one of the least interested countries in liberalisation. Its average tariffs among the ASEAN countries are higher than the others. But the Thai Prime Minister took a strategic reason to start to do something on trade liberalisation and picked Australia because trade was not very great and they thought they could do it relatively painlessly. However, his strategic goal was to use it to model an agreement with the United States. In fact, he has set his country on a course to achieve some liberalisation which it would not have done through the WTO.

Robert Zoellick uses the term 'competitive liberalisation', in which he argues that if countries show they can do good trade agreements—and they have to be good ones and there can be good ones—it encourages others to follow suit. I think we have seen a bit of that in Australia. The Indonesian trade minister came here. The Indonesians are way down the scale in terms of commitment to liberalisation. They have major problems in their economy; they really cannot control a nationalist parliament, which will not even allow them to reprivatise their businesses

that had to be taken over after the Asian currency crisis. Yet the Indonesian trade minister felt obliged to want to talk about this because Australia and Thailand and Australia and Singapore had done bilateral agreements.

What you get is an assertion that any bilateral agreement is a bad deal, and it is not so. What the World Bank report underlined—we can obviously pick bits and pieces that suits our case; the only answer to that is for people to read it themselves—was that the terms upon which you do the bilateral agreement are very important especially for two advanced economies if they choose to use the agreement to open up the economies between the two countries to expand business beyond the disciplines that are permitted in the WTO, which are limited to principally trade in goods, and now services. There is nothing in that directly about investment controls—very little commitment so far. The services stuff is new. It is quite difficult to negotiate with 150 people. However, if two advanced economies choose to use a bilateral agreement to enable them to achieve a high level of economic integration through the non-traditional areas—that is why investment is so important for Australia-US; that is why the services are so important to enable businesses and professionals to move back and forth; that is why cross-recognition of standards is so important—the World Bank says these can be net welfare enhancing and not damage the system.

In a sense, the real option for Australia is to continue to work hard on the WTO and focus on some of the things we have talked about. Antidumping—I think everybody referred to that—is a very nasty untouched issue, and basically the WTO has not confronted that. We need to work on agriculture. We have to be careful about environmental issues. I would urge that we pay attention to the dispute settlement system for its fundamental importance. And at the same time, if over a 10-year period we are not going to see much progress in the WTO, effective bilateral and regional liberalisation is probably one of the most sensible things that we can do to encourage most countries to keep moving along.

Ms Drake-Brockman—Just three quick comments: I am concerned about the disconnect that seems to be evident between on the one hand in the WTO not wanting to choke the agenda with the non-trade issues, the bells and whistles if you like, the Singapore issues; and, on the other hand, what we are doing on the FTA front which is precisely those issues—investment, competition and government procurement. That is what those agreements are all about. I am concerned about the evident preference to negotiate those new issues in a context where there is no protection for small and medium players like Australia through the multilateral rules. It is very important that we recognise this disconnect and try to think coherently about what we are doing with these new trade issues.

The second point I want to make is about WTO capacity building. I agree with Alan Oxley that it is a pity it is called a development round. It is going to take us longer as a result. But the reality is that we do have to do more WTO trade capacity building, and Australia has to do more in Africa, not just in Asia. We really do need to ensure that we are contributing in that direction.

The final point is on the WTO accession front. I begin to wonder now whether the hurry and the acceleration on the accessions front are not causing us more problems in the negotiating phase. I am increasingly unsure that all the least developed countries are actually gaining from their WTO membership, and I think this needs to be thought through very carefully.

I would just make one final comment: if we are serious about the multilateral system, we should not be focused only on market access; we should be equally focused on good economic governance. And, to me, that is what those four Singapore issues are all about. I am concerned that our focus in the negotiations is therefore too narrow.

CHAIR—Perhaps we can have some brief concluding comments by various participants.

Prof. Drahos—I do not think in a sense it is a question of either the multilateral route or the bilateral route. It is important to understand that the US coordinates its bilateral and its multilateral and its regional strategies. If you read any of the reports that come from the committees that advise Congress, the various industrial functional advisory committees that are essentially staffed by the private sector in the United States and that write the reports and assess the bilateral and regional trade agreements that the US signs, there is a sense in which they are coordinating against these three different fora. They are essentially engaged in a strategy of forum shifting depending on where they see the greatest gains to their economy, and that makes perfect sense. It is important for Australia to understand that this is a coordinated strategy and to respond accordingly.

Similarly, it is important for Australia to get a better reading—I am sure Mr Gosper already has this—of some of the deeper alliances that are taking place post-Cancun amongst the developing country players, and in particular the possibility of a rapprochement between India and China. Although on the face of it there do appear to be tensions between those countries on issues such as textiles, there is now an internal Indian analysis that says that the problems for India in relation to textiles from China are not the fact that China has certain capacities there but rather has to do with India's own internal problems relating to its taxation system, the rate at which it clears these things from the wharves and so on. So this possible rapprochement between India and China, combined with a new leadership from Brazil, may lead to longer-term changes and alliances that Australia will have to cooperate with. I think the main game for us in a sense is to try to win trust through really good analysis.

If you think of the Cairns Group, one of the principal reasons for its success was that we did very good analytical work that brought transparency and that enabled countries to steer their way through high levels of complexity. Those high levels of complexity have increased dramatically because of the new themes agenda that the United States introduced in the 1980s to do with services investment, and it is extremely difficult now for developing countries to manage this complexity. I think Australia can play a real role in helping developing countries to manage this complexity and keep the multilateral game alive, which to my mind is the principal game.

Mr Pearce—There is really no substitute for the continued hard work of throwing the light of transparency within the countries themselves, because without that transparency I think ultimately these international negotiations will not go anywhere.

Mr Cutbush—I would repeat that statement. It is very hard to say it better, although I hate to say he is my competitor. I have worked in seven countries in Africa and the one thing that you would think when you are visiting them can make a difference is to install somehow into their culture and into their governance, as Jane would put it, a sense of normality about transparent analysis.

Mr Stoler—Just two brief comments: first, on the WTO as a system for getting things done, I think we made a strategic mistake when the WTO was created in 1995 through what we called the single undertaking approach, which obliged all countries, including the poorest developing countries, to either join the WTO and accept all those obligations or lose their most favoured nation trading status in important markets. At the time we thought while this will be good for governance, this will also be a way of getting rid of free riders. But we neglected to realise that involving 148 members in decision making that way was also going to complicate our lives including because many of those countries have very small or insignificant interests in trade. Having said that, I think we are stuck with it. Since we are stuck with it, unless we are going back to create WTO mark II, and since these countries have to be a part of the system in order to get the benefits, it is incumbent on Australia and other countries to maintain the high level of activity that they have on trade related capacity building and trying to help these countries deal with the challenges of the system.

On the relationship between the WTO, the WTO round and regional trade agreements, this year's *World trade report*, which is a first effort by the WTO to look at issues in the trading system, devotes a considerable amount of attention to the growth in regional trade agreements and the interaction between RTAs and the WTO. At the end of the section on this relationship, the WTO authors basically suggest that, if you want to look at whether or not the regional trade agreement under discussion is a good thing or a bad thing for WTO purposes, you should probably ask two questions, and we could apply these two questions in the Australia-US FTA negotiations right now.

The first question that the WTO suggests we ask is: are either of the negotiating partners proposing or entering into negotiations on subjects bilaterally that they would not enter into on a multilateral basis? I think the answer is no. Both US and Australia would negotiate on all these same topics in the WTO if the WTO was negotiating on them.

The second question that they suggest you ask is: are the negotiating partners unprepared at some future stage to extend this same liberalisation to other trading partners; or are they determined that they will keep a preferential arrangement in place between themselves? Again, if you look at the Australia-US free trade agreement, I think the answer to that has to be yes in this case, that they are prepared to do it. That is evident from things like the Bogor declaration and positions that both countries have taken in the WTO. That is worth reflecting on when you look at the relationships between RTAs and the WTO.

Dr Fisher—I just want to make two quick points. First of all, one of the keys to development is agricultural trade liberalisation, and this brings me back to the importance of making progress on agriculture. If we think about the issues in cotton at the most recent meetings, for example, it goes back to concerns about the way developing countries can make their way forward.

We all have a responsibility to help in that. Andy Stoler has made the comment about capacity building. It is absolutely essential that developing countries have the wherewithal to represent themselves in the negotiations in a sensible and proper manner as well as the incentive to do so. On the other hand, developed countries, particularly the EU and the United States—and I might mention Japan as well where agricultural support levels are, I would say, obscene—have a responsibility to do something with respect to agricultural support levels such that developing

countries can make their way forward in the world. Until there is progress in those developed countries to liberalisation of agricultural trade, we are going to be in deep trouble indeed.

Mr Podbury—We have heard a lot about capacity building, but one question that has not been addressed is: why should Australia as opposed to another country be the one providing this capacity building? The simple answer is that, unless we are prepared to go out there and do this capacity building, we are going to miss an opportunity to get these countries to commit to liberalisation. That is something that I think would be too costly for Australia not to engage in.

CHAIR—We have already heard from Mr Oxley before.

Prof. Garnaut—Just a couple of concluding points around the theme of what we should do, Mr Chairman. The first thing I would do is build on Australia's success with the APEC statement on returning to the Doha Round on the basis of the chairman's text and make that a major objective of our trade policy discussions with our major interlocutors over this period immediately ahead.

Secondly, if we persist in negotiating FTAs, let us avoid trade discrimination in them. We can make the point that Andy Stoler would like us to make—that we are prepared to open up to everyone, but opening them up to everyone at the beginning. Every economist agrees that will actually increase the benefits to us. If we are prepared to reduce protection in something for Thailand or the US and reduce protection to everyone to that extent, that will remove the problem of trade diversion in our imports and rules of origin in our imports, although other people's rules of origin will still pose a problem for our exports.

Thirdly, let us not only focus on our assistance to other countries bilaterally in transparent and independent analysis of the effects of alternative trade policies; let us seek international agreement on sound institutions for transparent and independent analysis being present in all countries. They are needed not only in Africa and poor developing countries but also as much in the United States, in the European Union and in Japan where Productivity Commission type institutions would have done a lot of good. As I mentioned before, it may be possible for us to push this forward as a relatively uncontentious support for future trade liberalisation that will be very important.

Finally, I agree with Andy Stoler that the single undertaking in the WTO was a mistake. I think it is such a fundamental mistake that we should seek to unwind it so that we do not have Botswana, on behalf of African countries representing two per cent of world trade, blowing up an agreement.

CHAIR—Is there anything that the chairman of the main committee would wish to say?

Senator FERGUSON—No, Mr Chairman. I took particular note of Mr Stoler's comments. Having spent three or four months at the UN in 2000, I am amazed that they could set up another organisation so unwieldy where unless there is a will on behalf of the member nations to achieve what they want to achieve, it never gets there, and that will is sometimes put aside for their own national interests. The situation of the African countries is almost a repeat of what is occurring in the United Nations.

CHAIR—Mr Gosper, any concluding comments?

Mr Gosper—Yes, it has been an interesting discussion, and I appreciate the opportunity to talk. I have three very quick comments. First of all, I hope that an objective assessment of some of the difficulties and challenges we face with this round—they are unprecedented and quite deep, as I think you have heard from many of the discussants today—does not give you the impression that we are anything but intent on persevering and providing all the ambition and leadership we can in these negotiations. We are indeed intent on doing everything we can to move these negotiations on and to support the organisation.

Secondly, one of the issues we have touched on today is the divergent approaches of many of the members. But as complex and as difficult as the interests of many of these developing country blocs are—and the interests and approaches of, say, the G21 or the G33 or the G78 or the African group or the LDC group or the ACP countries are all different—we must not lose sight of the fact that we need from the US and the EU much clearer leadership in these negotiations, because the issues that they must address are very much at the core of interests of all members.

Lastly, I would emphasise that there is no alternative for Australia but a strong and active multilateral system. We have only dealt with a very small part of that overall system today in our discussion of the Doha negotiations and the prospects for those negotiations. But, of course, the organisation is a very important one and a very complex one where we see an existing set of rules and disciplines, protections for countries like Australia and a very active, as some have mentioned, dispute settlement system in which Australia is a very active player. And there simply is no alternative on the future role of this organisation for the economic growth and prosperity of Australia. I do not think you will find any disagreement about that. Thank you.

CHAIR—Thank you to all of you. It has been a very interesting morning. The input has been of high quality. I appreciate your taking the time to come today. You will be sent a copy of the *Hansard* and, if you have any problems, please let us know. If you have papers that you wish the secretary to receive, as we have with the Productivity Commission report, then please forward them on to the secretary. We look forward to continuing dialogue on the issue. I am sure there is going to be even more focus on it as we move forward on the FTA with the USA. I appreciate your input and thank you all for coming.

Subcommittee adjourned at 12.52 p.m.