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JOINT STANDING COMMITTEE ON TREATIES
OPENING STATEMENT ON THE GARNAUT-CARMICHAEL SUBMISSION
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The letter introducing our submission establishes that there are no time constraints in the agreement, as negotiated, limiting the Parliament's ability to ensure it has the analytical support it needs to assess the impact of the FTA on Australia. That process therefore need not be hurried. There is time for the Parliament, on the advice of the Joint Standing Committee on Treaties, to put in place an appropriate process for it – and interested members of the community – to consider the consequences of the FTA for Australia. Our letter also argues that, because the agreement involves a wide range of sensitive domestic policy areas not hitherto affected by trade policy decisions in Australia, its impact warrants measured consideration by the Parliament. It further argues that this should begin with a public analysis and report by the Productivity Commission of the costs and benefits for Australia on the agreement, as negotiated.

Moving now to the submission itself, and the associated attachments. These describe the problems that flawed domestic decision-making has introduced into the international trading system in recent years. These flaws and their consequences are manifest in the processes used so far in negotiating the agreement with the United States. The approach relies entirely on external processes and reasons for reducing trade barriers. Trade policy is treated as an extension of foreign policy. The consequences of this approach are described in attachment 2.

The competing approach, the general thrust of which has been supported by the Prime Minister, recognizes that trade barriers are the international manifestation of domestic decisions taken by national governments to protect *particular* domestic industries against international competition. Contrary to the impression created by the present bargaining approach to trade negotiations, the gains available to participating countries depend on the decisions each takes at home – about their own barriers. The gains they collectively take away from the negotiating table depend on the barrier reductions each takes to it. This is expanded in attachment 2 of our submission. Domestic process that raise domestic awareness of the *economy-wide* benefits from lowering domestic barriers are thus the key to restoring progress in trade liberalization – whether this is pursued unilaterally, through FTA's, or multilaterally through the WTO. The approach we (and others) advocate therefore includes a domestic transparency process to underpin trade negotiations by focusing advice and decision-making, within participating countries, on the economy-wide gains available from liberalizing domestic markets. The role of this process is to inform, not to manage or control, public understanding and discussion of what is at issue for national economic welfare.

In view of the Prime Minister's support for this approach, we recently prepared a draft transparency proposal to provide a basis for an Australian transparency initiative in the Doha Round. That draft proposal, which is copied as an attachment to our submission, sets out the case for adding transparency arrangements to existing WTO processes.

Australia's conduct in negotiating the agreement with the US has taken a quite different path. In assessing the benefits for Australia, both before negotiations began and after the agreement was finalized, the body relied on by successive governments to inform them (and us) about the effects on our future economic welfare was sidelined. Instead of seeking an assessment from the Productivity Commission, in accordance with the approach endorsed by the Prime Minister, a private consulting firm was engaged on both occasions to assess the gains for Australia. The firm's first assessment, made before negotiations began, was used to suggest annual gains of \$4 billion. These were, in fact, *potential* gains on the basis of highly restrictive assumptions. They could eventuate only if negotiations had provided comprehensive access to US markets – most importantly in the highly protected sugar, dairy and beef markets. They also depended on such large liberalization of services that productivity rose by an average of 0.35 per cent across *all* services industries in Australia. Given the influence of the American farm lobby over US trade policy, and US procedures in place for providing relief from import competition (together with practical constraints that meant the AUSFTA will provide little new liberalization in services), our gains from the agreement were greatly overstated by the assessment on which the government relied. Yet those estimates were still being quoted to provide support for the agreement after it was finalized, as though they reflected the *actual* outcome for Australia.

Last Friday, DFAT released the results of the consulting firm's assessment of the agreement as negotiated. While the main sources of gain in the original estimate had disappeared or shrunk dramatically, somehow the total net benefits had greatly increased. That "somehow" turns out to be mainly what are described as "back of the envelope" calculation of gains, hitherto overlooked, from easing FIRB restrictions. The use of estimates in this way hinders, rather than helps, community understanding and discussion of what has been achieved for Australia in the agreement that has been negotiated. It is evident from submissions to this enquiry that it has also created public uncertainty about how decision-making on trade and protection policy will be conducted in the future.

For these reasons, we urge the JSCOT to ensure that an appropriate basis is put in place for the Parliament to assess the implications of the agreement for Australia before it considers enabling legislation. In our view, an appropriate basis starts with a public inquiry and report by the Productivity Commission.

Our submission concludes by arguing why (and how) the conflict in Australia's trade policy – between the approach pursued so far in negotiating the agreement with the US and the approach needed to restore progress in

liberalising through trade negotiations – should be resolved now, while there is still scope for an Australian transparency initiative in the Doha Round.

Since preparation of this statement last Friday, one of us (Garnaut) has had the chance to read the Report released on Friday by DFAT in support of the USFTA. As a contribution to the Australian public policy discussion by a Government entity, it raises serious questions about the process of consideration of the AUS FTA. Its release strongly reinforces the theme of our submission, that informed public discussion of this matter requires an independent transparent report, by the Productivity Commission. We submit Garnaut's notes on the CIE/DFAT Report.

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