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TRADE POLICY REVIEW

Report by

AUSTRALIA

Pursuant to the Agreement Establishing the Trade Policy Review Mechanism (Annex 3 of the Marrakesh Agreement Establishing the World Trade Organization), the policy statement by Australia is attached.

Note: This report is subject to restricted circulation and press embargo until the end of the first session of the meeting of the Trade Policy Review Body on Australia.

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I. INTRODUCTION

1. This is Australia's fifth trade policy review. It takes place at a critical time for the global trading system. The difficulties facing the Doha Round of multilateral trade negotiations are of serious concern. Significant distortions remain in the global trading system, particularly in the agricultural sector, and the Doha negotiations offer the best hope for reducing these distortions on a comprehensive basis and creating the conditions for enhanced economic growth, including in developing countries.

2. Trade is vital to Australia's economy and the prosperity of its people. The Australian Government's commitment to an open, flexible economy has been a key factor in Australia's strong economic and trade performance over the last 15 years. Australia is committed to pursuing vigorously the reduction of trade barriers and expansion of its markets through multilateral, regional and bilateral approaches.

3. Australia's highest trade priority is the successful conclusion of the Doha Round, and it continues to urge all WTO members to demonstrate greater flexibility in the negotiations. Despite the current buoyancy of the global economy, the international community should not be complacent about the need to reduce significantly barriers to trade. The final Doha package must deliver substantial new trade opportunities for all WTO members by opening markets for agricultural and industrial products and services, as well as through reductions in agricultural subsidies. The potential global economic benefits of an ambitious outcome are significant: in November 2005 the World Bank estimated that full merchandise trade liberalisation alone would boost global welfare by up to US\$290 billion in 2015. Such a result would make a major contribution to global poverty alleviation.

4. As part of its comprehensive trade strategy, Australia also pursues WTO-consistent bilateral and regional free trade agreement (FTAs) where these would yield significant market openings faster than those achievable through a multilateral WTO round. Australia considers that comprehensive, WTO-consistent FTAs can complement and support multilateral liberalisation efforts. Since its last Trade Policy Review in 2002, Australia has concluded ambitious FTAs with the United States, Singapore and Thailand.

II. ECONOMIC ENVIRONMENT

(i) Domestic Settings

5. Australia continues to have one of the best performing economies in the developed world. The Australian economy is now in its 15th consecutive calendar year of uninterrupted economic growth. Since 1992, Australia has had continuous real growth averaging 3.8 per cent per annum on a calendar year basis. Solid growth is expected to continue, with economic conditions remaining very supportive of growth – corporate profits are high, inflation is moderate and the unemployment rate is at a 30 year low. The strong global economy should also provide significant impetus to the Australian economy. Trade policy is a key component of Australia's economic policy framework, and aims to improve the competitiveness of the domestic economy and achieve open markets globally for Australian products and services.

6. Australian market confidence has been enhanced by the Government's medium-term framework for the conduct of fiscal and monetary policies. This framework, which includes a focus on maintaining a balanced budget, helps deliver macroeconomic stability, encourages private investment in a low interest rate environment, entrenches low public debt and ensures that, over time, the current account reflects private saving and investment decisions. The Government's most recent Budget Statement projects an underlying budget cash surplus of \$A10.8 billion in 2006-07.

7. As part of the Government's policy framework, the Board of the Reserve Bank of Australia has primary responsibility for the conduct of monetary policy, including a commitment to keep consumer price inflation between 2 and 3 per cent, on average, over the economic cycle. Since March 1996, inflation has averaged around the mid-point of this target. Such an environment has enhanced the Australian economy's competitiveness and increased certainty for businesses and households. In turn, low and stable inflation has allowed the Reserve Bank Board to set lower interest rates. The official cash rate, the interest rate set by the Reserve Bank, currently stands at 6.25 per cent.

(ii) Reforms

8. Since the last review the Australian Government has introduced major reforms to the workplace relations system, designed to increase flexibility in the labour market. The key elements of these reforms are: simplified agreement-making procedures to allow wages and conditions to be better linked to productivity improvements, but with a guaranteed safety net of minimum standards; a reduced regulatory burden; and the establishment of the independent Australian Fair Pay Commission to determine minimum wages. It has also continued the process of taxation reform, including through reductions in personal income tax, increases in family tax benefits and through a number of administrative reforms aimed at improving the integrity of the tax system.

9. Looking to the future, Australia's peak intergovernmental forum - the Council of Australian Governments - recently agreed to a new National Reform Agenda aimed at increasing Australia's productivity and workforce participation. This will include reforms to education and training, as well as in the areas of energy, transport and infrastructure. In addition, the regulatory burden imposed by Australia's three levels of government (federal, state and local) is to be reduced. The Council is expected to consider specific reform proposals in early 2007.

III. TRADE POLICY

(i) Australia and the WTO

10. Australia has been a long-time advocate of an open, transparent and rules-based global trading system. Bringing the Doha Round to a successful conclusion and maintaining a strong multilateral trading system is Australia's highest trade priority. A founding member of the General Agreement on Tariffs and Trade (GATT) in 1947 and the WTO in 1995, and Chair of the Cairns Group of agricultural exporters, Australia has a longstanding commitment to multilateral trade reform.

(a) Australia's Objectives for the Doha Round

11. Australia strongly supported the launch of the Doha Round in 2001. Australia's key objectives were to achieve a more open global trading environment, primarily by expanding market access and creating new trade flows in agriculture, industrial products and services, as well as reducing subsidies and strengthening WTO disciplines. These objectives remain as important as ever.

Agriculture

12. Agriculture remains the most distorted sector of international trade. Fundamental reform of global trade in agriculture has long been a key objective for Australia. Australia will continue to work for this goal with its Cairns Group colleagues as well as other WTO members with an interest in significant reform of international trade in agriculture. In line with the Doha mandate, Australia will continue to press those countries with the highest levels of protection and support to improve their offers on agricultural market access and domestic support. An outcome that delivers new commercial

opportunities for all WTO members by reducing trade barriers and cutting subsidies is necessary to conclude the negotiations. All WTO members, other than Least Developed Countries (LDCs), will need to make a contribution to agricultural trade reform, with appropriate special and differential treatment for developing countries. Australia welcomes the decision taken by Ministers in Hong Kong to abolish all forms of export subsidies by the end of 2013, which has been a long held objective of the Cairns Group.

Non-Agricultural Market Access (NAMA)

13. Australia's objective in the negotiations on non-agricultural market access (NAMA) is to achieve commercially-meaningful improvements in market access, which will require contributions from developed and developing countries (other than LDCs). Given that trade in non-agricultural products accounts for around 90 per cent of global trade in goods, a strong outcome in the NAMA negotiations will provide a significant boost to the global economy.

Services

14. In the Doha Round services negotiations, Australia's objective is to improve the number and quality of market access and other trade-related commitments made by its major trading partners in services. Australia has continued to lead by example with its successive GATS offers; its initial (2003) offer was well received, its revised (May 2005) offer was acknowledged by WTO members as very comprehensive, and it has prepared a second revised offer for lodgement when appropriate. Australia also is looking for the negotiations to strengthen GATS rules, including on domestic regulation.

Intellectual Property

15. Australia supports the effective implementation of rights and obligations within the framework of the Agreement on Trade-Related Aspects of Intellectual Property Rights (TRIPS). Australia played a constructive role on the issue of TRIPS and Public Health and brings a practical and balanced approach to discussions on emerging issues, such as the debate on access and benefit sharing of genetic resources. Australia also is an active participant in the World Intellectual Property Organization and works with regional partners in APEC to promote higher standards of intellectual property protection.

Rules

16. Australia has supported efforts to clarify and improve the existing WTO rules relating to anti-dumping, subsidies and countervailing duties. Australia has submitted two subsidy proposals on prohibited export subsidies and their enforcement. Similarly, Australia has been an advocate of specific and strengthened disciplines for fisheries subsidies.

17. Australia continues to play an active role in the WTO negotiations on regional trade agreements (RTAs). Australia has made a number of submissions aimed at strengthening WTO disciplines on RTAs through the development of a rigorous definition of "substantially all trade", with the aim of encouraging WTO members to negotiate comprehensive, high-quality RTAs which complement rather than detract from the multilateral system. Australia has also played an active role in negotiations on a transparency mechanism, which would substantially improve the procedures for the notification and examination of RTAs.

Trade Facilitation

18. Australia supports the negotiation of transparent and consistent rules to reduce “red tape” and expedite the clearance of goods, which would deliver significant benefits to exporters. Australia’s approach to the negotiations is to support concrete proposals that are likely to result in workable commitments of practical value to business. Australia makes a significant contribution to capacity-building in this area, including through its work in APEC and its aid program.

Trade and Development

19. Australia believes an ambitious Doha outcome is the most effective way to enhance the opportunities for developing countries from world trade. The World Bank estimates that freeing all merchandise trade and eliminating subsidies could lift 32 million people out of poverty by 2015 and boost global welfare by up to US\$290 billion. Almost 45 per cent of these gains would flow to developing countries. It is clear that the key development benefits from the Doha Round will come from reform of the core negotiating areas, particularly agriculture. Agriculture is not only the most distorted sector in world trade, but also the sector from which the majority of developing country populations derive their livelihood.

20. Australia fully supports the development mandate of the Doha Round, including in relation to trade-related technical assistance (TRTA) and capacity building. Australia has a long history of supporting developing countries, particularly LDCs, to engage in international trade and participate in the WTO. Australia’s current TRTA commitments are valued at over A\$90 million, with most activities focussed on South-East Asia and the South Pacific. Australia also supports the development of trade-related infrastructure in the Asia-Pacific region, and in financial year 2004-05, the aid program provided over A\$41 million on such activities.

21. Australia has been a long-term provider of preferential market access for developing countries and LDCs. Since July 2003, Australia has provided comprehensive quota free duty free market access for all LDCs on all products with no phase-in periods or exceptions.

(b) Dispute Settlement

22. Australia is a firm advocate of binding dispute settlement as a fundamental underpinning of the rules-based multilateral trading regime. An active participant in WTO dispute settlement, Australia has been involved in a number of disputes as a complainant, respondent and third party. It views the system as an important mechanism for promoting and defending Australia’s trade interests. To mark the tenth anniversary of the WTO dispute settlement system, a collection of Australian perspectives on the system is due to be published in late 2006.

(ii) Regional Initiatives

(a) Asia-Pacific Economic Cooperation (APEC)

23. Australia has a strong commitment to APEC as the principal vehicle for the promotion of open markets and economic cooperation in the Asia-Pacific region. For Australia, APEC’s work on trade liberalisation, business facilitation and economic reform support its open market objectives and sustained economic growth in regional economies. Another key pillar of APEC is its economic and technical cooperation work. Australia provides strong policy and financial support for this work, particularly where it enhances developing economies’ capacity to participate in trade negotiations.

24. As host of APEC in 2007, Australia will continue to emphasise the primacy of a strong multilateral trading system for global economic growth and the alleviation of poverty. We will also play an active role in APEC's work on regional economic integration, including by emphasising the benefits of a comprehensive approach and by promoting greater consistency and coherence in FTAs/RTAs in the region. Australia has contributed to APEC's work on trade facilitation, including in the area of customs barriers, standards, business mobility and e-commerce, which has reduced transaction costs by five percent since 2001 and aims to reduce them by a further five percent by 2010. Australia will also look to boost APEC's work on economic reform and behind the border impediments to trade during 2007, recognising that this has the potential to boost competitiveness and trade and investment in the region.

(iii) Bilateral Initiatives

(a) Australia–US Free Trade Agreement

25. The Australia–United States Free Trade Agreement (AUSFTA) entered into force on 1 January 2005. AUSFTA provides a comprehensive and ambitious framework for economic and trade policy engagement between Australia and the United States. Its 23 chapters set out a broad range of provisions for liberalising bilateral trade and for the legal protections investors and service providers will receive. AUSFTA contains comprehensive provisions on government procurement which have been extended to all trading partners. The Agreement also makes substantial commitments to liberalise services and investment. AUSFTA established a Working Group on Professional Services, which aims to facilitate increased trade in professional services through mutual recognition arrangements. A Financial Services Committee was also set up to explore ways to further integrate the Australian and US financial markets.

(b) Singapore–Australia Free Trade Agreement

26. The Singapore–Australia Free Trade Agreement (SAFTA) entered into force on 28 July 2003. SAFTA is a comprehensive agreement, making substantial commitments in goods, services and investment between Australia and Singapore. In addition to complete tariff elimination, SAFTA guarantees liberal conditions of access for many service suppliers, and provides a more open and predictable business environment. SAFTA includes a mechanism that provides for ministerial-level review of the agreement. The first SAFTA review was held in July 2004. Subsequent reviews are scheduled to take place every two years, or as deemed necessary by Ministers.

(c) Thailand–Australia Free Trade Agreement

27. The Thailand–Australia Free Trade Agreement (TAFTA) entered into force on 1 January 2005. TAFTA is a major market opening agreement, eliminating more than half of Thailand's tariffs and 83 per cent of Australia's tariffs on entry into force. Under TAFTA's tariff elimination schedules, around 95 per cent of all tariffs will be at zero by 2010. TAFTA liberalises bilateral trade in services in that it accords "GATS-plus" market access and national treatment in the sectors set out in the agreement. TAFTA should deliver a more open, predictable and transparent business environment. It also mandates further negotiations on trade in services within three years of entry into force, with the aim of enhancing the commitments given by both Parties. The Agreement also provides for further negotiations on government procurement, business mobility, investment and competition policy.

(iv) Australia's Tariff Regime

28. More than 86 per cent of Australia's tariff lines are applied at an MFN rate of 5 per cent or less, with over 47 per cent duty free. The average applied tariff rate is 3.5 per cent. Since 1 July 2003, Australia has provided duty-free and quota-free access to the Australian market for all goods originating from LDCs, with no exceptions and no phasing. The Government is committed to a forward program of further tariff reductions. Tariffs in the passenger motor vehicle sector are legislated to fall to 5 per cent in 2010. A review of passenger motor vehicle tariffs is scheduled to be held in 2008. Tariffs in the textiles, clothing and footwear (TCF) sector are legislated for reduction to no more than 10 per cent in 2010 for clothing and certain finished textile articles, with tariffs on other TCF goods being no higher than 5 per cent. By 2015 all tariffs on TCF products will be no higher than 5 per cent. Australia applies only one tariff quota, on cheese.

(v) Australia's Quarantine Regime

29. Australia's quarantine system is designed to preserve its favourable pest and disease status and its unique and diverse native flora and fauna. Australia's quarantine system is based on an objective, science-based assessment of the risks of pests and diseases consistent with international obligations, including those under the WTO Agreement on the Application of Sanitary and Phytosanitary Measures.

30. In October 2006, Australia announced reforms to its import risk analysis (IRA) process which will make this process more streamlined, timely and transparent. The key improvements are: the setting of maximum timeframes for the completion of IRAs; enhanced transparency of the IRA work program; and strengthened scientific scrutiny of individual IRAs. These changes will take effect in early 2007, enhancing the efficiency and effectiveness of Australia's quarantine system.

IV. FUTURE DIRECTIONS OF AUSTRALIAN TRADE POLICY

31. Australia has a major stake in maintaining a healthy and open multilateral trading system. It will continue to work hard for genuine trade liberalisation, integrating multilateral commitments with regional and bilateral initiatives to maximise economic opportunities for Australian businesses.

32. Australia's highest trade priority remains the conclusion of the Doha Round. An ambitious outcome will deliver substantial new trade opportunities for all WTO members. Australia will also continue to participate actively in the work of the WTO not directly connected to the Doha negotiations, including the WTO's regular committees and the dispute settlement mechanism.

33. Australia will continue efforts to deepen its trade and economic engagement with its region and other important markets. Australia remains committed to negotiating comprehensive, WTO-consistent FTAs. In the WTO, Australia will continue to press for more effective WTO disciplines on RTAs.

34. Australia commenced FTA negotiations with ASEAN and New Zealand in 2005. As at December 2006, seven negotiating rounds and several inter-sessional meetings have been held. Parties are working to conclude the negotiations in 2007.

35. Australia and China launched negotiations on an FTA in 2005. The seventh round of negotiations will be held in December 2006, when market access negotiations on goods and services will begin. Both sides are expected to exchange detailed information on tariff proposals, as well as lists of barriers affecting trade in services and investment that each expects to be addressed in the negotiations.

36. Australia and Malaysia launched FTA negotiations in 2005 and are now seriously engaged in the substantive stage of negotiations.

37. Australia and Japan agreed in April 2005 to conduct a joint government study into the feasibility of a bilateral FTA. In June 2006, Australia initiated a study into the merits and feasibility of negotiating an FTA with the Gulf Cooperation Council (GCC). The Government plans to release the results of the study and to announce proposed next steps in December 2006. In December 2006, Australia announced that it had agreed in principle to commence FTA negotiations with Chile and that it would commence consultations in early 2007.
