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GATT TRADE POLICY REVIEW MECHANISM

AUSTRALIA

As one of the early results of the Uruguay Round, it was agreed in April this year that a trade policy review mechanism be established in the GATT. Its purpose is to enable a regular collective evaluation of the full range of trade policies of individual GATT members. The evaluation is conducted on the basis of two reports - one by the government of the country concerned and the other by the GATT Secretariat.

Attached are the summary sections of the reports on the trade policies of Australia prepared by the Australian Government and the GATT Secretariat. They will be considered at a meeting of the Council on 12 December 1989.

These two reports, together with a record of the Council discussion, will be made available early in 1990 as a single publication, price 80 Swiss francs, from the GATT Secretariat, Centre William Rappard, 154 rue de Lausanne, 1211 Geneva 21, Switzerland.

TRADE POLICY REVIEW MECHANISM

AUSTRALIA

Report by the Australian Government - Executive Summary

Australia has a medium-sized, relatively open economy. Its exports are dominated by agricultural and mineral commodities, while imports are predominantly manufactures, particularly industrial supplies and capital goods. Australia has a substantial influence over prices in few of the markets in which it trades and has little direct influence over discriminatory trade policies of other countries, which can distort returns to Australian exports. As a result of those influences, Australia's terms of trade tend to be quite volatile. Australia must therefore ensure that its domestic policy settings provide an environment which allows the domestic economy to adjust to changes in external economic conditions.

Australia's traditional heavy dependence on agricultural and mineral products for the bulk of its export income reflects its comparative advantage in the production of such commodities. The competitiveness and flexibility of other sectors of the economy have been heavily influenced by the existence in those sectors of protective barriers and domestic regulation of one kind or another, which have limited the exposure of those sectors to competitive disciplines and reduced the incentive for the sectors to improve their efficiency, dynamism and capacity to adjust to changing circumstances.

The adverse changes in Australia's terms of trade during 1985 and 1986 highlighted those long-standing rigidities in the Australian economy and underlined the need for major economic restructuring and an uplifting of efficiency and productivity in all sectors of the economy. A comprehensive policy response has been mounted in recent years to reduce distortions and impediments which impede efficiency and responsiveness, and to improve Australia's general economy performance and effective participation in the world economy.

Exposure to international trade and removal of domestic regulation have been seen as the most effective means of securing greater responsiveness of the domestic economy to change. The policy approach adopted has also reflected a recognition that the provision of assistance to one industry imposes costs on others and can impede the development of activities that might otherwise be internationally competitive. The aim of the reforms in trade and industry policy introduced in recent years has therefore been to move toward a lower, more neutral and more transparent assistance régime and to promote an economy with fewer distortions and impediments.

Substantial reform has been undertaken in manufacturing industry policy and in reducing assistance to the few highly assisted pockets in the agricultural sector. Industry policy has shifted from an essentially defensive orientation, based on barrier protection, to an outward-looking approach aimed at facilitating the development of more internationally-

competitive and dynamic industries. The decision to reduce protection has been unambiguous and has signalled, both to domestic industry and to the international trading community, Australia's commitment to trade liberalization. This approach contrasts markedly with the international trend toward growing protectionism.

The tariff remains Australia's principal import measure restricting trade. It is subject to an ongoing phased reduction which will see the average tariff drop to 5.5 per cent by 1992, some 30 per cent lower than its 1986-87 level. Australia makes relatively little use of non-tariff measures and all quantitative import restrictions, tariff quotas, import licensing controls and emergency safeguard actions have been terminated or are scheduled for termination. Non-tariff measures such as offsets and government purchasing preferences have been subject to review and reform to ensure greater transparency and effectiveness.

The majority of Australia's exports receive no direct assistance. The limited direct assistance available is falling. Most is subject to scrutiny in the budget and it is not linked to export or production levels. Australia's export system is designed to encourage relatively unrestricted export of Australian commodities. Export controls are designed to meet quality control, conservation and defence objectives and to respond to specific market distortions abroad which impact on export prices for certain commodities.

Although not linked directly to either the import or export system, there are a number of other measures which provide assistance to domestic industry. Such assistance is provided mainly through budgetary measures or through domestic pricing schemes applying in a number of agricultural industries. Such assistance is modest and has declined over recent years in line with cuts in budgetary expenditure and a reorientation of marketing arrangements in the agriculture sector to allow greater exposure to market prices and to reduce trade-distorting effects.

Notwithstanding the substantial reforms introduced, there are a number of industries - such as the textile, clothing and footwear, passenger motor vehicles, dairy and tobacco industries - which continue to receive relatively high levels of assistance. The Government's approach to highly-assisted industries now emphasises adjustment, rather than sheltering the industries from competition. Assistance mechanisms have been reformed to provide more transparency and to reduce the scope for assistance to increase automatically with falls in competitiveness. Industry adjustment plans have been established to introduce a growing element of competition, while allowing the industries time to restructure and promote efficiency in the long term.

The substantial reorientation in Australia's trade and industry policies over recent years reflects a recognition that the Australian community has been ill-served by policies of industry preferment and regulatory measures which impede the economy's capacity to adjust. Australia has made extensive use of the Effective Rate of Assistance

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concept to measure the net effect of trade and industry policies on individual activities. That analysis has highlighted the extent to which policies can distort domestic resource usage, detracting from general economic performance and reducing the community's welfare. It is estimated that the phased assistance reductions now¹ in place in Australia will lead to a real GDP gain of around \$1.2 billion¹ per annum by the mid-1990s, a small increase in aggregate employment and will act to lower inflation.

The Government is committed to realizing the benefits of reform and deregulation. It recognizes that winding back past policies and ridding the economy of distortions involves an ongoing process in terms both of trade liberalization and microeconomic reform more broadly. The Government's programme for prospective reform focuses on areas where the remaining policy shortcomings are most pressing and those areas currently most impeded by domestic regulation.

The framework for the formulation and development of trade policy in Australia has played an important part in achieving the reorientation of Australia's trade policy and in securing commitment to further reforms. Australia is a federation and although certain residual powers dealing with matters such as health regulations and standards are administered by State governments, primary responsibility for trade policy rests with the Federal Government. Trade policy is thus formulated at the national level in the context of a parliamentary democratic system. Transparency is a key feature of the framework, which includes debate within a parliamentary democratic system. Transparency is a key feature of the framework, which includes debate within a parliamentary context, consultation with non-government bodies, an independent body which reviews the impact of assistance measures from the national perspective (the IAC) and open discussion and review by multilateral institutions. That framework, and in particular the work of the IAC in promoting transparency and awareness of the economy-wide impact of trade policy measures, has provided a crucial impetus to the process of trade policy reform in Australia by increasing public understanding of the domestic costs of assistance policies.

Transparency and analysis of policy impacts from a broad perspective are approaches which Australia has carried into its multilateral, regional and bilateral trading arrangements and which underline Australia's participation in the Trade Policy Review Mechanism. Australia is also a signatory to most GATT codes and is actively involved in promoting a freer and fairer multilateral trade system, in particular through negotiations in the Uruguay Round.

¹Unless otherwise indicated, all dollar references in this report are Australian dollars.

TRADE POLICY REVIEW MECHANISMAUSTRALIA

Report by the GATT Secretariat - Summary Observations

(1) Australia in World Trade

322. Australia ranks 19th and 20th, respectively, among world importers and exporters. Trade has played a substantial and increasing rôle in domestic economic activity, as evident from a merchandise trade (exports plus imports) to GDP ratio of over 28 per cent in 1986-88, up from 24 per cent in 1970-72.

323. Despite progress in the diversification of its export base, Australia still remains predominantly an exporter of primary products and an importer of manufactured commodities. In the last two years, for example, exports of primary commodities accounted for some 75 per cent of Australia's merchandise exports. Thus, the performance of the Australian economy is strongly affected by conditions in international commodity markets, including the impact of trade policies of major trading partners in agriculture. Australia's success in diversifying the economy also depends on its ability to build on its competitive position in areas where it has a comparative advantage.

324. This explains Australia's early support for the launching of the Uruguay Round and its very active participation in current efforts to strengthen the multilateral trading system. In this context, Australia's rôle in the Cairns Group which seeks to eliminate distortions of international trade in agriculture deserves particular note.

325. For its part, Australia has gone a long way towards reversing its traditional policies of promoting development through providing high levels of assistance for its industries.⁷⁶ In 1988, the Australian Government embarked on a major program of reform designed to promote greater economic efficiency and growth by reducing both the levels and dispersion of industry assistance and thus accelerating the process of structural adjustment. The liberalization programme has been launched against the background of high current account deficits. These deficits have tended to worsen of late despite policies of fiscal restraint, resulting in federal budget surpluses since 1987-88. The Government has sought to use high interest rates to dampen the expansion of private demand while leaving the programme of liberalization undisturbed.

⁷⁶In the context of the Australian report, the term assistance covers all forms of trade-related measures, including border and non-border measures; the term industry covers all sectors, including agriculture and mining.

(2) Institutional Framework

326. Under the Australian Constitution, the Federal Parliament has the power to make laws with respect to trade and commerce with other countries. Legislation affecting external trade is embodied in many laws, including both general laws such as the Customs Act 1901 and product-specific laws such as the Australian Meat and Livestock Corporation Act 1977. Recent amendments in legislation include the Customs (Valuation) Amendment Act 1987, the Customs Tariff (Rate Alteration) Act 1988, the Anti-Dumping Authority Act 1988, the Customs Legislation (Anti-Dumping) Amendment Act 1988, the Customs and Excise Legislation Amendment Act 1989 and the Wheat Marketing Act 1989. Several laws pertaining to trade policy are passed by the Federal Parliament each year. These laws generally originate from bills introduced by the Executive Government.

327. Responsibility for the initial formulation and the administration of trade policies falls largely within the portfolios of the Minister for Industry, Technology and Commerce, the Minister for Science, Customs and Small Business, the Minister for Primary Industries and Energy, the Treasurer, and the Minister for Foreign Affairs and Trade who is responsible to Parliament for all multilateral, bilateral and regional aspects of international trade. Policies on industry assistance are generally co-ordinated by senior Ministers forming the Cabinet Committee on Structural Adjustment.

328. The Cabinet Committee on Structural Adjustment also considers reports by the Industries Assistance Commission. Since its formation as an independent statutory body in 1974, the Commission has provided the Federal Government with advice on matters of industry assistance referred for enquiry. Through its work, which includes public hearings, the Commission has exposed many issues of industry assistance to public scrutiny. In so doing, the Commission has made a major contribution towards changing public attitudes by highlighting the costs of protection. The Industries Assistance Commission is currently being replaced by a new Industry Commission whose mandate is to advise on the full range of structural adjustment and micro-economic reform.

(3) Trade Policy Trends

(i) Character of trade policies

329. Australia is a believer in the m.f.n. principle. Bilateral agreements of Australia do not provide for preferential treatment, except for agreements with New Zealand, Papua New Guinea and Canada (see below).

330. Australia was the first country to introduce a global scheme of preferences for developing countries (1966). It participates in the Generalized System of Preferences for developing countries. With recent reforms, the Australian System of Trade Preferences (ASTP) extends a uniform 5 per cent margin of preference to imports from beneficiary countries. The ASTP is open-ended in time and applies to an established list of developing countries across all products.

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331. Australia maintains a preferential arrangement with Forum Islands countries. It has also a bilateral trade agreement with Papua New Guinea. These arrangements provide for additional benefits not available to other ASTP beneficiaries. Furthermore, since 1960, Australia has had a bilateral preferential trade agreement with Canada, embodying pre-World War II arrangements.

332. In 1983, the Australia-New Zealand Closer Economic Relations Trade Agreement entered into force. Its objective is to establish free trade for all products between the two countries, conforming with Article XXIV of the GATT. Following a review of the Agreement by the two countries in 1988, changes were implemented which, among other results, brought forward by five years to 1 July 1990 the date for achievement of free trade in goods.

333. Recently, the Australian Government has promoted the Pacific Rim Initiative. The Government of Australia regards this initiative essentially as designed to create a forum for discussions of economic matters of common interest to the Pacific Rim countries, while maintaining the principle of open and non-discriminatory trade.

(ii) Type and incidence of trade policy measures and their recent evolution

334. Estimates of assistance published by the Industries Assistance Commission indicate that Australia has provided relatively high, but uneven levels of assistance to many of its manufacturing and agricultural industries. The liberalization programme noted above will substantially reduce average levels of protection, in most instances by 1992 and in some others by 1995.

335. In 1988-89, the average effective rate of assistance (broadly defined as assistance to output net of assistance to material inputs) was 17 per cent for the manufacturing sector; the most recent estimate for agriculture was 9 per cent in 1987-88.

336. The dispersion in rates of assistance around these average levels is high, with some industries receiving rates of assistance several times the sectoral average. These include passenger motor vehicles, textiles, clothing and footwear in manufacturing, and dairying, sugar, dried vine fruits, tobacco and eggs in agriculture.

337. Tariffs are by far the main form of assistance provided to Australian manufacturing industries. While tariffs are high for a few agricultural products such as citrus juice and certain vegetables, most agricultural items have either low or zero tariff rates.

338. Australia's simple average of all ad valorem tariff rates was estimated at 10.6 per cent in July 1989; this estimate excludes ad valorem tariff equivalents of specific tariff rates and tariff quotas that exist for several items. Important areas of domestic production which are protected through relatively high tariffs include certain kinds of

furniture, textiles, clothing, footwear, and passenger motor vehicles and their parts.

339. A small proportion of Australia's tariffs is bound under the GATT. This reflects the Australian view that earlier GATT Rounds have not produced concessions that would benefit Australia in the area of agriculture which has been its main concern. In the context of its efforts to achieve a reduction of tariffs and other trade barriers in the Uruguay Round, the Australian Government has indicated its readiness to consider binding its tariffs on a large scale.

340. In the past, there have been frequent changes in the tariff classification of individual items, sometimes several times within a single fiscal year.

341. Substantial assistance is provided for certain industries through tariff quotas, quantitative restrictions and other non-tariff measures, including offsets; local content schemes; provision of special assistance to passenger motor vehicles, and textiles, clothing and footwear through sectoral plans; and some assistance to exports. For a few products, Australia participates in voluntary restraint arrangements, mainly on the export side.

342. A specific feature of agriculture has been the provision of relatively high rates of assistance to items such as dairy products and certain fruits through domestic pricing arrangements (the main form of assistance to agriculture in Australia). A few agricultural products also receive some assistance in other forms, including marketing support and underwriting schemes.

343. Australia is not a party to the GATT Code on Government Procurement. The Federal Government has announced that the current 20 per cent preference margin provided for local suppliers is to be replaced soon with new guidelines.

344. Health and safety standards and quarantine regulations also affect trade. Despite some recent harmonization, there remain widespread differences in health and safety standards applied across States.

345. Most estimates of assistance are based on information published by the Industries Assistance Commission (the future Industry Commission) which is a unique source of trade policy-related information not available in other

⁷⁷ Offsets are commercial or technological activities to be conducted in Australia by an overseas supplier as a result of, or in anticipation of, receiving an order for goods and/or services from Federal or State Government organizations.

countries. In spite of the studies from this and other Government bodies such as the Bureau of Industry Economics, it is difficult to assess the precise incidence of the assistance provided by certain policies such as offsets, partnerships for development, health and safety regulations and standards.⁷⁸ The reports suggest, however, that assistance through the use of offsets and partnerships for development agreements has increased. Likewise, only limited information is available on the incidence of State, as opposed to Federal, Government assistance for different industries and their impact on trade. The State governments appear to have substantial possibilities to provide assistance for agriculture.

346. Australia's current liberalization programme envisages, *inter alia*, the phasing out of a number of non-tariff measures, in part by converting them into tariffs. Also at the core of Australia's current liberalization programme, however, is a phased across-the-board reduction in tariffs. When completed on 1 July 1992, the maximum tariff level in most sectors will be 15 per cent. The approach to tariff reform is essentially one of "tops-down"; in general, tariffs above 15 per cent are being reduced to that margin and tariffs between 10 and 15 per cent to 10 per cent. According to the sectoral plan for passenger motor vehicles, tariffs for the products covered by the plan will be phased down to 35 per cent by 1992. For textiles, clothing and footwear, tariff quotas will be removed (base quotas by March 1992 and tender quotas by July 1995). Thereafter, maximum ad valorem tariff rates will be 55 per cent for clothing and 45 per cent for footwear.

347. Assistance provided for agriculture by two-price schemes is being reduced with the abolition of some statutory marketing boards. In other cases, the controls exercised by these boards over domestic sales are being relaxed or eliminated. Furthermore, new principles have been proposed⁷⁹ for underwriting schemes with the objective of reducing assistance. Underwriting provisions will continue for dairy products until 1 July 1992. In the case of wheat, the new marketing arrangements implemented in 1989 provide for underwriting until the end of the 1993 season.

348. In recent years, tighter criteria have been established for providing assistance through policies such as subsidies to research and development, bounties, export assistance and structural adjustment assistance. Attempts are being made to target such measures more closely.

78 Partnerships for Development require companies to increase industrial research and development to 5 per cent of total sales turnover in Australia and achieve a 50 per cent export to import ration within seven years. In return, the companies are exempted from their civil offsets obligations and are provided with some infrastructural benefits.

79 Underwriting schemes provide government guarantees of minimum prices/returns, based on average prices/returns of the current previous years. The schemes apply mainly to exports.

349. Thus, the current liberalization programme should by 1992 or 1995, as the case may be, result in a sizeable reduction of levels of assistance in virtually all sectors. Nonetheless, some sectors will continue to be highly protected in the mid-1990s, in particular dairying, clothing, footwear, textiles and passenger motor vehicles. In some other sectors, assistance will remain substantial, including paper and paper products, appliances and electrical equipment, rubber products, certain petroleum and coal products, non-ferrous metals basic products, wine grapes, dried vine fruits and tobacco.

350. The trade policy reforms being implemented are expected to significantly improve Australia's economic performance. According to simulations by the Industries Assistance Commission, mining will receive the strongest stimulus, followed by basic and fabricated metal products, agriculture and non-metallic minerals. Export volume is expected to expand substantially on account of the liberalization programme (Table VII.1). These projections relate to the present programme, which is to be fully implemented by 1995.

(iii) Import relief

351. In recent years, the use of ad hoc import relief measures in Australia has been on the decline.

352. In the 1980s, the number of GATT Article XIX actions of Australia decreased substantially as compared to the 1970s. In July 1989, Australia terminated its only remaining GATT Article XIX action, taken in 1967 to provide import relief for used 4-wheel drive vehicles.

353. Australia is a member of the GATT Anti-Dumping Code and the GATT Code on Subsidies and Countervailing Duties. In 1988, a new Anti-Dumping Authority was established.

354. As in the case of Article XIX action, there has also been a sharp drop in the use of anti-dumping and countervailing measures over the past few years. The transparency of anti-dumping cases has been improved, and specific time-limits imposed on both the conduct of enquiries and the anti-dumping action. Duties or price undertakings will now automatically lapse after three years, although these measures may be re-imposed following a further enquiry.

355. The current adjustment programme contains provisions for the application of safeguard measures under certain conditions. In particular, in the case of large losses in output or employment, the reductions of assistance foreseen in the sectoral plan for textiles, clothing and footwear can be suspended for up to one year.

356. Understandings with New Zealand govern the conditions currently applying to imports of sheepmeat and dairy products from that country.

(4) Trade Disputes

357. Australia has initiated ten complaints under Article XXIII of the GATT since 1948, three of them dating after the launching of the Uruguay Round. The recent complaints by Australia have covered restrictions on imports of beef by Japan and Korea, and imports of sugar by the United States. In the case of Japan, the complaint was withdrawn following certain market-opening measures implemented by Japan. In the other two cases, Panel reports have been adopted by the Council.

358. Since 1950, there has been no complaint against Australia under GATT Article XXIII:2.

359. In 1989, Finland made a request for conciliation under Article 15:3 of the Anti-Dumping Code regarding a dispute concerning deliveries of power transformers to Australia.

(5) Trade Policies and Foreign Trading Partners

360. During the 1980s, Australia's merchandise imports from most sources, except Middle Eastern countries, have increased rapidly, reflecting strong expansion of its domestic demand supported by recent trade liberalization. Far Eastern countries have been the principal beneficiaries: the US\$ value of imports from the Republic of Korea quadrupled between 1979 and 1987, imports from China almost tripled in the same period, and those from Japan doubled. Asian countries are also major, rapidly growing markets for Australia's exports. Japan is now Australia's largest single trading partner. Australia's rapid import growth has been based on largely non-discriminatory trade policies.

361. The basic thrust of current trade policies is towards a closer integration of Australia into the world economy. As a result of both the substantial process of trade liberalization already implemented or scheduled to continue until 1995, and through the deregulation of investment and exchange controls and the opening up of financial markets that were achieved in the course of the 1980s, Australia is becoming a more open economy. Sizeable reductions of assistance will have been achieved with the completion of the current liberalization programme, even though in some sectors significant levels of protection will remain. Some of them are of particular export interest for developing countries. The liberalization trend has also to be viewed in the context of the intention stated by the Australian authorities to negotiate large-scale bindings of their tariffs in the Uruguay Round. Australia's commitment to the Uruguay Round negotiations thus reflects its interest in the achievement of improvements in the external environment for its exports through the removal of distortions in world markets. It also reflects its understanding that the recent trade policy efforts made by it contribute not only to a better functioning of the multilateral trading system but also to its own future growth and development.

Table VII.1
Estimated long-run effects of economic reforms in Australia
(Percentage change)

Categories	Industry Assistance	Other reforms ^a
<u>Macro-economic variables</u>		
Real GDP	1.1	3.1
Real consumption	0.3	4.3
Real investment	2.3	3.7
Export volume	8.5	1.1
Import volume	6.1	5.9
Consumer price index	-3.8	-1.7
Employment (persons)	0.1	0.3
<u>Sectoral activity levels</u>		
Agriculture	1.3	0
Mining	11.4	12.1
Food, beverages and tobacco	0.4	-1.2
Textiles, clothing and footwear	-13.2	-0.5
Wood products	0.5	2.5
Paper products	0.2	0.1
Chemical, petroleum and coal products	-0.1	7.0
Non-metallic minerals	1.3	3.8
Basic and fabricated metal products	4.2	5.2
Transport equipment	-13.2	0.2
Other machinery and equipment	0.2	3.3
Miscellaneous manufacturing	-3.5	1.2

^aDomestic water transport, international liner shipping, bulk commodity handling, rail transport, domestic aviation, international aviation, road transport, post and telecommunications and electricity supply.

Source: Industries Assistance Commission.