Australian Services
Roundtable

"Servicing Our Future"

The Australian Services Roundtable calls on the Government to implement the recommendations of the bipartisan "Servicing Our Future" report handed down by the House Economics Committee in May 2007.

This includes Recommendation 4 which calls on the Government to give greater priority to services trade issues in all future bilateral and multilateral trade negotiations.

This ASR position paper addresses the question " Are Services Adequately Reflected in Australia's Trade Negotiations?"

However one looks at this question, and about whichever trade negotiating forum the question is asked, ASR's answer is, on balance, a resounding "no" !

Services are inadequately reflected in Australia's trade negotiating agendas and they are inadequately reflected in the Australian Government's manner of pursuit of those agendas and in their outcomes. This is truest in the WTO, but it is also true of the FTAs. If APEC members agree to a new push on investment and on behind-the border –regulatory and other barriers this year, it will hopefully become less true of APEC.

Lets look at the different ways in which this question may be posed.

Are Services adequately reflected, relative to the extent to which Agriculture, Mining or Manufactures are reflected?

Noone could pretend anything other than no, they are not. Noone would doubt that everyone from the average Cabinet member to the average Australian is better informed about eg the current failure of the WTO to deliver on Agriculture than about the paucity of Services offers. The fact is that the average Cabinet member is more likely to understand that food and energy security are going to matter in the FTA with Japan than that Japan historically has been a services surplus market for Australia and could be again. The average Cabinet member is more likely to know which goods might be sensitive in the FTA with ASEAN than to know what services industry hopes to get from those negotiations. [One exception is probably the Attorney-General who regularly displays understanding of international legal services issues – because of the existence of the International Legal Services Advisory Council which he chairs and which he has recently made into a permanent body. (There is no such counterpart body even for ICT services or Financial services.)]

There are many reasons for this relative lack of knowledge. One reason is Australia's particular trade policy history. Another is continued lack of familiarity. Services trade is so completely different from goods trade and the barriers to services trade are still relatively unfamiliar to the uninitiated.

Services trade is about people movement – both providers and customers, about ICT enablement and about opening an office overseas, The barriers lie in the realm of investment, immigration and domestic regulatory regimes. These also happen to be highly politically sensitive areas for most governments. And the GATS rule-making is unfinished. There are no rules yet on domestic regulation (this is on the Doha Agenda but we rarely hear anything about it) . Our trading partners are not yet obliged to commit to anything on domestic regulation, not even transparency.

Are Services adequately reflected, relative to the extent to which we have commercial interests in them?

Obviously not. Services industries account for 78 % of GDP and employ 8.5 Australians out of every 10. Official ABS estimates of services exports are on a par with or already exceed our agricultural and manufacturing exports. And we know that the official estimates are a massive underestimate of what is actually going on. Sustained international competitiveness in services is critical to our economic future.

Are Services adequately reflected, relative to the extent to which potential trade and investment is at stake.

No way! All the many modelling exercises, domestic and international, which have ever been undertaken to identify the gains from liberalisation, have all shown the economic gains from liberalisation in services to far outweigh anything available on the goods side. And these gains are evenly spread, ie developing countries gain as much as developed countries.

Are Services adequately reflected, relative to their needs?

Definitely not. Services trade and investment negotiation is newer, less familiar, technically just as, if not more, complex , more politically sensitive and hence potentially even harder than trade negotiation on goods. Services trade negotiation needs focused specialised attention, just like the other sectors. Currently, only Agriculture retains the luxury of a DFAT Special Negotiator on Agriculture who is focused on the WTO and the Cairns Group and is not hived off regularly to cover agriculture in all of the various FTAS. Australia's Chief Services Negotiator, unlike his or her counterpart on Agriculture, has to be in more than one forum at a time.

Are Services adequately reflected, relative to the extent and height of the trade and investment barriers they face?

Of course not. Market access in services is extremely limited. In many services sectors, in many of our trading partners, we face the equivalent of full embargoes on any foreign participation. (eg No Australian telecoms provider can get a telecoms licence in China.) And new barriers pop up every day (eg new foreign equity limits imposed on a variety of services industries in Indonesia this month). Services providers don't always recognise the barriers as "trade" barriers, or draw them to trade negotiators' attention as something the government might do something about, and they often learn how to manage a way around them, though usually only to find, once inside the target market, that their scope of business is heavily and unprofitably constrained by domestic regulation.

There has been a lot of public discussion about Australia's market access objectives in agriculture in the Doha Round. But in services, we often hear that we should be pretty pleased if all we can achieve is standstill; and that is all, by the way, that the Hong Kong Ministerial Declaration seemed to call for?

Unlike the goods sectors, there is no agreed way of measuring or benchmarking comparative progress in services trade liberalisation. This is a major gap, to which Australia should devote some considerable effort. It is not good enough to measure only the number of services sectors in which countries make commitments - we need a way of measuring the commercial relevance of the commitments, just as we measure the depth of a tariff cut.

Are Services adequately reflected, relative to the difficulties involved in services trade and investment negotiation

In the Doha Round, services negotiations are going nowhere. This is not only because of a linkage with Agriculture or NAMA; it is because services negotiations are themselves difficult and sensitive. Similarly, in the FTA with China, services negotiations are going nowhere.

With ASEAN and with the GCC, Australia has formally recognised the "difficulties" our trading partners have on services trade and investment issues, and compromised to the point where we have accepted less ambitious positive list approaches!

Are Services adequately represented in terms of the public research effort which goes into them?

Unlike the case in other sectors, there is no public research effort. There is no mechanism for funding any public research effort. There is no assistance provided by government to help industry conduct research. There is no RIRDC equivalent for the services sector. ASR is seeking to address this gap.

Are Services adequately reflected in terms of the relative flow of government funds to support the negotiations.

There is n o flow of government funding to facilitate stakeholder input to services trade and investment negotiation. There is considerable flow of such funding to other sectors. (eg Government supported flights to Cairns Group meetings etc.)

Are Services adequately reflected in the terms of the appropriateness or otherwise of the structure of existing trade negotiating fora?

WTO

The current WTO agenda is inadequate from a services perspective. The Doha agenda should have included all the Singapore issues which were dropped at the Cancun Ministerial ie Investment, Competition Policy and Government Procurement. The absence of multilateral negotiation in these areas and the absence of progress on rule-making on domestic regulation in the GATS compromises the quality of what can be delivered on services in the Doha round. The request/offer basis for negotiations is not delivering commercially interesting offers. Nor is it clear that the plurilateral approach will deliver. WTO members seem to have forgotten the domestic economy wide gains which liberalisation delivers. **Services industries will be calling for a major rethink post Doha.**

FTAs

It is similarly not clear that a request/offer basis can deliver. Australia may need to think in terms of including individual chapters on a much wider variety of heavily protected services sectors. Amongst the worst affected, most frequently left out industries, are the professional services providers. DFAT needs urgently to build up its expertise in this area; its current expertise is focussed on the US market and this is insufficient.

APEC

This is not a trade negotiating forum as such (and lets hope it stays that way) but services issues have always figured importantly if indirectly including via the trade facilitation agenda. We hope that under Australian leadership, Ministers will agree this year to a big new initiative on Investment. And a big new initiative on Trade Facilitation. And a strong new focus on micro reform of behind-the-border regulatory barriers.

Are Services adequately reflected in terms of domestic consultative structures/opportunities.

The fact that there is no Minister for Services significantly and seriously hampers industry and other stakeholders ability to input their interests on services trade and investment issues. DFAT has made a major effort to coordinate a variety of other Departments on services-related trade issues, but it is not DFAT's role to act as other than "coordinator" ie DFAT has no role in the domestic policy making which is the counterpart to international negotiation.

DFAT consultation with stakeholders on services issues in the WTO could be significantly enhanced; to avoid excessive resource burden for industry, this should be facilitated through ASR.

DFAT has made a big effort to create new coordinating structures for FTA consultation and feedback. We welcome this effort on the services side, though it remains imperfect. And excessively resource intensive for both DFAT and industry.

APEC has its own peculiar stakeholder consultation mechanism through ABAC. ASR welcomes ABAC Australia's significant efforts to elicit industry views. ASR has found it difficult in the past to follow the work of the Group on Services or the Investment Experts Group in much detail. ASR members participate in APECTEL.

Conclusion

Services sector trade and investment issues are inadequately reflected in Australia's trade negotiations in terms of the bureaucratic and Ministerial resources Australia devotes to them and in terms of the policy attention they receive in Cabinet.

Services trade and investment issues are not well understood at any level of Government. They are still poorly understood by industry and also by the media. They are badly understood by the general public.

There is no publicly funded research effort underway to address this inadequacy.

The current international trade negotiating fora themselves are perhaps ill designed to handle services trade and investment issues.

The consequence of all this is that Australia's services trade and investment flows are well below their potential.