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53 Lukin Street
Clayfield
Queensland 4011
07 3268 6375
bodowney@optusnet.com.au

BY:

The Secretary
Joint Standing Committee on Treaties
R1-109
Parliament House
CANBERRA 2600

Dear Secretary

History will have to record that the greatest tragedy of this period of social transition was not the strident clamor of the bad people, but the appalling silence of the good people. [Martin Luther King, Jr]

PROPOSED AUSTRALIA – UNITED STATE FREE TRADE AGREEMENT

The rapidity with which the Minister for Trade has referred the proposed Agreement to the JSCOT is staggering. A sceptic might imagine a possible early call for a Federal election and certainly a need for the President of the United States of America to have something positive to show to the punters in the forthcoming Presidential election in November.

Notwithstanding, I welcome the opportunity to indicate that I am wholly opposed to the proposal.

While the obvious deficiencies of the proposal are seen in the agricultural sector, and there seems to be some thought that the Pharmaceutical Benefits Scheme is protected, my concerns are, and have been for many years since the Lima Agreement was accepted without demur in 1972, with the essential service sector of our nation.

These include, but not all encompassing, such areas of government services as:

- Police
- Fire services
- Ambulance Services
- Water storage and distribution
- Electricity generation and distribution
- Emergency services
- Defence management and all aspects of defence
- Environmental protection and National Parks
- Heritage and National icons
- Welfare services
- Statistical collection and distribution
- Weather forecasting
- Aircraft Safety
- Navigation and mapping
- Investment controls
- Telecommunications
- The ABC and SBS
- Transportation regulation

In other areas of Services the following indicates a view of the impact and 'thin edge of the wedge' process of the Agreement:

This means that in some areas, US companies may be able to demand "market access" to bid for services currently supplied by the government. For example, in the area of "environmental services", US corporations may demand access to the provision of national park conservation services. It may also make it difficult for the government to restrict the operation of some corporations. For instance, limits on the number or type of tourism service operators in environmentally sensitive areas could be a breach of the FTA.

Also, the Australian reports that "free trade in higher education could see US universities setting up campuses in Australia receiving the same benefits as local institutions, while competing for staff, students and research funding."

Finally, of concern is a pledge to the US Government, signed by the Australian government, to privatise Telstra as part of the agreement.¹

Since 1972, our secondary industry has dwindled to that which provides products for the Service industry, particularly Tourism. Any heavy industry Australia owned and managed has long since been moved offshore or purchased by foreign enterprise and moved offshore, wherever the labour costs are lowest. So, in reality, the industrial heart of Australia was excised from 1972, and with those events there has been an ever-expanding army of unemployed or underemployed Australians.

This situation will not improve if the Agreement comes into force, and that minor industry still manufacturing will dry up and so add to the army of unemployed.

One has to look at whether "free trade is "fair trade". It is virtually impossible for a citizen to single-handedly make comparisons on fairness from the Schedules pertaining to Australia and the United States in the Draft Agreement. The Schedule of Australia is of 248 pages and the only exceptions to immediate freedom from tariff (on passage of the Agreement through the Federal Parliament and the US Senate) seem to be in the Textile and Clothing industry and certain Motor Vehicles (used and second hand and "other" passenger vehicles).

Virtually all agricultural products would have free entry to Australia and to my thinking that would seriously degrade our Quarantine Service and allow potential hazards to enter the country including such products as are genetically modified. It is still too early to allow the import of genetically modified foodstuff, whether for human or animal use, or seeds into this country, until it is scientifically proved harmless and then acceptable to the populace in general. The recent British Cabinet decision to allow commercial crops of maize to be grown has angered some 70% of the UK population, according to newspaper articles.

The following is an extract from Global Trade Watch:²

Despite a promise by Prime Minister Howard on November 21 that "if we can't get something quite big on agriculture then we won't have a free trade agreement", the FTA delivers almost no new export markets to farmers. At the same time, it threatens local markets by giving all US agricultural imports into Australia (many of them subsidised by the US government) "immediate duty-free access", and by making changes to quarantine standards to allow more US produce in.

Quotas for Australian beef exports to the US will remain for the next 18 years, until 2022, when free trade will finally be instituted. According to the US, Australian dairy exports will increase to a tiny 2% of US imports. Sugar is excluded from the deal.

However, local produce which will be threatened with increased imports of subsidised US produce includes processed foods, soups and bakery products, fruits and vegetables, dried onions, fruit and vegetable juices, dried plums, potatoes, almonds, tomatoes, cherries, raisins, olives, fresh grapes, sweet corn, frozen strawberries, and walnuts.

Although the Australian government claims that "Australia's quarantine and food safety regimes, which ensure our health and our environment are protected, are not affected by the Agreement", the US does not appear to agree. Rather, the US Government states that "food inspection procedures that have posed barriers in the past will be addressed, benefiting sectors such as pork, citrus, apples and stone fruit."

¹ Global Trade Watch web site

² Global Trade Watch web site

In effect, this means that the government has agreed to changes to Australia's quarantine system which has previously blocked imports of these products. Opening up to these imports will threaten Australian farms and environments.

Single desk export boards - which primarily help small farmers to export their crops - have been excluded from the agreement.

Continuing the concentrate of "fair" versus "free" trade, the following comments appeared in a recent Australia newspaper:

"The first thing to understand about the free trade agreement with the US is that, despite the name, it has nothing to do with free trade. In consequence, the second thing is that, despite the grandiose claims being made, it doesn't amount to much.

*Assuming the deal goes ahead, you'll need a microscope to see the difference it makes to our economy - as the Howard Government's own studies show."*³

Gittens goes on to make the following comment ⁴

For goods entering America, the rates are even lower. So abolishing import duties won't make a big difference. Whether the value of our dollar at any time happens to be up or down will have a much bigger influence over our competitiveness than the presence or absence of 2 to 5 per cent import duties.

Even so, you would expect the trade deal to lead to an increase in the two-way trade between Australia and the US. A fair bit of that increase, however, would involve us importing stuff from the US rather than elsewhere, and exporting to the US rather than to Asia. (This "diversion" of trade from other countries is why free trade agreements aren't actually about free trade, but are merely preferential deals between countries. It's also why economic rationalists disapprove, and leave FTAs to the protectionists.)

But, though the deal should lead to more trade with the US, it's far from clear that this would mean reducing our trade deficit rather than increasing it.

On the historical record, our appetite for their manufactured exports is a lot keener than their appetite for ours - which wouldn't worry a rationalist, but hardly fits the Government's protectionist rhetoric.

In earlier submission to the JSCOT on the Multinational Agreement on Trade and other subjects I have tended to the view that the multinational corporations would be the winners and the interests of Australia the loser. If the North America Free Trade Agreement, after ten years has not been a boom for neither Canada nor Mexico, and the Free Trade Agreement of the Americas is stalled for want of trust by other American countries in the United States, one only has to read the following extract: ⁵

Growth in Mexico over the past 10 years has been a bleak 1 percent on a per capita basis — better than in much of the rest of Latin America, but far poorer than earlier in the century. From 1948 to 1973, Mexico grew at an average annual rate of 3.2 percent per capita. (By contrast, in the 10 years of Nafta, even with the East Asian crisis, Korean growth averaged 4.3 percent and China's 7 percent in per capita terms.)

And while the hope was that Nafta would reduce income disparities between the United States and its southern neighbor, in fact they have grown — by 10.6 percent in the last decade. Meanwhile, there has been disappointing progress in reducing poverty in Mexico, where real wages have been falling at the rate of 0.2 percent a year.

These outcomes should not have come as a surprise. Nafta does give Mexico a slight advantage over other trading partners. But with its low tax base, low investment in education and technology, and high inequality, Mexico would have a hard time competing with a dynamic China. Nafta enhanced Mexico's ability to supply American manufacturing firms with low-cost parts, but it did not make Mexico into an independently productive economy.

When President Bill Clinton first asked the Council of Economic Advisers about the economic importance of Nafta, early in his administration, our response was that potential geopolitical benefits

³ The Protectionists' Trade Deal, by Ross Gittens, The Age, 11 February 2004

⁴ Ibid

⁵ The Broken Promise of NAFTA, Joseph E Stiglitz, New York Times, January 6 2004

were far more important than the economic benefits. (Similarly, the European Union, for all of the economic benefits that it has brought, is mainly a political project.)

America perhaps stood more to gain economically than Mexico, but the concrete gains were likely to be small on both sides. Tariff rates on both sides were already very low, with Mexico's tariffs being slightly higher than America's, and Nafta would not eliminate important nontariff barriers. The disparity in income across the Mexican border is among the largest anywhere, and the resulting migration pressure was enormous. Doing what little America could do to enhance growth in Mexico would be good for Mexico, and good for America; and it was the right thing to do for our neighbor to the south.

Unfortunately, much of the goodwill that the United States might have expected has been squandered. First, America attempted to use barriers to keep out Mexican products that began to make inroads in our markets — from tomatoes to avocados to trucks to brooms. Despite the impressive efforts of workers' rights groups, efforts to ease the life of immigrants have stalled. Recent moves in California to prevent illegal immigrants from receiving driver's licenses and medical care have been a depressing sign that conditions for Mexican immigrants in this country are getting worse.

Of course, Nafta was a far more modest project than the European Union. It did not envision the free movement of labor, though that would have had a far larger effect on regional output than the free movement of capital, on which it focused. It did not envision a common set of economic regulations, or even a common currency. But hidden in Nafta was a new set of rights — for business — that potentially weakened democracy throughout North America.

Under Nafta, if foreign investors believe they are being harmed by regulations (no matter how well justified), they may sue for damages in special tribunals without the transparency afforded by normal judicial proceedings. If successful, they receive direct compensation from the federal government.

Environmental, health and safety regulations have been attacked and put into jeopardy. To date, suits with claims in excess of \$13 billion have been filed.

While many of the cases are still pending, it is clear that there was not a full and open debate of the consequences of Nafta before passage. Conservatives have long sought to receive compensation for regulations that hurt them, and American courts and Congress have usually rejected these attempts. Now businesses may have accomplished indirectly, through treaty, probably agree in the quixotic hope that by linking themselves to America, they will partake of America's prosperity.

In the long run, while particular special-interest groups may benefit from such an unfair trade treaty, America's national interests — in having stable and prosperous neighbors — are not well served. Already, the manner in which the United States is bullying the weaker countries of Central and South America into accepting its terms is generating enormous resentment.

If these trade agreements do no better for them than Nafta has done for Mexico, then both peace and prosperity in the hemisphere will be at risk.

One can expect the same or similar bullying with the proposal under discussion.

Trade in products and services depends on a seller prepared to sell at a fair price and a buyer who wishes to purchase at that or another negotiated price. Having Government-to-Government agreement will eventually limit the opportunity to trade. As Gittins suggests, our enormous trade with Asia, and much of that with a positive trade balance, may well evaporate merely by the fact that Asian economies may prefer to trade with others rather than with a perceived 51st State of the USA.

In summary, I have great objections to the passage of this Agreement or any similar imposition on, or degrading of the sovereignty of Australia.

Yours sincerely

Robert Downey