

TRADE LIBERALISATION AND THE WTO

Geneva and the WTO may be a long way from our members' farms but its effects are felt right outside the kitchen window.¹

- 1.1 Australia is a medium-sized economy. Our dependence on exports has meant that successive Australian Governments have embraced trade liberalisation as a means of securing export trade for Australia. In this inquiry the Committee considered how effectively Australia is using the multilateral trading system – and asked if we could be doing better.
- 1.2 This introductory chapter examines the multilateral trading system managed by the World Trade Organisation², differing views on the impact of globalisation, and the benefits and costs of trade reform. Understanding of these issues is vital in encouraging an informed debate amongst all Australians about future trade policy.
- 1.3 Subsequent chapters focus on more specific issues, including Australia's interaction with the World Trade Organisation (Chapter 2), and challenges for the future operation of the WTO (Chapter 3).

1 National Farmers' Federation, submission no. 223, p. 8.

2 The WTO's official title is World Trade Organization. However, we have adopted the Australian spelling for 'organisation' throughout this report.

The multilateral trading system

- 1.4 The World Trade Organisation (WTO) is an international organisation which deals with the rules of trade between nations. International trade facilitated by the WTO is often referred to as the 'multilateral trading system'.
- 1.5 The protests at the WTO's 1999 Ministerial Meeting in Seattle focused the world's attention on the WTO and it is a name that many people in the street would now recognise. However, the functioning, role and impact of the WTO are often not well understood.
- 1.6 The overriding purpose of the system is to ensure free trade, by removing trade barriers and providing a forum for comprehensive trade negotiations. The WTO's other important role is to resolve trade disputes between nations.³
- 1.7 The WTO comprises 142 member countries (at 1 September 2001).⁴ The WTO is a Government to Government organisation – all major negotiations and trade agreements are determined by the full WTO membership (either by countries' trade ministers, who meet at WTO Ministerial Meetings, or by their trade officials, who are stationed in Geneva). The WTO internet site comments:

In this respect, the WTO is not like some other international organisations such as the World Bank and International Monetary Fund. In the WTO, power is not delegated to a board of directors, and the bureaucracy has no influence over individual countries' policies (although some analytical comments are made in the regular trade policy reviews).⁵

3 The majority of material for this section on the World Trade Organisation is drawn from a WTO publication: *Trading into the Future: The Introduction to the WTO*, available at: http://www.wto.org/english/thewto_e/whatis_e/tif_e/tif_e.htm.

4 While the WTO membership covers over 90 per cent of the world's trade, there are a further 29 countries currently seeking accession to the WTO. Some of the larger traders in this group include China, the Russian Federation, Vietnam, Saudi Arabia, and the Federal Republic of Yugoslavia. The full list is available at: http://www.wto.org/english/thewto_e/acc_e/workingpart_e.htm, accessed 7 July 2001.

5 WTO internet site: *Who's WTO is it anyway?* at: http://www.wto.org/english/thewto_e/whatis_e/tif_e/org1_e.htm, accessed 9 July 2001.

History

- 1.8 The WTO was established in 1995 as a successor to the General Agreement on Tariffs and Trade (GATT). The GATT had been formed 1948 as a provisional trade agreement amongst some nations, until an International Trade Organisation (ITO) could be permanently established. The International Trade Organisation, proposed to be a specialised branch of the United Nations, was one of the 'Bretton Woods' institutions intended to regulate international finance and trade (the others are now known as the World Bank and the International Monetary Fund).
- 1.9 While the charter of the proposed International Trade Organisation was agreed in 1948, it became apparent that a number of countries would not ratify the agreement. When the United States announced in the early 1950s that it would not ratify the ITO, the agreement was not pursued any further. The GATT became the only international agreement regulating trade.
- 1.10 The GATT facilitated a number of trade 'rounds' – multilateral trade negotiations at which GATT member nations agreed to tariff reductions and other instruments designed to facilitate free trade.⁶
- 1.11 By the 1980s it was widely recognised that the GATT needed reform. While it had succeeded in lowering tariffs and increasing trade, the Agreement did not include important sectors such as services, agriculture and intellectual property, and the GATT dispute settlement system was considered ineffective mainly because of the 'veto' system available to losing parties (discussed at paragraph 1.24).
- 1.12 The eighth GATT round - the Uruguay Round - ran from 1986 to 1994, and culminated with 111 countries signing the Marrakesh Agreement to establish the World Trade Organisation as successor to the GATT. The WTO came into operation in January 1995.⁷
- 1.13 An extensive history of the GATT and World Trade Organisation can be found on the WTO internet site.⁸

6 The GATT rounds were: 1947 - Geneva: international conference which determined the framework for the GATT; 1949 - Annecy, France; 1950-51 - Torquay, England; 1956 - Geneva, Switzerland; 1963-1967 - the Kennedy Round (after US President John F. Kennedy); 1973-1979 - the Tokyo Round; 1986-1994 - the Uruguay Round. Chronology available at: <http://usinfo.state.gov/journals/ites/0200/ijee/chronology.htm>.

7 The Marrakesh Agreement establishing the World Trade Organisation (WTO Agreement) is available at: <http://www.austlii.edu.au/au/other/dfat/treaties/1995/8.html>, accessed 3 January 2001.

8 WTO internet site: <http://www.wto.org>. The Department of Foreign Affairs and Trade submission to this inquiry (no. 222) also has an overview of the role and history of the WTO. See also *A Chronology of Events Leading Up To the WTO*, US State Department, at: <http://usinfo.state.gov/journals/ites/0200/ijee/chronology.htm>.

Underlying principles

- 1.14 A number of underlying principles of non-discrimination in international trade run through all WTO Agreements and decisions. These include:
- Most favoured nation (MFN) – countries cannot discriminate between their trading partners. Any agreement to lower tariffs for one country must be extended to all WTO countries. Some exceptions are allowed for bilateral free trade agreements, and special rules for developing nations.
 - National treatment – imported and locally-made goods should be treated equally (at least after foreign goods have entered the country).
 - Free trade – through lowering trade barriers such as customs duties. The WTO Agreements provide for gradual trade liberalisation to allow domestic adjustment to the changes.
 - Binding agreements – the binding nature of the WTO Agreements provides stability and predictability in the international trade arena.
 - Development and economic reform – trade is seen as an essential ingredient for developing countries to improve their economies. The WTO Agreements provide for increased trade but also have special provisions recognising the challenges in trade liberalisation faced by developing nations.⁹

The Agreements

- 1.15 The WTO Agreements underpin the multilateral trading system. The WTO's member countries negotiated and agreed to this set of trade rules at the Uruguay Round. The WTO Agreements cover the rules of trade in goods, services, and intellectual property, and the rules for resolving trade disputes.
- 1.16 The WTO Agreements included an updated General Agreement on Tariffs and Trade, and new Agreements were drafted to add services, agriculture and intellectual property to the international trade system.
- 1.17 The WTO categorises its agreements in the following manner:

⁹ WTO internet site, *Principles of the trading system*, at: http://www.wto.org/english/thewto_e/whatis_e/tif_e/fact2_e.htm, accessed 7 July 2001.

	Goods	Services	Intellectual property	Dispute Settlement
<i>Basic principles</i>	General Agreement on Tariffs and Trade (GATT)	General Agreement on Services (GATS)	Trade-Related Aspects of Intellectual Property (TRIPS)	Dispute Settlement Understanding (DSU)
<i>Additional details</i>	Other goods agreements (eg Agriculture Agreement)	Services annexes		
<i>Market Access commitments</i>	Countries' schedules of commitments	Countries' schedules of commitments		

Source *WTO internet site, The Agreements, Overview: a navigational guide, at:*
http://www.wto.org/english/thewto_e/whatis_e/tif_e/agrm1_e.htm.

- 1.18 In all, there are 19 WTO Agreements, plus the Marrakesh Agreement which established the WTO. A full list of all the WTO Agreements is at Appendix B.
- 1.19 The WTO Agreements spell out the principles of trade liberalisation, and the permitted exceptions. They include individual countries' commitments to lower customs tariffs and other trade barriers, and to open and keep open services markets. They set procedures for settling disputes. They prescribe special treatment for developing countries, and require governments to make their trade policies transparent by notifying the WTO about laws in force and measures adopted. The Agreements also allow the WTO secretariat to make regular reports on countries' trade policies (the Trade Policy Review Mechanism).
- 1.20 Finally, there are detailed and lengthy schedules (or lists) of commitments made by individual countries allowing specific foreign products or service-providers access to their markets. For the GATT, these take the form of binding commitments on tariffs for goods in general, and combinations of tariffs and quotas for some agricultural goods. For the General Agreement on Trade in Services (GATS), the commitments specify how much access foreign service providers are allowed for specific sectors, and they include lists of types of services where countries indicate they are not applying the 'most-favoured-nation' principle of non-discrimination. A list of Australia's specific WTO commitments is available on the DFAT internet site.¹⁰

10 DFAT internet site, Schedule 1 – Australia (list of Australia's tariff commitments under WTO Agreements), available at:
<http://www.dfat.gov.au/trade/negotiations/schedule/schedule.pdf>, accessed 19 July 2001.

GATT with teeth

1.21 The WTO's dispute system – the Understanding on Rules and Procedures Governing the Settlement of Disputes (the DSU) has often been described as the 'Jewel in the Crown' of the WTO. Former WTO Director General, Renato Ruggiero, described the DSU as 'the WTO's most individual contribution to the stability of the global economy'.¹¹

1.22 Leading trade academic Professor John Jackson (University of Georgetown, US) outlines the impact of the DSU:

The WTO dispute settlement system has had an enormous impact on the world trade system and trade diplomacy. It is unique in international law in its juridical and legalistic system for disputes, with virtually automatic, binding application of its decisions and reports to its members. Unlike some of the more specialised systems of this type, these attributes are nested in an extraordinarily broad and comprehensive jurisprudence.

In addition, the questions posed to the dispute settlement system often strike at the heart of the tension between the protection of nation-state sovereignty and the globalisation of national economies, which require more expansive cooperative mechanisms in order to succeed internationally.¹²

1.23 The DSU established an integrated set of rules and procedures for the settlement of trade disputes. Decisions taken under the DSU are binding, and there is a system for enforcement of rulings (or retaliation if parties refuse to implement Dispute Panel findings).¹³

1.24 The major difference between the GATT and WTO dispute settlement is the use of 'negative' consensus. Under the GATT, a Dispute Panel finding would not be adopted if one single GATT party refused to adopt the report. Naturally, the losing party would usually vote against the adoption of the Dispute Panel's report, thereby protecting their own interests and frustrating the effect of the panel decision.

1.25 Under the WTO's DSU, dispute panel decisions are adopted unless one party decides to appeal the decision, or unless all WTO Members vote against the adoption. Clearly, the winning party in a dispute is unlikely to vote against the adoption of a dispute panel report. If a party does decide

11 WTO internet site, *Trading into the Future: Settling Disputes*, at: http://www.wto.org/english/thewto_e/whatis_e/tif_e/disp0_e.htm, accessed 11 July 2001.

12 Professor John H. Jackson, Georgetown University Law Center, 'The Role and Effectiveness of the WTO Dispute Settlement System' in *Brookings Trade Forum 2000*, available at: <http://muse.jhu.edu/demo/btf>, accessed 13 August 2001.

13 DFAT, submission no. 222, p. 37.

to launch an appeal, the same negative consensus applies to the final Appellate Body finding – it is adopted unless all WTO Members agree not to do so.¹⁴

- 1.26 The DSU's effectiveness is highlighted by the volume of cases brought before the dispute system – 234 cases have been notified to the WTO. Many of these were resolved by negotiation, but over 100 have proceeded to a panel hearing. Thus far, 51 Dispute Panel or Appellate Body reports have been adopted, with a further 39 cases resolved prior to a panel finalising its report (via negotiation or withdrawal of the complaint). In July 2001, 16 cases were actively before the Dispute Settlement Body.¹⁵
- 1.27 By comparison, in the 50 years of the GATT's operation prior to the establishment of the WTO, the dispute system dealt with a total of only 207 cases. Many of these were withdrawn or abandoned prior to formal dispute settlement. DFAT commented:

An indicator the legitimacy the system enjoys is its frequent and expanded use, with the number of disputes in the last five years far surpassing 50 years of GATT cases.¹⁶

Overview of DSU process

- 1.28 The Dispute Settlement Body (DSB) administers all dispute settlement rules and procedures. The DSB comprises representatives of all WTO member countries. Disputes are actioned by WTO Member governments – private companies, organisations or individuals cannot initiate a dispute. Likewise, disputes concern the actions of WTO Member governments – the actions of non-government entities, companies or individuals cannot be investigated through the WTO's dispute process, although private interests can be affected by a dispute outcome – for example, the Howe Leather case in Australia.
- 1.29 The WTO's dispute settlement process includes four stages:
- **Consultations** – if in dispute, the relevant WTO members must try consultation first before seeking action through the formal panel process. The majority of disputes are resolved through consultations.
 - **Panels** – if consultations do not resolve a dispute, the complaining party may request a formal panel to adjudicate the matter. Panels

14 WTO Understanding on Rules and Procedures Governing the Settlement of Disputes, Articles 2.1, 16.4 and 17.4, available at: http://www.wto.org/english/docs_e/legal_e/28-dsu.pdf, accessed 28 July 2001.

15 WTO, *Overview of the State-of-Play of WTO Disputes (July 2001)*, at: http://www.wto.org/english/tratop_e/dispu_e/stplay_e.doc, accessed 17 September 2001.

16 DFAT, submission no. 222, p. 46.

usually consist of three nominees from countries not party to the dispute. Panels assess the facts of the case, seek submissions from each party to the dispute (and any country participating as a third party), and make a decision about whether the action in question is in breach of the WTO Agreements.

- **Appellate Body** – either party to the dispute may appeal a Panel's findings, on the issues of law and legal interpretations of the Panel's report.
- **Adoption and implementation** – once the Panel or Appellate Body report is adopted by the DSB, the 'losing' party must notify the DSB how it intends to implement the recommendations of the Panel report. Parties can disagree with the proposed measures to implement Panel findings – these disputes go to a new dispute Panel for resolution. If a party fails to implement Panel findings, compensation and retaliation measures are available.

1.30 There are strict timetables for each stage of the dispute process, aimed at avoiding stalling tactics by disputing parties:

Dispute stage	Time allowed
Consultations	60 days
Panel process	6 to 9 months
Appellate Body process	2 to 3 months
Implementation – a reasonable period of time to implement the panel's findings	8 to 15 months
Arbitration on retaliation, if implementation fails	60 days

Source Gavin Goh & Trudy Witbreuk, *An Introduction to the WTO Dispute Settlement System*, Western Australian Law Review, vol. 30, p. 51, May 2001.

1.31 The above section provides a very brief overview of the DSU process. Comprehensive information is available from the WTO internet site.¹⁷

Challenges before the DSU

1.32 As attempts to launch a new round of trade negotiations have failed thus far, the DSU has gained prominence as the central mechanism through which nations may further their trading interests. Drs Bache and Haward (University of Wollongong) noted:

Nations are becoming anxious that world trade rules not be determined or dictated by 'case law' but rather by negotiations and

17 WTO internet site, *Dispute Settlement*, at: http://www.wto.org/english/tratop_e/dispu_e/dispu_e.htm.

there is some uneasiness that the dispute settlement procedure has become, by default, a rule making device.

In the absence however of negotiated agreement, answers to contentious questions of trade rules will be the jurisdiction of dispute settlement panels. Indeed it has been predicted that one of the main ways that the WTO will deal with trade and environment issues is likely to be through this means over the next few years.¹⁸

1.33 Professor Jackson is troubled by this move towards using the DSU to create new trade rules:

...the temptation to use the dispute settlement process and the general conclusions of the panel reports to redress treaty ambiguity or gaps is understandable. However, Article 3.2 of the DSU itself warns against proceeding too far in this direction: "Recommendations and rulings of the DSB cannot add to or diminish the rights and obligations provided in the covered agreements".

The dispute settlement system cannot and should not bear the weight of formulating new rules either by filling gaps in the existing agreements or by setting forth norms that carry the organisation into totally new territory such as competition policy or labour standards.¹⁹

1.34 Some commentators are concerned about the DSU being overloaded with cases, particularly when China becomes a Member of the WTO.²⁰ It is predicted that as China is still in transition from a government-controlled to a market economy, many disputes may be initiated by WTO member countries seeking to increase their export market access. This is one of the challenges for those negotiating China's accession to the WTO.

Enforcement of dispute outcomes

1.35 Although the dispute settlement system has rightly been described as the centrepiece of the new rules based system, the process of resolving disputes still requires high levels of cooperation in the area of compliance and enforcement between members.

18 Drs Sali Bache and Marcus Haward, submission no. 46, p. 8.

19 Professor John H. Jackson, Georgetown University Law Center, 'The Role and Effectiveness of the WTO Dispute Settlement System' in *Brookings Trade Forum 2000*, available at: <http://muse.jhu.edu/demo/btf>, accessed 13 August 2001.

20 The WTO has now successfully concluded negotiations on China's accession to WTO Membership. The agreement is likely to be formally adopted at the WTO Ministerial Meeting in Doha in November 2001. See WTO press release: *WTO successfully concludes negotiations on China's entry*, 17 September 2001, at: http://www.wot.org/english/news_e/pres01_e/pr243_e.htm, accessed 18 September 2001.

- 1.36 Because Australia is currently completing the process of ensuring compliance with favourable rulings in the Lamb dispute (see case study at page 110), some further detail on the process is provided here to assist assessment of Australia's role in the WTO (discussed in Chapter 2).
- 1.37 There is an ongoing debate about the sequence in which a successful complainant can apply a suspension, usually in the form of punitive tariffs on the respondent's products, without fully complying with the provisions to examine the consistency of implementing measures.
- 1.38 There is a balance to be struck between a successful WTO Member unilaterally declaring that the respondent has not complied, and the respondent using the rules to advantage as a delaying tactic. The process is outlined below.²¹

- Where a Dispute Panel or Appellate Body decides that a measure or conduct is inconsistent with a WTO Agreement the recommendation is that the offending Member conform with the Agreement.

The question is how does the offending Member bring its measures into conformity? The decision-making body can and sometimes does suggest how this might be achieved – for example, by recommending that a subsidy be withdrawn. But the method of implementation is one solely for the responding member. The next issue is how soon can a responding Member comply with a recommendation to bring its offending measure into conformity with the rules. More often than not, it will require amending legislation or regulations and there may be other difficulties including revenue implications in the local jurisdiction.

Article 21.3 of the DSU allows a reasonable period of time in which to bring measures into conformity. If that cannot be agreed, an arbitrator can determine the period that is warranted in the circumstances.²²

However, in determining what is a reasonable time for implementation the arbitrator is not obliged to have regard to the political, economic or social consequences of compliance.²³

A reasonable period of time makes no allowance for social upheaval or an affected domestic market not should it accommodate a political

21 This information is drawn from the following paper: Gavin Goh & Trudy Witbreuk, *An Introduction to the WTO Dispute Settlement System*, Western Australian Law Review, vol. 30, p. 51, May 2001.

22 WTO internet site: Dispute Settlement Understanding, available at: http://www.wto.org/english/docs_e/legal_e/28-dsu.pdf.

23 See WTO DSU Report: *Canada – Patent Protection of Pharmaceutical Products*, WT/DS114/13, 18 August 2000, available at: http://www.wto.org/english/tratop_e/dispu_e/114abr_e.pdf, accessed 29 August 2001.

response such as the timeframe needed for implementation of a structural adjustment package.

- Disputes sometime arise as to whether the action taken brings the offending measures into compliance. A panel can be convened to review implementation.
- If the recommendations are not implemented within a reasonable time the procedures for compensation and/or suspension of concessions are available (Article 22 of the DSU).
- Compensation is a voluntary process that takes the form of the responding member providing not only to the complainant but to all WTO Members improved access to its domestic market. There are some concerns that this allows rich countries to 'buy' their way out of disputes:
 - ...to have a system under which wealthy countries can buy their way out of obligations, particularly those with respect to small or less powerful countries, raises an important asymmetry that could undermine the credibility of the entire dispute settlement procedure. It also creates a climate of uncertainty for millions of independent entrepreneurs and traders, who depend upon the rule structure as formulated by the treaty text.²⁴
- Suspension is the most draconian method of enforcement. It usually takes the form of a punitive tariff on selected products. However, such retaliation must be in proportion to the damage or impairment that has been suffered. Canada threatened retaliatory action against Australian products in the Canadian Salmon case (see case study at page 72).

1.39 This is an area ripe for disagreement and an arbitrator can determine the appropriate 'level of nullification'. Many commentators have remarked on the irony of imposing trade sanctions for non-compliant measures in a system designed to secure the exact opposite outcome. There is an ongoing discussion about alternative methods of achieving compliance, including fines and restitution. But whatever methods for enforcement are employed, ultimately it is up to each WTO Member to comply and to make the DSU workable and fair for all members.

1.40 The transparency and accountability of the DSU is discussed in Chapter 3.1. Australia's experience with the DSU, as a complainant and defendant, is discussed in Chapter 2.

24 Professor John H. Jackson, Georgetown University Law Center, 'The Role and Effectiveness of the WTO Dispute Settlement System' in *Brookings Trade Forum 2000*, available at: <http://muse.jhu.edu/demo/btf>, accessed 13 August 2001.

A new Round of trade negotiations

1.41 Many WTO Member states are now supporting the launch of a new, comprehensive round of trade negotiations across all sectors covered by the WTO. A new round would build on the 1994 Uruguay Round Agreements, expanding trade liberalisation further – particularly for some sectors such as agriculture and services. The next Ministerial Meeting in Qatar, in November 2001, will be vital to the launch of a new round.

1.42 The Director-General of the WTO, Mike Moore, is hopeful of launching a new round in Qatar:

I am cautiously optimistic. Certainly we are in better shape now than we were this time two years ago. The atmosphere in the house has improved enormously. On substance delegations are working hard and in a positive spirit to bridge the differences that made progress in Seattle so difficult. I am seeing encouraging signs of flexibility but not enough yet.²⁵

1.43 Australia is one of the strongest proponents for a new trade round, so long as it includes comprehensive negotiations on agriculture. DFAT told us:

Australia supports a round that can deliver results within a relatively short period, (say over three years), and focused on further agriculture, services and industrial product liberalisation.²⁶

1.44 Australia's approach to trade policy formulation, including the importance of agriculture to Australia, is discussed in detail in Chapter 2.

Globalisation and anti-WTO sentiment

1.45 In recent years the WTO has been the subject of negative characterisation by many 'anti-globalisation' groups and individuals. At the WTO's 1999 Ministerial Meeting in Seattle, and at meetings of other international organisations since, citizens from a wide variety of backgrounds – students and academia, churches, union groups, environmentalists, human rights groups, anarchists, and individuals not associated with any organised group, have come together on numerous occasions to voice their opinions against globalisation.

1.46 The internet has played a key role in facilitating information dissemination and organisation amongst anti-globalisation groups. For

25 Speech by Mike Moore, Director-General of the WTO, Interlaken Switzerland 5 July 2001, at: http://www.wto.org/english/news_e/spmm_e/spmm66_e.htm, accessed 16 July 2001.

26 DFAT, submission no. 222, p. 16.

example, the protests at the World Economic Forum (WEF) meeting in Melbourne in September 2000 were coordinated via an internet site which had links to anti-WEF literature, protest tips and other information. The site encouraged individuals to form into 'affinity groups' and gave instructions about when and where to assemble in Melbourne on the protest days.²⁷

- 1.47 There are a number of ideas about what globalisation is. It is clear that trade liberalisation is closely tied to globalisation – one of the key results of an increase in world trade is a corresponding increase in international transport, communications, and flows of human and financial capital.
- 1.48 It is important to explore the meaning of globalisation in the context of trade liberalisation and the other issues covered in this report. Rather than seek out and endorse one definition, we have canvassed and presented here a number of views.

Australian and other governments

- 1.49 In his 2001 Trade Outcomes and Objectives Statement, the Australian Minister for Trade, the Hon. Mark Vaile MP, described globalisation as 'intensifying links among people and organisations around the world and expanding flows of capital, goods, services, ideas, people, transport and communications'.
- 1.50 While noting that technology (particularly communications, information technology and transport) is a key driver of globalisation, the Trade Minister also stated:
- ...technology alone does not deliver the benefits of globalisation. Government decisions to facilitate the movement of goods and information are key to reaping the rewards of technological advances...Governments also cooperate to reduce international trade and investment barriers, and to make transport and communication systems interoperable.²⁸
- 1.51 In December 2000 the United Kingdom Government released a white paper titled *Eliminating World Poverty: making globalisation work for the poor*. This paper defined globalisation as:
- The growing interdependence and interconnectedness of the modern world through increased flows of goods, services, capital, people and information. The process is driven by technological advances and reductions in the costs of international transactions,

27 S11 internet site: <http://www.s11.org>, accessed 1 August 2001.

28 *Australia's Trade Outcomes and Objectives Statement 2001: Trading into the Future*, Department of Foreign Affairs and Trade, Commonwealth of Australia, 2001, pp. 76-77.

which spread technology and ideas, raise the share of trade in world production and increase the mobility of capital.²⁹

- 1.52 In June 2000 the US Government issued a press release titled *Globalisation: US Government Interpretive Statement*. The interpretive statement was in response to an outcomes document produced by the UN Womens' Conference Beijing +5 (June 2000). The US Government commented:

Globalisation is revolutionising the way the world works, and can bring tremendous benefits to developing countries -- by stimulating trade, generating employment, and by applying new information technology to education. At the same time, we recognise that not all developing countries have been able to take advantage of the benefits of globalisation, and certainly not to the same degree. As some countries race ahead, others face the risk of falling further behind in relative terms.

Globalisation is a fact, not a policy option. It is up to each nation to pursue policies that can help its people take advantage of the opportunities of globalisation, so that all citizens, including women, will benefit. Sound national policies are the primary determinant of success in achieving the advancement of women, and indeed in achieving overall economic and social development.

But developing countries should not face this task alone. The international community should provide encouragement and support, as appropriate, to help them build capacity and undertake the necessary reforms.³⁰

Australian Productivity Commission

- 1.53 The Productivity Commission commented on 'Australia and the global economy' in its 1999-2000 Annual Report. According to the Commission,

A key manifestation is the increasing involvement of people and firms in international trade and investment. The increase in short-term capital flows, the size and reach of multinational corporations, permanent migration and temporary labour flows, the standardisation of technology, and the speed with which events and ideas in one part of the world are conveyed elsewhere

29 Government of the United Kingdom, *Eliminating World Poverty: Making Globalisation Work for the Poor*, White Paper on International Development, 11 December 2000, at: <http://www.globalisation.gov.uk/>, accessed 3 July 2001.

30 The President's Interagency Council on Women, *Globalisation: US Government Interpretive Statement*, Press Release July 2000, at: <http://secretary.state.gov/www/picw/beijing/globalization.html>, accessed 17 July 2001.

nowadays, provide other pointers as to how societies have become more economically integrated.³¹

The World Trade Organisation

- 1.54 In August 2000 the Director-General of the WTO, Mike Moore, embraced the concept of globalisation in a speech in New Zealand:

Few topics are as controversial as globalisation. That is hardly surprising. It is the defining feature of our time. Bringing distant markets and people across the world closer together is a huge change that affects everyone, whether they are peasants in India, students in London or bankers in New York. Such an enormous upheaval is unsettling, especially when it seems unpredictable and uncontrollable. People tend to assume the worst: that what they value most will be lost, and that what replaces it can only be bad.

We need to reassure people that globalisation is generally a force for good. The last 20 years have seen a dramatic rise in living standards for many countries across the world.

Globalisation is a process, not a policy. It's just accelerating. Just as we went from hunter-gatherer societies to agricultural, feudal societies and then into the industrial age, so today we are in the post industrial age.³²

OECD & the World Bank

- 1.55 A 1996 Organisation for Economic Cooperation and Development (OECD) study on globalisation and governments sought to define globalisation:

Globalisation is not a single phenomenon. It has become a catch-all concept to describe a range of trends and forces changing the face of the world in which we live. While some are not new — trade liberalisation, for example, has been under way since 1945 — clearly the pace of change is accelerating.³³

- 1.56 The OECD study went on to note that globalisation includes a shift from distinct national economies to a global economy, with free flows of people, financial capital, and production. This new global economy is governed by

31 Productivity Commission, *Annual Report 1999-2000*, Commonwealth of Australia, p. 3; available at: <http://www.pc.gov.au/research/annrpt/annualreport9900/index.html>, accessed 21 June 2001.

32 Speech by Mike Moore, Director-General of the WTO, 14 August 2000, at: http://www.wto.org/wto/english/news_e/spmm_e/spmm34_e.htm, accessed 6 July 2001.

33 OECD Strategic Management and Policy-Making, *Globalisation: What Challenges and Opportunities for Governments?* at: <http://www.oecd.org/puma/strat/pubs/glo96/part1.htm>, accessed 9 July 2001.

a framework of international organisations, such as the WTO, International Monetary Fund, World Bank, and G8. According to the report, new global communities have also been formed, including international business and labour organisations, and non-government organisations such as Greenpeace and Amnesty International.

- 1.57 The President of the World Bank Group, James Wolfensohn, commented on globalisation in April 2001:

What do we mean by globalisation? Globalisation is about an increasingly interconnected and interdependent world; it is about international trade, investment, and finance that have been growing far faster than national incomes. It is about technologies that have already transformed our abilities to communicate in ways that would have been unimaginable a few years ago. It is about our global environment, communicable diseases, crime, violence, and terrorism. It is about new opportunities for workers in all countries to develop their potential and to support their families through jobs created by greater economic integration.

But it is also about international financial crises, about workers in developed countries who fear losing their jobs to lower-cost countries with limited labour rights. And it is about workers in developing countries who worry about decisions affecting their lives that are made in faraway head offices of international corporations.³⁴

The anti-globalisation movement

- 1.58 As outlined above, the anti-globalisation movement is comprised of many groups and individuals with widely differing backgrounds and ideologies. Many of these groups have disparate opinions on globalisation. The views of several of the larger anti-globalisation groups are outlined here.
- 1.59 The US-based Global Trade Watch, a subdivision of Ralph Nader's Public Citizen organisation, claims to have been the major facilitator for the peaceful elements of the 1999 Seattle protests. Global Trade Watch states:

...the current globalisation model is neither a random inevitability, nor 'free trade' a concept that people generally support. We have worked in many venues to demonstrate for the public, press, and policy-makers that our current system is merely one version of rules, perhaps most accurately called 'corporate-managed trade.'

34 James Wolfensohn, President of the World Bank Group, speech 2 April 2001, available at: <http://www.worldbank.org/html/extdr/extme/jdwsp040201a-en.htm>, accessed 13 August 2001.

All of our work seeks to make the measurable outcomes of this model accessible to people, while reiterating that if the results are not acceptable, then the model can and must be changed or replaced.

...we view the WTO as a primary engine of the current globalisation model.³⁵

- 1.60 S-11, the group which organised the demonstrations at the World Economic Forum (WEF) meeting in Melbourne in September 2000, characterise globalisation as:

...a term used by economists, the media, and the activist community to describe the process of enhancing the 'Global Economy'. It is also referred to as 'Free Trade', or 'Neoliberalism'. Globalisation is embodied by global economic institutions, such as the World Trade Organisation (WTO), the World Bank, and the International Monetary Fund (IMF)

...the World Trade Organisation has the authority to undermine legislation, passed by sovereign nation-states. Essentially, the WTO, and the 'new' Global Economy, hurt the environment, exploit workers, and disregard civil society's concerns. The only beneficiaries of Globalisation are the largest, richest, multi-national corporations.³⁶

- 1.61 US consumer group CorpWatch publishes a 'globalisation 101' section on its internet site, which includes a number of commentaries on globalisation. CorpWatch argues that national sovereignty is eroded by international organisations such as the WTO, IMF and World Bank, thereby allowing multinational corporations to expand into production, commerce, culture and finance unopposed. CorpWatch concludes:

The 'globalisation' we are witnessing today is in fact an acceleration of historical political and economic trends, hastened by the advent of increasingly sophisticated and rapid communications and transportation technologies, the decline of the nation-state (especially in the South), the absence or ineffectiveness of democratic systems of global governance, and the rise of neoliberal economic ideology. Its primary beneficiaries are both the transnational corporations, as well as the privileged consumer classes in the North and to a growing degree, in the industrialising nations of the South.³⁷

35 Global Trade Watch, at: <http://www.citizen.org/pctrade/Trade/aboutgtw.htm>, accessed 17 July 2001.

36 S-11, at: <http://www.s11.org/s11.html>, accessed 17 July 2001.

37 CorpWatch, at: <http://www.corpwatch.org/issues/glob101/>, accessed 17 July 2001.

Union groups

1.62 Over the past decade, many union groups have formed an important part of the 'anti-globalisation' movement as described above. Unions are particularly concerned about the impact of globalisation on working conditions and wages across the world.

1.63 The International Confederation of Free Trade Unions (ICFTU) defines globalisation as a degree of interdependence which goes far beyond the expansion of international trade. The ICFTU internet site states:

Although globalisation is linked to a number of technological and other changes which have helped to link the world more closely, there are also ideological elements which have strongly influenced its development. A "free market" dogma has emerged which exaggerates both the wisdom and role of markets, and of the actors in those markets, in the organisation of human society. Fashioning a strategy for responsible globalisation requires an analysis which separates that which is dogma from that which is inevitable. Otherwise, globalisation is an all too convenient excuse and explanation for anti-social policies and actions which undermine progress and break down community.

Globalisation as we know it has profound social and political implications. It can bring the threat of exclusion for a large portion of the world's population, severe problems of unemployment, and growing wage and income disparities. It makes it more and more difficult to deal with economic policy or corporate behaviour on a purely national basis. It also has brought a certain loss of control by democratic institutions of development and economic policy.³⁸

1.64 In June 2001 Australia's peak union body, the Australian Council of Trade Unions (ACTU), released a report titled *The Other Face of Globalisation*, presenting an alternate view to the reports given by multinational companies to the September 2000 meeting of the WEF in Melbourne. In her introduction to the report, ACTU President Sharan Burrow states:

The 21st Century brings with it a growing concern about how the world is organised and where human society is heading. An emerging focus of this concern is the extent to which the corporate world now dominates public policy. Nationally and internationally trade, investment and economic growth drive

38 International Confederation of Free Trade Unions, *A Trade Union Guide to Globalisation*, 23 March 2000, at: <http://www.icftu.org/list.asp?Language=EN&Order=Date&Type=Publication&Subject=ECO> accessed 17 July 2001.

political endeavour while the plight of people and the environment is all too often invisible.

But there is also an alternative movement that is growing against the power and influence of undemocratic bodies like the WTO. Communities right around the world are beginning to say that they too want to have a say in the decisions that affect their lives and their futures. There is a growing realisation amongst the people affected by globalisation that they need a voice to counter the powerful self-interest and lack of accountability of global capital.

Globalisation can be shaped to ensure that people matter. This requires reform of international institutions where the voice of unions and civil society is heeded.³⁹

Inquiry submissions

1.65 While many submissions spoke against the effects of globalisation, few gave a concrete definition of what it may be. The Australian Food and Grocery Council (AFGC) defined globalisation as 'the increasing interdependence of the world's trade and commerce', and stated that globalisation:

- is testament to economic and social benefits to individual countries in exploiting their comparative advantages in the production and trade of goods and services fundamental to their nation's social and economic development and prosperity;
- is increasing at a rapid rate, fuelled by the removal of barriers to the flow of information, capital services and goods, driven by rapid technological advancements in telecommunications and computer technology and particularly the internet, transport, biology and financial services;
- has contributed to an unprecedented improvement in global economic growth and prosperity, increased consumer purchasing power and improved living standards, driving both aggregate and differentiated food demand;
- presents both threats and opportunities for businesses, delivering more open, more prosperous markets, but intensifies competition in domestic and export markets and increases concentration of ownership among both manufacturers and retailers; and

39 Australian Council of Trade Unions (ACTU), *The Other Face of Globalisation*, 21 June 2001, at: http://www.actu.asn.au/vunions/actu/research_and_resources.cfm, accessed 17 July 2001.

- emphasises global sourcing of goods and services, significantly enhanced through the development of global exchanges as trading hubs of the internet, when coupled with technological advances in transport, biology (eg. extended shelf-life etc) and smart packaging, in fulfilment.⁴⁰

1.66 An Australian anti-globalisation organisation, STOPMAI (WA), told us:

We use the term 'globalism' or 'corporate globalism' to describe what we are against, which is essentially the movement by corporate interests to obtain the most significant economic power in the world.⁴¹

1.67 The Australian Manufacturers Workers Union (AMWU) highlighted comments made in a 2001 International Labour Organisation (ILO) report:

The benefits of globalisation are concentrated. Many are denied its benefits and it is hardly surprising that there are many people in traditional occupations in industrialised and developing countries alike who believe that the process of globalisation is stacked against them. The social backlash seen in the streets of Geneva, Seattle and Davos (and Washington and Melbourne since the ILO report was completed) is evidence of a growing questioning of the legitimacy of the economic and social management of the global economy.⁴²

1.68 APHEDA Union Aid Abroad (the ACTU's overseas aid branch), called for citizens to become involved in shaping globalisation:

As globalisation is being driven by technological change, it is inevitable, but the type of globalisation we chose to have, and the impact it has on the world's poorest, is not inevitable. We are not slaves to technology, and we can chose how we want to use it and how the benefits from technology are shared.⁴³

1.69 Andrew Farran, a former trade diplomat and academic, submitted:

Of course, the world has been globalising for centuries as transport and communications have developed, now with intense sophistication. In these respects there is no going back. The challenge is in meeting on-going change and coping with the transitions. The alternative is a form of defeat. Obviously there

40 Australian Food and Grocery Council, submission no. 302, p. 5.

41 Brian Jenkins, STOPMAI (WA), Transcript of Evidence 20 April 2001, p. TR353.

42 AMWU, submission no. 272, p. 15. The AMWU is quoting an International Labour Organisation report *Your Voice at Work 2001*, available at: <http://www.ilo.org>.

43 APHEDA Union Aid Abroad, submission no. 116, p. 4.

will be winners and losers at any particular point of time but the world moves on, as do opportunities for all.⁴⁴

- 1.70 Bill Carmichael (private citizen) and Ron Duncan (ANU) argued that the protests at Seattle in 1999 were a turning point in the anti-globalisation movement:

...the demonstrations point to unresolved domestic political pressures, the relevance of which (for the future of the WTO) cannot be dismissed. The views of many anti-WTO protestors penetrated the living rooms of people around the world, and it is clear from submissions to the present inquiry that they struck a chord with many. The notion of the WTO as 'bad guy' is catching on.⁴⁵

Committee comment

- 1.71 The above views illustrate divergent perceptions of globalisation. Those groups who are recognised as having some power – governments, businesses, and international organisations such as the WTO, view globalisation as a positive force, although some acknowledge that the process may require checks and balances to ensure equity.
- 1.72 Those groups opposed to globalisation – such as consumer groups and other non-government organisations, labour organisations, and individuals – may feel marginalised by the processes and outcomes of globalisation.
- 1.73 This point is also clearly highlighted in the content of submissions to our inquiry. Submissions from industry, business and government supported trade liberalisation, the WTO, and Australia's increasing involvement in the world economy. Those from other groups and individuals called for Australia to review its involvement with the WTO, highlighted the negative aspects of trade liberalisation, and called for the Government to further assist Australians disadvantaged by globalisation.
- 1.74 Whether viewed as a positive or negative force, globalisation is an ongoing process which cannot be reversed. The challenge for governments across the world, and international organisations such as the WTO, is to ensure that the benefits of globalisation are more equitably distributed throughout the global community.

44 Andrew Farran, submission no. 307.

45 Bill Carmichael and Ron Duncan, submission no. 306, p. 2.

Benefits and costs of trade reform

- 1.75 It is generally acknowledged that there are 'winners' and 'losers' as a result of trade liberalisation, internationally and within Australia. The impacts of trade liberalisation on developing countries is examined in Chapter 3.3, while this section deals primarily with the impacts for Australian communities.
- 1.76 In his 2001 Trade Outcomes and Objectives Statement, Australia's Trade Minister stated:
- Open markets fuel higher economic growth; create more and better jobs; encourage firms to become more competitive; give exporters access to cheaper business inputs; and give consumers greater variety.
- 1.77 However, he also acknowledged that open markets pose challenges:
- ...as the economy becomes more exposed to foreign competition, some domestic businesses struggle to remain profitable and jobs are lost.⁴⁶
- 1.78 Submissions to the inquiry included stories from both 'winners' and 'losers' perspectives. It is important to examine all the consequences of trade liberalisation, to determine how the Australian Government can move into the next round of multilateral trade negotiations with a view to benefiting all Australians, and minimising negative impacts as far as possible.

Benefits of trade reform

Access to markets

- 1.79 The basic aim of the WTO Agreements is to facilitate higher levels of international trade, via opening markets. As a result of the Uruguay Round, tariffs facing Australia's exporters were cut on average by around 50 per cent on a trade-weighted basis.⁴⁷ As a result, more than 86 per cent of Australia's exports gained increased market access.⁴⁸

46 Department of Foreign Affairs and Trade, *Australia's Trade Outcomes and Objectives Statement 2001 – Trading into the Future*, Commonwealth of Australia, 2001, p. 140.

47 Calculating trade-weighted average tariffs is achieved by multiplying applied tariffs in a section by the amount of trade (imports), and dividing by the total amount of trade. Source: DFAT submission no. 222, p. 12.

48 DFAT, submission no. 222, p. 12.

- 1.80 DFAT highlighted some more recent gains for Australia, including:
- fairer access for Australian beef exports to Korea following a WTO dispute panel finding in Australia's favour;
 - improved opportunities for Australian exporters following the phasing out of Indian quantitative restrictions on a range of agricultural and manufactured goods;
 - regained access for Australian prawns to the US market; and
 - better returns for Australian musicians in the United States through protection of royalty rights.⁴⁹
- 1.81 The WTO's membership now numbers 142 countries, with major trading partners for Australia such as China, Taiwan, Saudi Arabia and Vietnam also in the process of seeking accession to the WTO. Part of the WTO accession process is for countries to negotiate market access agreements, thereby further opening export opportunities in new markets.
- 1.82 The potential for new WTO accessions to increase Australian exports is illustrated by China's proposed accession to the WTO (due to be approved by the WTO Membership in November 2001). Australia concluded its accession negotiations with China in May 2000. Some of the new market gains for Australia will include:
- a reduction in China's agricultural tariffs from an average of 22 per cent to 17.5 per cent. This will allow Australian agricultural exports such as beef, cheese, milk powder, wine, fruit and wheat to better compete with the Chinese domestic product;
 - a rise in China's import quotas (allowing more Australian product into the country) for major Australian exports such as sugar, rice, cotton, wool, canola oil and wheat;
 - substantial tariff reduction in the industrial sector, from an average of 24 per cent to 9.5 per cent; and
 - opening up of China's services sector according to WTO rules, including telecommunications, banking and insurance, legal and accountancy services.⁵⁰
- 1.83 As well as gaining access to new export markets, Australia has opened its markets to new imports. This greater competition for our domestic

49 DFAT, submission no. 222, p. 3.

50 Department of Foreign Affairs and Trade, *Australia's Trade Outcomes and Objectives Statement 2001 – Trading into the Future*, Commonwealth of Australia, 2001, p. 14.

industries results in wider choice and better price competition for Australian consumers.

- 1.84 A case study of the benefits gained by the Australian meat & livestock industry as a result of trade liberalisation is at page 27.

Employment

- 1.85 Almost one in five jobs in Australia depend on exports. The percentage in regional Australia is even higher – one in four jobs in regional Australia is reliant on exports. Figures from the Australian Bureau of Statistics (ABS) also show that exporting firms tend to pay higher wages and offer better working conditions to employees than non-exporting firms.⁵¹
- 1.86 The Australian Chamber of Commerce and Industry (ACCI) reported that in the manufacturing industry, jobs in exporting businesses pay 20 per cent more than those in non-exporting firms.⁵²

Quantitative evidence

- 1.87 Throughout the inquiry the Committee has attempted to obtain information on the quantitative benefits of trade reform. The Australian Government promotes the benefits of trade liberalisation to Australian producers, exporters and consumers, and points to the gains outlined above. However, it must be said that there is resistance from some. Judging the effects of trade liberalisation will need to have regard not only to economic benefits, but also socio-economic impacts.
- 1.88 The OECD has undertaken studies on the projected benefits of the Uruguay Round. Its 1998 report *Open Markets Matter: the benefits of trade and investment liberalisation*, found that trade liberalisation had delivered a 'global tax cut' of US \$200 billion per annum. It specifically cited Australia, stating that our efforts at liberalisation had resulted in an extra AUD \$1000 per year for Australian families.⁵³
- 1.89 The last Australian quantitative study of the benefits of trade liberalisation was in 1994. As part of its 1994 Annual Report, the Industry Commission (now the Productivity Commission) undertook a study on the *Implications of completion of the Uruguay Round*.
- 1.90 The modelling used by the Industry Commission found that the trade liberalisation set out in the Uruguay Round could result in a \$4.4 billion

51 DFAT, *From Sheep's Back to Cyberspace: Trade and Regional Australia in Changing Times*, 2001, Commonwealth of Australia, pp. 14 and 19.

52 Australian Chamber of Commerce and Industry, submission no. 184, p. 6.

53 OECD, *Open Markets Matter: the Benefits of Trade and Investment Liberalisation*, 1998, OECD, Paris France, p. 10.

increase in Australia's Gross Domestic Product (GDP). National income was predicted to increase by \$1.2 billion, or \$215 per household per year (in 1992 dollars). The agricultural sector was seen as the biggest winner, with a projected increase of \$1.1 billion in the annual income of Australia's agricultural sector.⁵⁴

1.91 Leading up to the Seattle Ministerial Meeting in 1999, DFAT commissioned modelling work from the Centre for International Economics (CIE), to examine the projected benefits of further trade liberalisation. Using established modelling techniques,⁵⁵ CIE found that a 50 per cent reduction in agricultural protection would result in a US \$1.3 billion gain for Australia per annum. Australia would gain US \$3.5 billion from a 50 per cent reduction in the existing trade distortions on the services sector.⁵⁶

1.92 While these projections of expected gains from trade liberalisation are useful tools to assist trade policy decision making, it is also important to examine the *actual* results of trade liberalisation since 1994. DFAT was asked why no further work has been done to demonstrate the results in Australia of trade liberalisation since 1994. The response from Government departments was that this type of research is too difficult to undertake, due in part to the impact of external factors such as the Asian monetary crisis. DFAT's Deputy Secretary David Spencer⁵⁷ replied:

I just wonder how it would be possible now to reach back into the past with everything that has gone on since then – financial crises and the change in exchange rates, et cetera, to go back into the past and to do that analysis.⁵⁸

1.93 In 1998 the House of Representatives Standing Committee on Primary Industries, Resources and Rural and Regional Affairs recommended that ABARE place a high priority on research into the economic impact of trade liberalisation for regional Australia and Australia's primary industries. The Government responded that it had provided an extra \$500,000 to ABARE to undertake research on agricultural trade reform. The Government stated that as agricultural trade negotiations progress,

54 Industry Commission, *Annual Report 1993-1994, Appendix H: Implications of completion of the Uruguay Round*, 1994, Commonwealth of Australia, pp. 235 – 244.

55 The Centre for International Economics used two econometric models for its study: the Global Trade Analysis Project (GTAP), and the Asia-Pacific G-Cubed (APG-Cubed) model, which has been used in Australia and the United States to analyse greenhouse gas policy.

56 Department of Foreign Affairs and Trade, *Global Trade Reform: Maintaining Momentum*, 1999, Commonwealth of Australia, pp. 25-41.

57 David Spencer, formerly Deputy Secretary of the Department of Foreign Affairs and Trade, took up the post of Australian Ambassador and Permanent Representative to the World Trade Organization in August 2001.

58 David Spencer, DFAT, Transcript of Evidence 27 November 2000, p. TR54.

ABARE will carry out an appraisal of the benefits and costs of agricultural trade liberalisation.⁵⁹

- 1.94 The list of current projects on ABARE's internet site indicates that research is focused on market access issues rather than impacts of trade liberalisation. However, ABARE is developing an economic modelling tool, the Global Trade and Environment Model (GTEM), and is looking at modifications to better reflect the results of agricultural trade reform.⁶⁰
- 1.95 We acknowledge that undertaking modelling work on the benefits and costs of trade reform to Australia is difficult. However, it is critically important for policy-makers, industry and producers, and the Australian public to understand the true effects of trade liberalisation and the potential benefits and costs of future WTO negotiation rounds.

Recommendation 1

EVALUATION OF SOCIO-ECONOMIC IMPACTS OF TRADE

- 1.96 **The Committee recommends that the Commonwealth Government commission multi-disciplinary research to evaluate the socio-economic impact of trade liberalisation in Australia since the conclusion of the Uruguay Round in 1994.**
- 1.97 Without such information in a readily accessible and understandable form, it may continue to be difficult for governments to convince their communities that the benefits of current and future trade liberalisation can be equitably distributed.

59 House of Representatives Standing Committee on Primary Industries, *Resources and Rural and Regional Affairs, Adjusting to Agricultural Trade Reform: Australia No Longer Down Under*, June 1998, Parliament of Australia. Report and Government Response available at: <http://www.aph.gov.au/house/committee/primind/reports.htm>, accessed 18 June 2001.

60 ABARE internet site, WTO Trade Liberalisation, at: <http://www.affa.gov.au/docs/economics/trade/wto.html>; Model Development, at: <http://www.affa.gov.au/docs/economics/trade/model.html>, accessed 18 July 2001.

BENEFITS OF TRADE LIBERALISATION:**Meat and Livestock Industry****Box 1.1**

Australia is the largest exporter of red meats in the world. The industry provides jobs for 30,000 Australian farmers, 20,000 meat processors, and 150,000 people involved in wholesaling and retailing.

Between 1980 and 1999 total Australian beef and veal production only increased 29%, yet exports jumped to 44%. Over the last two decades processing plants have increasingly tailored their activities to specific markets. Once processes have been tailored it is important to keep these markets open as restructuring plants is often costly and inefficient.

The Uruguay Round represented specific gains for the industry. The greatest gains have been in the North Asian markets – for example, the Japanese tariffs on beef quotas fell from 70% to 38.5%.

Australia used the WTO's dispute settlement process to gain further access for its meat products. Together with the United States, Australia brought a complaint against Korea in 1999 about unfair import quotas on fresh, chilled and frozen beef. The dispute panel found in favour of the US and Australia, agreeing that the import quotas were inconsistent with WTO obligations. Australia now has fairer access to the Korean beef market (Australia's third largest beef export market).

In 1999 Australia also initiated a dispute against the US Government regarding a 'safeguard' measure introduced by the US Government designed to protect the domestic lamb industry. The WTO dispute and appeal panels found that restrictions placed by the US Government on imports of Australian Lamb were inconsistent with WTO rules. The US market accounts for about one half of total Australian lamb meat exports. The volume of exports is set to increase after the US implements policy to remove their restrictions.

Sources: Meat and Livestock Australia, submission no. 221, DFAT, submission no. 222; WTO cases: Korea Beef: WT/DS161/R and WT/DS 169/R; US Lamb: WT/DS177/R and WT/DS178/R.

Costs of trade reform

Increased competition

1.98 The trade-off for gaining open markets for our exports to other countries is that Australia must also open our markets to foreign imports, in competition with domestic industries. For some industries and individual businesses, contending with this increased competition is difficult.

1.99 The Australian Pork Council told us of the difficulties faced by the pork industry immediately after import restrictions were lifted:

...pork imports surged causing serious injury to the industry.

1.100 However, the industry has adjusted to the competition, through focusing on exports:

Today the industry has excellent export growth prospects. It has made the transition from a defensive domestic industry to one of Australia's fastest growing agricultural export industries. Export growth was 6.8% in 1999 compared to only 3% per year in the early 1990s.⁶¹

1.101 The Australian citrus industry is an example of another agricultural sector facing increased competition from imports. While the industry produces \$400 million of fruit per year, the vast majority of this is sold on the domestic market – as fresh fruit and processed orange and citrus drinks. The Australian citrus industry expects increased competition in the domestic market over the next ten years, particularly from South Africa, Egypt, the United States, Japan, South Korea and Italy.

1.102 The industry's export market has grown in recent years – new and expanding markets include the US, Taiwan, Japan and South Korea. The industry recognises its need to concentrate more on export markets:

Australia has been very successful in increasing citrus exports since 1981. The challenge will be to maintain this increase particularly in navel oranges and mandarins which will be in high supply by 2009/10. Even with the success of exports there has been limited analysis of market opportunities by the industry.⁶²

1.103 In manufacturing, the textiles, clothing and footwear (TCF) industries have found adjustment to trade liberalisation particularly difficult, in spite of higher levels of tariff protection than most other Australian industries.

61 Pork Council of Australia Ltd, submission no. 80, p. 1.

62 Australian Citrus Growers Inc, internet site:
<http://www.austcitrus.org.au/Forum%20Background.htm>, accessed 18 July 2001.

The specific characteristics of the industry, such as high labour-intensity and low levels of productivity, made it particularly vulnerable to change. A 1999 Productivity Commission report included a case study on the impacts of trade liberalisation on the Australian TCF industries. The impacts included:

- increased overseas competition since the 1970s;
- difficulty in competing with overseas prices because of lower wage levels in developing countries;
- a 25 per cent decline in employment in the sector since 1989;
- significant decline in the size of the TCF industry overall, because of closures and the move by some companies to off-shore operations;
- a move towards concentration on niche markets in order to increase productivity; and
- changes in management style over the past 20 years.

1.104 The Productivity Commission report noted:

Many firms were not able to overcome competitive disadvantages and ceased operating.

The switch from tariff protection to various forms of industry-specific subsidy and the availability of more general forms of assistance has encouraged a more outward-looking approach in parts of the sector. In a slowly growing domestic market, in which imports continue to increase, exporting has become an important strategy for many firms. TCF exports as a proportion of turnover increased from 4 per cent to 16 per cent between 1988-89 and 1996-97.⁶³

Rural and regional Australia

1.105 As outlined earlier in this chapter, increased exports as a result of trade liberalisation can be particularly beneficial for employment in rural and regional Australia. However, some areas in rural and regional Australia are in decline. Disparities in income and employment are widening for residents in these areas.⁶⁴ A 2001 DFAT publication reports:

As the capital cities draw residents, business activity and community services from regional Australia and as larger regional

63 Productivity Commission Research Paper, *Microeconomic Reforms and Australian Productivity: Exploring the Links*, Volume 2 – Case Studies, 1999, at: <http://www.pc.gov.au/research/commres/meraap/case3.pdf>, accessed 19 July 2001.

64 National Institute of Economic and Industry Research, *State of the Regions 1999*, Australian Local Government Association 1999, p. 8.

centres draw resources from surrounding towns, the latter tend to stagnate or decline economically. The uneven development to which this process has contributed has been described as an economic divide growing between regional and metropolitan Australia.⁶⁵

1.106 The McKinsey Report of 1994 found that increasing exports would be the best way to boost regional economies – and that not enough regional businesses were looking to the international market to sell their products. Various other reports have also commented on the need to encourage exports in regional and rural Australia.⁶⁶

1.107 Bill Carmichael and Ron Duncan (ANU) acknowledged the political pressures which come to bear as a result of the negative impacts of trade liberalisation:

...governments will always be under pressure to avoid the adjustment involved in liberalising domestic markets until those they represent are persuaded that the national benefits which trade liberalisation makes possible outweigh the adjustment costs.

1.108 However, Carmichael and Duncan urged the Australian Government to address the impacts of trade liberalisation *prior* to finalising WTO Agreements:

The domestic adjustment involved in liberalising must become an explicit issue in the choices governments make about their own barrier reductions, rather than continue to emerge as an accidental outcome from international negotiations and agreements.⁶⁷

1.109 In those industries and regions in Australia where trade liberalisation has had a deleterious effect, structural adjustment packages are a key element in helping these communities cope.

65 DFAT, *From Sheep's Back to Cyberspace: Trade and Regional Australia in Changing Times*, 2001, Commonwealth of Australia, p. 5.

66 McKinsey & Company, *Lead Local Compete Global: unlocking the growth potential of Australia's regions*, for Commonwealth Department of Housing and Regional Development, 1994, McKinsey & Co., Australia.

Regional Australia Summit, Final Report of the Regional Australia Summit Steering Committee, December 2000, available at:

http://www.dotrs.gov.au/regional/summit/outcomes/final_report/final_report.pdf.

House of Representatives Standing Committee on Primary Industries, Resources and Rural and Regional Affairs, *Adjusting to Agricultural Trade Reform: Australia no longer down under*, 1998, Parliament of Australia, available at:

<http://www.aph.gov.au/house/committee/primind>.

67 Bill Carmichael and Ron Duncan, supplementary submission no. 306.1, pp. 4 and 8.

Structural adjustment

- 1.110 Structural adjustment packages are intended to assist communities and individuals to cope with the challenges and changes brought about by increased competition. This usually takes the form of retraining and education, industry exit packages for those wishing to leave their business, and programs intended to boost the generation of jobs in alternative fields.
- 1.111 Over the last decade a number of structural adjustment packages have been introduced to assist particular industries and regions. Some of these are outlined below.

Australian Dairy Industry

- 1.112 On 1 July 2000 the Australian dairy industry was deregulated, replacing the State-regulated schemes that had been in place. The Dairy Industry Adjustment Package was announced by the Commonwealth Government to assist the dairy industry to adjust to employment and other changes. The program is funded through an 11 cents-per litre levy on retail milk sales, over eight years. In June 2001 the Parliament passed legislation to provide an extra \$159 million in assistance.⁶⁸
- 1.113 The package comprises three main elements:
- \$1.63 billion in payments to eligible dairy producers, administered by the Dairy Adjustment Authority (DAA);
 - the Dairy Exit Program, providing a tax-free payment of \$45,000 to producers wishing to exit the industry; and
 - the Dairy Regional Assistance Program, providing \$45 million to regional communities to help them adjust to dairy deregulation.

Other programs

- 1.114 Other structural adjustment packages include the:
- Agriculture Advancing Australia (AAA) Package (first announced 1997) – the 2000-01 budget further funded the AAA Package for \$309 million over 4 years. Part of the AAA package is the 'Farm Help' program which provides assistance to farmers thinking of exiting the industry, in the form of income support (for up to one year); financial

68 Dairy Adjustment Authority, at: <http://www.daa.gov.au/package.html>, accessed 13 July 2001.

advice and career counselling; and exit payments up to \$45,000 for producers who sell their farms).⁶⁹

- Sugar Industry Assistance Package (2000) - \$84 million to Australian canegrowers to help them cope with a particularly poor cycle of sugar production and low world sugar prices (see box below). The package includes limited income support, interest rate subsidies on new and existing loans, and financial counselling.⁷⁰
- Pork Industry Assistance Package (1999) - \$24 million to the Australian pork and pigmeat industries to assist readjustment following the increased competition from imports.⁷¹
- Textile, Clothing and Footwear Industry Assistance Package (1998) - \$770 million in assistance to the TCF industries. Rather than payments to businesses or workers, the program focuses on strategic investment, market development, technology development and regional assistance.⁷²
- Forest Industry Structural Adjustment Package (FISAP) (1996) – Commonwealth and State Governments agreed to a structural adjustment package for the forestry industry to help cope with changes brought about by the Regional Forest Agreement (RFA) process. The package includes up to \$100 million in assistance to individuals and businesses affected by RFAs.
- Wide Bay Burnett Structural Adjustment (May 2001) - \$4 million to new or expanding businesses and to local councils, to promote employment prospects in the region, which has suffered from long-term unemployment;
- South-West Forests Region of Western Australia (December 2000) - \$5 million to diversify the region's economic base following restrictions on the logging industry as a result of the South-West Regional Forest Agreement (RFA);

69 Department of Agriculture, Fisheries, Forestry Australia, *About Agriculture Advancing Australia*, at: http://www.affa.gov.au/docs/industry_develop/aaa/about.html, accessed 13 July 2001.

70 CANEGROWERS, Sugar Industry Assistance Package, at: <http://www.canegrowers.com.au/assistancepackage/assistancepackage.htm>, accessed 18 July 2001.

71 AFFA, Pork Policy and Programs, at: http://www.affa.gov.au/docs/agriculture_industry/meat_livestock/pork/, accessed 16 July 2001.

72 Department of Industry, Science and Resources, *Competitive Australia: Textiles, Clothing and Footwear*, at: <http://www.isr.gov.au/industry/tcf/>, accessed 18 July 2001.

- Rail Reform Transition Program (March 1999) - \$20 million to help regional communities cope with job losses associated with the sale of Australian National Rail;
- Assistance to Newcastle (September 1999) - \$10 million for job creation following the closure of the BHP steel works;
- Eden Regional Structural Adjustment (August 1999) - \$3.6 million for job creation in Eden/Bombala following the agreement of the Eden Regional Forest Agreement (RFA).⁷³

Recommendation 2

STRUCTURAL ADJUSTMENT

- 1.115 **The Committee recommends that in evaluating whether Australia should enter into any future WTO Agreements, the Commonwealth Government assess the likely socio-economic impacts on industry sectors and surrounding communities.**

The Committee recommends that prior to entering any future WTO commitments, the Commonwealth Government assess whether structural adjustment measures are available and appropriate to alleviate any adverse socio-economic impacts of such actions.

73 Commonwealth Department of Transport and Regional Services, Regional Australia – Structural Adjustment, at: <http://www.dotrs.gov.au/regional/adjustment/eden/index.htm>, accessed 13 July 2001.

COSTS OF NON-LIBERALISATION:**The Australian Sugar industry****Box 1.2**

The Australian sugar industry, worth around \$1 billion per year, is heavily reliant on exports – 80 per cent of all production volume goes to export. More than 7,000 Australian farmers and many others in production and processing rely on the sugar industry for their income.

The world sugar industry remains one of the most distorted of all commodity markets. Exporters face high tariffs and non-tariff barriers in trying to gain access to overseas markets.

Sugar was largely excluded from the Uruguay Round Agriculture Agreement, due to pressures from the US and EU (who faced domestic political pressure to protect sugar producers).

Overseas sugar producers are heavily subsidised:

- ❑ Japan has reduced tariffs, but has increased non-tariff barriers to protect its domestic price;
- ❑ The EU has rolled forward domestic subsidy credits to help producers through low price years;
- ❑ US sugar producers are heavily subsidised;
- ❑ Some developing countries are given export subsidies on sugar as a form of aid (mainly from the EU and US).

While sugar tariffs are high across the world, Australia is one of only three countries exporting sugar without protection (the others are Brazil and Cuba). While Australian sugar is sold at world market price, over 90 per cent of all other sugar product is sold at above world market price. The low world sugar price in recent years has placed significant pressure on the Australian industry, as our farmers do not receive any subsidies, unlike most other sugar producers.

The Australian sugar industry is actively seeking multilateral trade reform for agriculture, particularly sugar. Together with other major sugar producers, the Australian industry has formed the *Global Alliance for Sugar Trade Reform and Liberalisation*, to lobby for change. The Cairns Group, chaired by Australia, is also pushing for sugar to be included in the next round of WTO negotiations.

Sources: Queensland Sugar Limited, submission no. 234. Centre for International Economics, Sugar: the taste test of trade liberalisation, prepared for the Conference on agriculture and a new trade agenda from a development perspective, October 1999, Geneva.