

Author: Jonathan Schultz
Address: 91 Webster Street
Nedlands WA 6009
Date: 12 April 2004
Contact: jonathan@imatix.com

No Way with the USA

Submission on Proposed Australia-USA Free Trade Agreement

Not having the time at present to prepare a more detailed submission, I am limiting myself to a few broad statements in the hope that it will join the voices of those who consider that the rational and correct thing for the Australian parliament to do is to use its powers to reject those parts of this treaty that require its assent.

Overview

In this submission I subject the treaty to critique of three kinds:

1. Economic. What are the implications of the proposed trade regime for the Australian economy and its broader interests?
2. Political. What may be the consequences of the closer alignment with the United States implied by the treaty for Australia's relationship with other countries?
3. Strategic. In pursuing the path of a bilateral trading agreement with the United States, what alternatives would Australia eliminate as possible future policy directions?

Economic Arguments

As the stated reason for creating a free trade area is to promote economic growth, it is here that we would expect the most clear evidence for its benefits. However, even in the lead-up to negotiations, the prospective outcomes were far from clear. While one report commissioned and supported by the government pointed to an increase in Australia's GDP as large as 0.4%,¹ others questioned whether there would be any net benefit at all.² Meanwhile in the light of failure to agree on liberalisation in certain areas of great importance to Australia, the trade minister has retreated significantly from the exaggerated claims made by the government during the lead-up to the negotiations.³

Some specific examples of the failure of the treaty to address illiberal aspects of trade between Australia and the USA are:

- The failure to include sugar and the long phase-in periods for beef and dairy products.
- Australian producers will have to compete with highly-subsidised imports of a wide range of agricultural products.
- The so-called trigger mechanisms on beef, dairy and horticultural products that allow the imposition of tariffs if the US domestic price drops.
- The lack of change to the complete ban on the importation of fast ferries, an area where Australia has become a world leader with a significant comparative advantage.

Some other negative and questionable economic aspects of the negotiated treaty include:

- The treaty does not promote *free* but *preferential* trade with the USA. This fact has several repercussions; firstly enforcing the rules of origin is a costly exercise and there is the potential for products manufactured in Australia from imported components to fail to comply. Secondly a preferential trade regime has a *diversionary* impact which hurts those other trading partners suffering discrimination. While the CIE report claims that the net impact on third countries will be positive, owing to the overall increase in economic activity resulting from freer trade, this effect is in reality likely to be strongly muted, given the far-from-complete nature of the treaty. Furthermore the report focused on the larger economies of Asia but neglected completely the

1 *Economic Impacts of an Australia-United States Free Trade Area*, Centre for International Economics, Canberra, 2001, p.21.

2 *A Bridge Too Far? An Australian Agricultural Perspective on the Australia/United States Free Trade Area Idea*, ACIL Consulting, Canberra, 2003, p.37.

3 *Vaile backs away from FTA claims*, The Age, 4th March 2004.

economies of Papua New Guinea and Pacific island states, where Australia has a range of interests and where the majority of its foreign aid budget is spent. Given that the financial benefits of the treaty to Australia are likely to be considerably less than Ausaid's budget, it is anomalous that there has been no analysis of the impact of the treaty on the recipients of aid in the region.

- The treaty requires changes to Australia's intellectual property regime which cannot be justified on economic grounds. Indeed these outcomes constitute nothing less than a sell-out to corporate interests largely though not exclusively based in the US. For instance there is no reason that extending the life of copyright on a work following the death of its author from 50 to 70 years would promote innovation; indeed the opposite is more likely to be the case. Indeed the innovative and high-quality software published under Open Source licensing is threatened by US patent and intellectual property laws.⁴ Furthermore Australia, as a net importer of intellectual property, stands to lose financially from the strengthening of intellectual property regimes.
- Several aspects of the treaty compromise the ability of Australian governments to legislate in favour of Australian industry in a number of important ways. These include local content regulation for new media, foreign investment in all but a small number of industries and requirements that companies that benefit from subsidies such as for education or telecommunications services be Australian.
- The treaty requires that US representatives be given the same access as Australians in the formulation of Australia's quarantine and food labelling regulations. Given the disproportionate resources available to US-based agro-business interests, concern that this concession will result in a deterioration of Australian standards is justified. The United States is virtually alone in the world in that genetically modified organisms (GMOs) have been adopted with very little public debate. Australia should take no steps that would pre-empt the domestic political debate on such a critical issue.

Political Considerations

Given that the economic benefits of the treaty were never clearly established and likely to be quite marginal, an exploration of the political reasons behind its promotion is in order. The undoubted crux of the political question lies in the stance that Australia should adopt toward the world's sole superpower. This question is not one that can be decided by reference to economic benefits but goes to the heart of debate about Australia's place in the world.

In February 2004, the Prime Minister spoke of a 'once-in-a-generation opportunity "to link the Australian economy with the greatest economy the world has ever seen."⁵ and accused the leader of the opposition of having 'a basic anti-American streak.'⁶ Furthermore it has transpired that the negotiators themselves recommended against the adoption of the final treaty which the Prime Minister overruled his Trade Minister to accept.⁷

In its eagerness to conclude a trade deal with the United States, the Australian government appears ready to accept a treaty which cannot be justified on economic terms. That the outcome of the negotiations would be unequal was not hard to predict; as the US is so much larger than Australia, it has far less to gain relatively by signing the treaty, or conversely, far less to lose by not signing it.⁸ The question of whether Australia should be picking up the metaphorical crumbs or holding out for something better is a political one and needs to be debated as such.

4 *Open source advocates wary of FTA*, Sydney Morning Herald, 12th March 2004.

5 *PM, Latham trade insults over US deal*, Australian Financial Review, 11th February 2004.

6 *Howard turns up rhetoric on trade deal*, The Age, 14th February 2004.

7 *The Australian*, 9th March 2004.

8 *Economic Impacts of an Australia-United States Free Trade Area*, p.25.

By expending political capital on the relationship with the United States, Australia reduces its leverage in other arenas of negotiation. For instance, trading relationships within the Asia-Pacific region have tended to be conducted on a multilateral basis; by adopting a discriminatory trade deal with the US, Australia is isolating itself from its most important trading partners.⁹ Furthermore, bilateral trade deals come at the expense of multilateral negotiations within organisations including the World Trade Organisation (WTO) and International Labour Organisation (ILO).

In the current international context the United States operates in an increasingly unilateral fashion and deals with its partners on a patron-client basis, for instance according trade treaties to countries that support its stance on other issues, notably on the so-called war on terror and the attack and occupation of Iraq. However Australia has deep connections with other parts of the world, notably in East Asia but also with our closest neighbour, Papua New Guinea and other Pacific countries including New Zealand and many island states as well as with the increasingly assertive European Union. It is possible to maintain a healthy relationship with the US while resisting the more extreme elements of its international posture. Meanwhile Australia's interests are more likely to be promoted through multilateral fora than in direct negotiation with the US.

Strategic Position

Australia has been at the forefront of international trade negotiation for over 50 years.¹⁰ Over this time it has consistently pursued trade liberalisation through multilateral fora. It also has one of the most open economies in the world, having unilaterally reduced tariffs and quotas to insignificant levels on all but a small range of products and services. It is notable that both multilateral and unilateral actions are *non-discriminatory*, as indeed have been the majority of bilateral trade agreements concluded by Australia.¹¹ In contrast, the proposed deal with the USA is more accurately described as a preferential trade agreement as it discriminates in favour of products and services from the USA. In this respect it detracts from Australia's reputation for punching above its weight in the interests of genuine trade liberalisation.

Another significant negative impact that would result from the adoption of the proposed treaty is that it would concede the legitimacy of bilateral deals that exclude agriculture. Massive subsidies to agriculture in the European Union, the United States and Japan cost billions of dollars to farmers in industrialised countries such as Australia, but critically to developing countries whose agricultural sectors are often vastly more efficient than the subsidised imports with which they are unable to compete. By neglecting its principled stance on agricultural subsidies, Australia is relinquishing the role it had forged for itself as leader of the Cairns Group. It is also letting down developing countries that are important regional partners and recipients of Australian aid.¹² Australia, along with like-minded countries, could do far more for the poor in developing countries by working constructively toward access for their products to the markets of industrialised countries.

Conclusion

The proposed Australia-United States Free Trade Agreement is difficult to justify on any grounds. The potential economical benefits are at best marginal and better pursued by other means. The debate is in fact political, yet no serious examination of the likely impacts of such an agreement has been made. Some serious political ramifications include the erosion of Australia's standing in the region and the expenditure of political capital in sub-optimal ways. The strategic cost of betraying Australia's position as an advocate of genuine trade liberalisation, non-discriminatory and inclusive of agriculture, is not merited by the alleged gains associated with the treaty.

9 Ann Capling, *An Australia-United States Free Trade Agreement?*, Policy, Organisation and Society, vol.20 no.1 (2001), p.13.

10 Ann Capling, *An Australia-United States Free Trade Agreement?*, p.11.

11 Ann Capling, *An Australia-United States Free Trade Agreement?*, p.13.

12 *One-sided deals impede multilateral trade*, Sydney Morning Herald, 14th February 2004.