

Inquiry into Australia's relationship with the WTO

Submission to Joint Standing Committee on Treaties

By National Farmers' Federation, Canberra,

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Introduction

Trade liberalisation is the closest thing there is to a 'free lunch' in economics. It is difficult to imagine any other area of public policy where the potential gains are so large. The removal of trade barriers gives consumers greater freedom of choice and lower prices; trade promotes competition, productivity gains and investment; and trade brings faster growth, jobs and new opportunities for exporters.

The quickest way to reap the gains from trade is through 'unilateral' trade liberalisation. When a country lowers its trade barriers, the main benefits flow not to trading partners, but to the country doing the liberalising. The problem is that this thinking about trade liberalisation is politically demanding. Industries that face domestic adjustment have a strong incentive to oppose reform.

Up until the mid-1980s tariff protection for Australian industry was deeply rooted in the psyche of the nation. Australia's unilateral liberalisation of tariffs in the late 1980s and early 1990s was greatly assisted by industry groups representing exporters, namely the National Farmers' Federation and the Minerals Council of Australia, combining forces to expose the devastating costs of protection. In most countries, however, the forces supporting protection are politically stronger than the forces calling for reform. Therefore, in order to sell freer trade to their electorate, governments find it easier to liberalise within a framework of international agreements.

The World Trade Organisation (WTO) has the important job of providing the framework for trade liberalisation on a multilateral basis. The WTO provides a negotiating forum for countries to reduce their barriers to trade and to help trade flow as freely as possible. The WTO is the only international body dealing with the rules of trade between nations and for resolving disputes when trade relations involve conflicting interests. A rules-based system is critical for a small nation like Australia that only accounts for one per cent of world trade.

For five decades the world's trade-liberalising machinery has been quietly going about its work of improving living standards around the world. In recent times, however, we have seen a backlash from environmental groups, labour unions and other sectional interests who have a common goal of restricting trade. The paradox is that these groups are most active in those countries that have built their prosperity on trade. The anti-trade arguments promoted by these groups are misguided. Trade-dependent nations like Australia have a responsibility to challenge the myths and misconceptions clouding the debate about the WTO. The stakes are too high for Australia to neglect to articulate clearly and convincingly why free trade is in our interests.

The National Farmers' Federation (NFF) is a strong supporter of the WTO and all that it stands for. The WTO provides Australia with the best opportunity for addressing the acute and persistent problem of protectionism in world agriculture. High levels of agricultural protection in Europe, Japan and the United States corrupt the international marketplace. Protectionist policies cause commodity prices to be lower and more volatile than they otherwise would be. Protection denies access to markets for Australian produce. This harms the profitability, growth and investment in Australian agriculture. Protection is particularly devastating for developing countries, which stand to gain the most from agricultural trade reform.

Agriculture plays an important role in the Australian economy, earning around 20 per cent of our foreign exchange. Overseas markets are important for virtually all of Australia's agricultural industries. For some industries, dependence on exports has increased significantly over the past decade. For example, canola exports grew from only 3 per cent in the early 1990s to 69 per cent in the late 1990s. For dairy products, the share of exports as a percentage of production has increased from 32 per cent to 52 per cent and wine exports have increased from 14 per cent to 29 per cent in the same period. For many other agricultural industries, exports as a share of production have remained high. These include wheat (78 per cent), cotton (95 per cent), sugar (80 per cent), beef (62 per cent) and wool (95 per cent). The Australian Bureau of Agriculture and Resource Economics (ABARE) estimates that agricultural exports, on a balance of payments basis, account for around 65-70 per cent of agricultural production.

In view of agriculture's heavy reliance on exports, liberalisation of trade and improved access to international markets will remain the cornerstone of success for Australia's agricultural industries. It is therefore vital for Australia to lead the global push in the WTO for the removal of trade barriers in agriculture.

The quest for agricultural trade reform in the WTO

Since the General Agreement on Tariffs and Trade (GATT) was established in 1947 there have been eight rounds of multilateral trade negotiations. They have delivered enormous benefits to the world, but the benefits have been few for agriculture. The most recent round of negotiations, the Uruguay Round, was quite simply the largest trade negotiation ever. In the end it brought about the biggest reform of the world's trading system since the end of World War II.

Nevertheless, when Australia's Minister for Trade, Bob McMullan, announced the results of the Uruguay Round in 1994 he said "notwithstanding the progress made in the Uruguay Round, world agricultural trade is still highly distorted and corrupted - our agricultural reform task is unfinished".

In 2000, agricultural markets remain protected by tariffs considerably higher than for almost all other goods. Agricultural tariffs average about 40 per cent (with some tariffs over 300 per cent) while non-agricultural tariffs are below 5 per cent in most developed countries. After more than 50 years of the multilateral system, the failure to integrate agriculture fully into the normal rules of the WTO stands as a monument to the power of farm lobbies and the timidity of political leaders.

The source of the world's troubles with agricultural trade can be found in the domestic policies of certain countries. Probably the most disruptive of all domestic policies is Europe's Common Agricultural Policy (CAP). When the CAP was conceived in the 1960s its founding fathers had a clear goal. They intended the European Community to feed itself - a goal that was largely achieved by the end of the 1970s. Since the emergence of surpluses in the early 1980s, attempts at reform have been legion and entirely unsuccessful. The result is a wasteful and complex system of farm policies that include almost every support measure known to governments. In addition to price-support and tariff protection, intervention buying is augmented by export subsidies; farmers receive direct income payments; and supply constraints range from on-farm quotas for milk and sugar, through set-aside for arable crops to limits on the number of cattle and sheep eligible for headage subsidies.

Logically, it is these domestic policies that have to change if the disruptions and distortions to international agricultural markets are to be overcome. Australia, as a big, efficient and profitable exporter, has an interest in the reform of domestic farm policies in Europe, Japan, Korea and the United States. Other countries with strengths in producing agricultural goods share this interest and this common interest largely explains the formation and effectiveness of the Cairns Group.

The Cairns Group

In the years leading up to the Uruguay Round, the world's efficient agricultural exporters watched powerlessly as agriculture's second class status in GATT developed. From the 1950s to the early 1980s the United States and Europe secured a steady series of exceptions to GATT rules for agriculture. By the mid-1980s, agriculture was in crisis. World agricultural prices fell to record lows when a full-scale subsidy war broke out between Europe and the United States. Efficient farming nations like Australia were horrified. They saw their export receipts plummet as the US and Europe competed for markets with lower and lower prices.

In Australia, reduced farm incomes and a lack of confidence in the conduct of world grain markets were reflected in falling land values. It is estimated that from June 1985 to June 1987 land values in the broadacre sector of Australian agriculture declined, on average, 25 per cent in real terms. Other countries, even more dependent on agricultural exports than Australia, suffered severe economic problems at the time.

Recognising the serious need to bring agriculture under the discipline of GATT rules, ministers from 14 agricultural exporting countries met in Cairns in August 1986 to develop a common position on agriculture. With support from the United States, which also suffered from falling land values and a surge in farm bankruptcies (despite the subsidies), the Cairns Group ensured that agriculture was accorded prominence when the Uruguay Round was launched in September 1986.

The role of the Cairns Group was critical, not only in getting agriculture onto the negotiating table, but also in maintaining a focus on agriculture and in pushing the major powers towards an agreement that entailed specific binding commitments on domestic support, market access and export subsidies. US Trade Representative in the Uruguay Round, Clayton Yeutter, has said, "time and again the Cairns Group provided a balance wheel to the ideological difference over agriculture between the European

Community and the United States.....throughout the negotiations the Cairns Group was catalytic, sensible and pragmatic".

Australia had learnt a lesson from its bitter experience in past GATT negotiations where it had too few allies and its proposals, however reasonable and well argued, were quickly isolated and ignored. By joining forces with nations such as Canada, Argentina, Brazil, New Zealand, Indonesia, Malaysia, the Philippines, Uruguay, Chile, Thailand, Colombia and Fiji (and now South Africa, Paraguay, Costa Rica, Bolivia and Guatemala), the Australian-led Cairns Group had the status and authority to be the 'third force' (alongside the EU and the US) at the WTO negotiating table.

As chair of the Cairns Group Australia has the responsibility of leading the intellectual debate in support of agricultural trade liberalisation. ABARE is recognised and respected around the world for fulfilling this important role. If Australia doesn't do this work, no one else will. The WTO Secretariat is vastly under resourced and has no capacity for funding this type of research. The OECD estimates that the cost of protection for farmers in OECD countries was US\$362 billion in 1998. Yet the members of the WTO only provide enough resources for the WTO Secretariat to have eight staff working on agriculture. NFF believes that the Australian Government should commit appropriate resources in the 2001 federal budget for WTO agricultural trade policy research by ABARE. Given that the gains to the Australian economy are estimated to be worth \$2.2 billion per year (from only a 50% cut in agricultural protection) an investment of \$2.0 million in ABARE research, for example, would represent just one thousandth of the potential gain to the nation.

Cairns Group Farm Leaders

The National Farmers' Federation has a long history of working with the Australian Government in the global campaign for farm trade reform. NFF has never been afraid to take the fight up to protected producers overseas; in the lead-up to the Uruguay Round and throughout the negotiations, NFF delegations lobbied in Washington, Brussels and Geneva for a successful outcome to the round. These efforts continued after the round was concluded. In 1995, for example, the NFF went to Washington to jointly run a campaign with the Australian Government seeking a reduction in US export subsidies, which were estimated to cost Australian grain growers about \$200 million a year in lost income through depressed prices and lost sales.

In 1997, it became apparent that the Cairns Group would again need the strong support of industry in its approach to the ninth round of global trade negotiations. When Australia hosted a Cairns Group Ministerial Meeting in Sydney in 1998, NFF hosted a parallel meeting of presidents from the peak farm organisations in the Cairns Group countries. The farm leaders sent a powerful message to their ministers and the world that they would jointly campaign for an ambitious outcome for agriculture in the new round.

In 1999, the farm leaders met alongside their trade ministers in Argentina and Seattle. Their next meeting will coincide with the Cairns Group Ministerial in Banff, Alberta, in October 2000. Following Banff, NFF will lead a delegation of Cairns Group farm leaders to the WTO in Geneva. They will be calling for the 2001 Ministerial Meeting of the WTO to be shaped into a second attempt to launch the new round.

An important component of NFF's work with the Cairns Group is Federal Government support for Australia's 'Trade Representative for Agricultural Industries', Mr Graham Blight. The Hon Tim Fischer and the Hon Mark Vaile appointed Mr Blight to the position for 3 years in 1998. The position is voluntary, but it permits Mr Blight to represent Australia at 3 or 4 important international meetings a year. In some respects this is similar to the position previously held by Mr Ian Grigg as the Prime Ministers' Special Automotive Envoy. Given the scale of the trade policy problem in agriculture and the importance of being active in the international trade debate, NFF believes that the position should be renewed and expanded. Australia must put more resources into international advocacy for agricultural trade reform and the Government must continue to work in close partnership with industry on this issue.

In the past, the Australian Government has also had a Parliamentary Secretary for Trade with a particular focus on explaining the importance of trade to a domestic audience. NFF wonders why this practice has not been continued.

Seattle and the new round

Nearly two years before Seattle the warning bells were ringing. In early 1998, the OECD reported that the tone of the debate over trade liberalisation had changed markedly. In its report, 'Open Markets Matter', the OECD said that waning public support for freer trade pointed to a deficit in communications that could only be remedied if the proponents of trade liberalisation clearly explained what trade is and is not responsible for. The OECD called for policy-makers to help citizens and communities understand the on-going, unprecedented, technology-driven structural transformation of national economies, a transformation in which trade plays a part, but only a part.

The United States has argued for trade liberalisation since the GATT was founded and has been the driving force behind nearly every round of trade talks. The successful launch of the Uruguay Round was largely due to US efforts and a strong ideological commitment to free trade by the Reagan administration. Since 1994, however, the Clinton administration has failed to keep trade policy on track. This failure contributed to the collapse of the WTO ministerial in Seattle.

The protesters in Seattle did not cause the ministerial to fail - though they certainly made that claim. The real problem was inadequate preparation in Geneva and a lack of political will in Washington. In 2001, the WTO will be holding another ministerial convention. NFF believes that Australia should be pushing hard for this meeting to be shaped into a second attempt to launch the round. By the end of 2001 a new US administration will be ready to show strong world leadership and it will be two years since Seattle. If planning for the 2001 meeting started in late 2000 there would be plenty of time for preparations in Geneva. Before preparations can start, however, a WTO member country must offer to host the meeting. The Australian Government could show leadership by offering to host the 2001 ministerial convention of the WTO.

This policy would be consistent with Australia's position of always pushing for action in the WTO when we have a vital interest at stake. As leader of the Cairns Group Australia should shoulder the responsibility of leading the charge for an early

conclusion to the launch process. Leaving the issue of the launch unresolved for any longer than two years after Seattle would expose the WTO to criticism that it was ineffective. It would also strengthen the hand of the critics of the WTO who claim that they did stop the launch of the new round.

The role of the WTO

The WTO has a good story to tell. History shows that open economies produce higher economic growth, more jobs, higher incomes, and better outcomes for the environment and more resources for health and education. Today, one quarter of the global economy is traded. The international framework for this enormous engine of growth is the WTO. In the absence of the WTO's rules, which are agreed by consensus and ratified by member governments, the only rule would be the law of the jungle. The WTO is important to a trading nation like Australia because it provides the legal ground-rules for international commerce, which help producers, exporters and importers go about their legitimate business.

The purpose of the WTO is to help trade flow as freely as possible. The WTO should not be overloaded with tasks, which it is unable or ill equipped to discharge. A standing rule of good public policy is "the policy instrument should directly address the policy objective". Trade measures are rarely the most efficient policy instruments for addressing 'non-trade' policy objectives. Trade policy should not be used to achieve environmental objectives for example. This is not to say that a clean environment isn't important. Of course it is, but it's not the WTO's job. If the world wishes to establish a World Environment Organisation, then this idea should be considered.

The same principle applies to labour standards. Labour issues should not be included on the agenda of the WTO. This is the job of the International Labour Organisation (ILO). If the ILO isn't effective, then fix it. In 1997, the Minister for Trade, Hon Tim Fischer, reported in his first Trade Outcomes and Objectives Statement (TOOS p.13) that the ministerial conference of the WTO in Singapore had adopted Australia's position on labour standards:-

"That the WTO's main task is to promote growth of jobs and wealth creation through trade liberalisation and that the ILO alone should continue to set the labour standards and enforce them".

Bringing labour and environment into the WTO implicitly suggests that trade, unless properly regulated, militates against good labour standards and a clean environment. This suggestion is wrong. The enemy of the environment is poverty. Trade lifts people out of poverty and creates wealth. Wealth leads to demands for higher environment and labour standards. Good trade policy leads to good outcomes for labour and the environment. Australia has a vital interest in keeping the WTO focussed on freeing up trade, not regulating trade for non-trade purposes. The Australian Government should reject efforts by labour and environment groups to use the WTO to solve problems that lie outside the field of international trade.

A further issue for the Australian Government is the risk that the disciplines of the WTO could be eroded through the back door by other international agencies. For example, the United Nation's Biosafety Protocol, which governs international trade in living modified organisms, creates a new and unnecessary clash with the WTO. The

application of the so-called 'precautionary principle' in the Biosafety Protocol could threaten the very functioning of the multilateral trading system. NFF is concerned that the precautionary principle will be promoted more widely by some countries to push for WTO rules to be applied in a way that undermines the science-based disciplines of the WTO. NFF strongly opposes Australia signing, let alone ratifying, the Biosafety Protocol.

Regionalism and the WTO

Australia has always vigorously pursued its trade interests through an integrated framework of multilateral, regional and bilateral trade policy settings. Regional trade pacts have become more popular since the last multilateral round and Australia has quite rightly investigated the regional opportunities that are open to us. However, regional trade pacts raise numerous questions about their effect on international trade. The most significant question is whether regional agreements detract attention from the more important task of multilateral trade liberalisation. Also, most regional trade agreements have traditionally left agricultural goods out, or included them in only very limited ways.

NFF accepts that progress in the WTO is slow and difficult and that regional trade wins, if they become available, should be grasped along the way. The danger, however, is that the world may become divided into regional blocs, which encourages high-cost trade within regions and an agricultural sector which is localised and excluded from other international markets. Assuming regional trade blocs continue to flourish, the issues for NFF are whether the agricultural sector is fully included and whether resources and political attention are diverted from the more important multilateral agenda.

The spread of regional integration is likely to continue. MERCOSUR, the European Union and ASEAN all have plans to expand membership. How agriculture is treated in these agreements is very relevant for the new round of WTO trade negotiations. Existing WTO rules on the acceptability of regional arrangements should be applied vigorously; participating countries should ensure that third countries are not adversely affected; and the WTO should monitor and report on the activities of regional trade pacts to prevent them detracting from the more fundamental objective of multilateral trade liberalisation.

The WTO and quarantine policy

In the past, Australian quarantine was mainly a domestic policy issue, fulfilling both an export and import role. On the import side the Australian Quarantine and Inspection Service (AQIS) plays a key role in protecting Australia from incursions of exotic pests and diseases. On the export side AQIS certifies that outgoing shipments meet importing country requirements; AQIS works bilaterally to increase market access for agricultural exports; and AQIS makes decisions about the safe importation of animal and plant genetic material for Australian agriculture.

Since the end of the Uruguay Round quarantine has become a key area of trade policy for Australia. This is because all quarantine issues now come under the WTO's

Sanitary and Phytosanitary Agreement (SPS). The SPS Agreement affirms the sovereign right of all WTO members to maintain a level of quarantine protection that is appropriate to the individual countries' circumstances. However, the measures that countries put in place must be scientifically based and not be used as disguised restrictions on trade.

The SPS Agreement gives Australia the freedom to pursue its conservative approach to quarantine policy. It does not require Australia to reduce its quarantine protection. The Agreement is important to Australian exporters because it ensures that their access to markets is not undermined by importing country quarantine barriers, which are not based on science. This being so, it follows that our trading partners will use the SPS Agreement to demand the same from us. We can't expect a clear run for our own exports and then use quarantine as a barrier against other countries' products.

The WTO's SPS Agreement will be even more important to Australia in the future. As tariffs fall under a new round of WTO trade negotiations, some countries will respond to protectionist pressures by introducing new health and safety barriers. If Australia is to prevent the replacement of 'traditional' trade barriers with SPS barriers it is essential that we have a strong SPS Agreement in the WTO.

Conclusions

The National Farmers' Federation is an umbrella organisation, which represents farm family businesses with a vital interest in trade. Geneva and the WTO may be a long way from our members' farms but its effects are felt right outside the kitchen window. The Macquarie Valley in NSW, for example, is a \$600 million a year trade basket producing beef \$162m (70 per cent exported); sheep meat \$138m (70 per cent exported); wool \$132m (95 per cent exported); wheat \$120m (80 per cent exported); cotton \$77m (95 per cent exported); and oats, barley and oilseed \$50m (70 per cent exported). Given the multiplier effect of four or five times the export dollar you are looking at \$2 billion being injected into the Central-West of NSW from trade. All of this export action is underpinned by the global trading system.

Nevertheless, there is a long way to go before the WTO treats agriculture the same as trade in other goods. Australian farmers are constantly frustrated by the discrimination against agriculture in international trade, which leads to low commodity prices, lack of market access and unfair trade practices (such as US lamb tariffs), but farmers also understand that things would be a lot worse without the WTO. Without any trade rules, regions like the Macquarie Valley would be on the frontline of falling investment, rising unemployment and rural decline.

NFF believes that the Australian Government must provide global leadership for the multilateral liberalisation of agricultural trade through the WTO. This task is as important today as it was in the mid-1980s because total support for agriculture in the OECD countries today has returned to the unprecedented levels that existed before the start of the Uruguay Round.

The Government's effort should be a coordinated activity of the Cairns Group and other like-minded countries. The Cairns Group is the only international alliance pushing for agricultural trade reform. As chair of the Cairns Group Australia should

continue to fund trade policy research by ABARE and promote the results of this research in international forums. Good research can shift minds, but ideas must reach people. The Australian Government should work in partnership with industry in this campaign and continue to fund Australia's 'Trade Representative for Agricultural Industries'.

The Australian Government should make every effort to defend the WTO against those who would introduce non-trade concerns into trade agreements and against international agreements outside the WTO with provisions that clash with the fundamental principles of the WTO. The Australian Government should undertake a more active communications effort to build much needed public support for the WTO.

The government should ensure that agriculture is fully included in any Australian involvement in regional trade agreements and that such agreements do not take political attention and resources away from the multilateral agenda. The government should also ensure that domestic policy decisions are fully consistent with Australia's trade objectives. This includes a continuation of unilateral tariff liberalisation, particularly in the textiles, clothing and footwear sectors and in passenger motor vehicles. NFF rejects the argument that Australia's remaining tariffs are a "bargaining chip" to be used in WTO trade negotiations. As trade liberalisation ultimately involves domestic adjustment it is critical that the Australian Government has adequate adjustment policies in place if it is to maintain community support for liberalisation.