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To: FADT, Committee (SEN)
Subject: Submission on proposed US-Australia Free Trade Agreement by D N Everingham

Submission of

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on the proposed **United States Australia Free Trade Agreement**

to

The Secretary

Senate Foreign Affairs, Defence and Trade References Committee

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A free trade agreement with the US would disadvantage Australia's local interests, economic, political, cultural and geopolitical, and in the long term disadvantage democratic principles world wide to the advantage of minorities that exert unhealthy dominance over governments, humanity and our environment.

Multilateral trade negotiations and agreements through the United Nations are more complex and difficult than tagging along with whatever the US wants, but may help stabilize our trade status better. In combination with wider ranges of trading associates we must have prospects of providing counterweights to the economic power of the strongest economies far more than by tying ourselves bilaterally as a permanently minor partner to a single powerful economy like the USA.

Recent US legislation to increase agricultural subsidies belies claims of economic gains for Australia. Our farmers suffer from US subsidies to US-based agribusiness which has powerful lobbies maintaining inequitable influence over US trade policies.

Australian policies which are US targets have been listed by the US Trade Representative Robert Zoellick, in the letter to the US Congress dated November 13, 2002. These targets include **abolition of the Foreign Investment Review Board** (FIRB), and of requirements for **minimum Australian ownership**. Australia has such legal requirements only for a few strategic industries like the media, telecommunications, airlines and banking. The FIRB reviews foreign investment in the national interest, a power seldom exercised, but clearly a power which the Australian government has no informed mandate to abandon.

Local content rules for film and television should never be left to locally insensitive global market dominators. . We do not need Australian cultural developments and artistic expression to be subordinated further to Hollywood and Wall Street plutocracies. Our rules ensure a local skills base which enables quality films and television programs to be made here.

The US world trade policy promotes **privatization of near-monopoly public services** from jails to hospitals, public transport to water and power supplies world wide. Many local authorities have expressed alarm at some of the effects. Judging by their submissions on the Multilateral Agreement on Investment (MIA) proposal, some local authorities will make submissions to you if they are aware in time of the deadline for submissions. UN monitors have criticized the profit-above-all policies and practices of privatized management of detention centres for asylum claimants which have violated human rights including rights of children. Consumer groups in Port Macquarie have exposed several shortcomings of the monopoly privatization of the local 'public' hospital.

The US is also seeking a **complaints mechanism for investors** which is likely to resmble the infamous North American Free Trade Agreement (NAFTA) disputes procedure. This would enable US corporations to take legal action to force changes in Australian law if they could argue that the law was not consistent with the agreement. They could sue the Australian government for damages. US corporations have used NAFTA rules to sue Mexican and Canadian governments for hundreds of millions of dollars. Steven Shrybman gives the following examples:

€The U.S. Metalclad Corporation sued a local municipality in Mexico for US16.7 million, because it was refused permission to build a 650,000-ton/annum hazardous waste facility on land already so contaminated by toxic wastes that local groundwater was compromised.

€The U.S.-based Sun Belt Water Inc. is suing Canada for US$10 billion because a Canadian province interfered with its plans to export water to California. Even though Sun Belt had never actually exported water, it claims that the ban reduced its future profits
(Shrybman, 2001 "Thirst for Control" www.canadinas.org)

I have read of a US lumber firm suing Canada for millions because Canada encouraged a forestation program which adversely affected the US firm's prospects -- apparently under World Trade Organisation (WTO) rules even before NAFTA was formed. The WTO tribunal has already sweeping power to try secretly, without appeal, governments at the behest of complainant transnational companies.

The deregulation of investment proposed would resurrect the 1998 OECD draft MIA, which sought to emasculate government regulation of foreign investment, and which was defeated by overwhelming community opposition.

Zoellick's letter seeks "enhanced access for US services firms to telecommunications and any other appropriate services sectors". US firms already have access to commercial services in Australia. The targets here are essential services like telecommunications, health, education and water. The aim is to treat them as traded commercial goods, ignoring the fact that societies have often made the democratic decision that public regulation, transparency and accountability and often public provision of these services is required to ensure that there is equitable access to high quality essential services.

Decisions about social policy are the prime duty of elected authorities, never to be abdicated in favor of commercial enterprises that put legal obligations to maximize investor profits before long range social equity and harmony, community autonomy and transgenerational care for the increasingly devastated environment. Governance should not be signed away in an inevitably trade privatizing globalization agreement.

Professor Joseph Stiglitz, recently World Bank head, former chief economic adviser to President Clinton and Nobel prize winner in economics, has documented ruthless slashing of social and environmental restraints by privatizing service monopolies following demands of currency manipulators and loan controllers within the World Bank's associated IMF (International Monetary Fund) and World Trade Organization (WTO). I have quoted some of his revelations in a 20-page e-mailable paper 'World Democracy' which I presented at the 2002 conference of the International Institute for Public Ethics. These issues are also being debated in the WTO negotiations on the General Agreement on Trade in Services (GATS).

Abolition of the Pharmaceutical Benefits Scheme

The Pharmaceutical Benefits Scheme makes medicines more affordable to most Australians, especially those on low incomes. US pharmaceutical companies object to it because it means that the price of medicines are lower in Australia than in the United States. As Minister for Health 1972-75 I found US and other global drug manufacturers ready to cut prices, in part to defeat small competitors, in Papua New Guinea while insisting that they needed much higher prices in Australia to cover research and development costs. Now some of them seek credit for slashing prices for near-monopoly products to treat HIV/AIDS in Africa, although they will probably still make a profit by expanding the market there with considerable government assistance following public outcry at their initial exploitation. If free market competition is good for big companies squeezing out smaller competitors it is good for governments to compete in negotiating, on behalf of patients in their communities, the best prices for subsidized health products.

Abolition of Food Labelling for food containing Genetically Modified Organisms (GMOs)

The US is the largest producer of food containing GMOs and lobbying and public promotion ('the manufacture of consent') by agribusiness companies has ensured that there is no US requirement for labelling to show GMO content in food. Australia and Europe have labelling requirements because informed consumers want to know what they buy.

The US has threatened to take action in the WTO against European labelling for GMOs on the grounds that it is a barrier to US products. Zoellick's letter specifically mentions the elimination of Australian "unjustified measures" relating to "food and agricultural products produced through biotechnology", which can hardly mean anything else than GMOs. To call such measures "unjustified" is a commercially based judgment, highly undemocratic, with no impartial long term investigation likely to be welcomed or even conceded as desirable by the GMO lobbies.

Reduction in Quarantine Standards

The Zoellick letter mentions "serious concerns" that Australia's quarantine standards are used as a "means of restricting trade".

Australia has relatively high quarantine standards because as an island country we are disease-free in some areas, and the impact of such diseases would be devastating. Tasmania has had to struggle to maintain federal quarantine restraints on fish imports which could introduce diseases that threaten Tasmanian recreational and industrial fisheries. WTO penalties could be exacted if they do not give in.

Abolition of local preferences in government purchasing

The Zoellick letter demands increased access for US goods and services to government purchasing markets. There are some Federal and state government purchasing arrangements which ensure that smaller local firms have access to purchasing contracts, or require transnational companies with government purchasing contracts to develop relationships with local firms.

Peter Lock's book "The Great Harlot"

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This book in pages 101-105 shows how the US tradition of favoring global centralization of private power, finance and management is entrenched. I summarize thus:

At Bretton Woods, New Hampshire, in 1944, the United States insisted on a trade ideology that favoured its own economic strategies and political aspirations and determinations.

It was intended that the World Bank should assist post-war reconstruction, especially in poorer countries, by providing loans for the developing of their own resources and industries. The IMF came into existence a year later to set up a financial pool, upon which all member countries could call should they have temporary payment difficulties due to a deficit in their trade account.

Many disputes arose before, during and after the Conference. The most serious was concerned with the balance of trade between nations, imbalances leading to creditor and debtor countries -- always acknowledged as the major cause of trading wars and attendant financial chaos. Two main schemes were proposed.

Prior to the Conference, the USA and the UK, each tabled a proposed framework for international trade. The British tendered a system of trade accountancy which J M Keynes called 'The International Clearing Union'. The American plan drawn up by some US Treasury officials, including Henry J Morgenthau and Harry Dexter White was an 'International Stabilisation Fund'.

Third World debt establishes a financial imbalance of trade.

Lending money to developing nations allows them to buy in foreign goods, thereby incurring a trade deficit. To rectify this imbalance of trade, the debtor nations try to export their surplus goods. This in turn requires that creditor nations who previously enjoyed trade surpluses by exporting development technology now experience trade deficits by importing debtor nations' goods. The international debts prevailing today measure how much debtor nations have failed to gain lucrative money by exporting, and creditor nations have failed to become subject to a trade deficit having formerly enjoyed a trade surplus.

For Keynes, it was basic there be a mechanism to ensure that imbalances were redressed. He also acknowledged the complete irrationality of the situation whereby a creditor nation, in supplying other nations with real wealth, only receives in turn money which is of no value unless it is spent.

He proposed a new and neutral unit of international currency, the 'Bancor' and a new institution, the International Clearing or Currency Union (I.C.U.). All trade between nations would be measured in Bancors. Exports would be paid for in Bancors, whilst importing would require the expending of Bancors. All nations would be expected to maintain, within a small percentage range, a zero account with the I.C.U., thus indicating they had an overall equivalence of imports and exports.

The proposal placed an equal obligation on both debtor and creditor nations to sustain a balance of trade. Both would have to pay a small interest charge on their imbalanced accounts -- not so much as a deterrent or punishment, but as a feedback mechanism, ensuring that over time, trade remained close to balance.

The American Delegation refused any principle of redressing trade imbalances. America was a major creditor nation, exporting far more than she imported. The sole concern of its Delegation was to ensure a continuing favourable balance of trade for the USA. This intransigent attitude made any other system unworkable. It firmly refused to take full payment in goods and instead kept on accumulating gold.

The official proposal of the US was for international trade to be a completely free market. Trading, and its necessary accounting measures, were still to be carried on but in national currencies. There would be no obligation for creditor nations to expend a trade surplus back into the various debtor nation economies. The situation would be made even harder for the latter by their being burdened with increasing deterrent charges.

The delegates from most other nations had reservations about this self-centred American proposal but the US protagonists held firm. They had both the decisive number of votes and also the greatest political influence. They succeeded in having Keynes' idea of a Clearing Union rejected before the Conference began.

Keynes agreed to chair the Meetings, hoping to be able to improve the American scheme. Included in this scheme was the setting up of a 'Stabilisation Fund'. According to the state and strength of their economies, so all nations would contribute to this fund which would thus hold reserves of all currencies.

Nations that found their own economic situations suffering as a result of continuing trade deficits, could borrow from the fund. The IMF was born as a reserve pool of funds to be loaned out to tide debtor nations over financial shortages in their trading.

Nations whose economies were shattered by the War would need to borrow money to rebuild. So also would the underdeveloped countries of the so-called Third World. A second institution, an international 'bank', would need to be initiated for the purpose.

Thus the World Bank came into existence, as the International Bank for Reconstruction and Development.

The already affluent creditor nations would be allowed to build up further surplus trading revenues and, if they so desired, to exchange these for the much sought after gold held by less fortunate debtor nations.

Gold was now to be the official international currency and all the financial transactions of world trade thus established in terms of a seemingly neutral currency. At this point at least 70% of the world's entire gold reserves were held by America who had been actively stockpiling gold since the depression. With the US insistence that gold be the unit of surplus currency exchange and that it be valued in dollars, all other currencies would find themselves fixed in value against the dollar which became in effect the international unit of money accounting. This situation received added confirmation when, in 1973 the US unilaterally ended this demand of gold convertibility.

Keynes' name has unfortunately become linked solely with the outcomes of the Bretton Woods Agreement. He tried his best to improve the American proposals and to remove the absurdities inherent in them. He insisted at the final discussion that for every country there had to be a rational and sustainable balance between exports and imports and warned that if the US went on exporting more than what it imported, inevitable disaster would result. He later acknowledged that the agreement could turn out to be destructive of international trade.

In England there was a considerable amount of behind-the-scenes opposition to the agreement. However, a condition of the latest US war loan to Britain required the acceptance of the proposals of the Bretton Woods conference. Parliament, now made aware of such, had no option but to accept them.

The Keynesian proposals would have benefited far more the American people, but they were not represented at the conference. It was US powerbrokers who insisted upon an exploitive financial and trading setup by which they would continually secure their commercial and political advantage. The Keynesian proposals were based on the concept of trade for mutual benefit.

Unpayable debt was the predicted consequence of the Bretton Woods agreement. In the bitter trade wars which did ensue, nations were led into a desperate competition for world markets. As they are drawn ever deeper into debt, Third World countries have been obliged to submit to the demands of free-market, deregulatory economic policies, forced to cut or abandon spending on education, health and welfare, end support for domestic industry, produce food for export instead of home consumption, and sell their businesses and factories to Western buyers. With the unrepayable debts of the developing nations mostly denominated in US dollars, two-thirds of the planet now finds itself subject to American corporate, financial and economic imperialism whilst the US enjoys an unearned income from overseas poverty.
(Summary from Lock's book ends here).

It is apparent from the worldwide escalation of debt owed by governments to bondholders and bank shareholders that not only Third World nations are increasingly indebted. Australia has weathered this assault better than most because of our huge capacity for primary exports.

Australia does not need to rely on foreign financial agreements to issue funds for public works. Many economists of stature, though still a minority because of the still powerful neo-liberal globalization main stream in economics, have found the original policy of the Commonwealth Bank, to issue most of our money as loans to government at trivial interest (sufficient to cover bookkeeping costs) has enabled Australia to finance world war efforts and the east-west railway construction virtually free of debt while the Bank of England was offering the money at something like ten times the interest rate. What global financiers can do with US dollars lent to governments, governments themselves can do for a fraction of the cost to taxpayers.

I commend to administrators and governments a decision to consult with minority economists in this enquiry. Some of their names are available from Economic Reform Australia, of which Dr John Hermann is a well informed official (e-mail address <hermann@picknowl.com.au>).
