



**SUBMISSION
TO
SENATE FOREIGN AFFAIRS
AND TRADE COMMITTEE**

US-AUSTRALIA
FREE TRADE AGREEMENT

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INTRODUCTION

AWB Ltd has pleasure in providing a submission to the Senate Foreign Affairs, Defence and Trade Committee in relation to the bilateral US-Australia Free Trade Agreement.

AWB Ltd supports the Free Trade Agreement (FTA) due principally to the mutual overall benefits likely to flow to each country, and in particular the likely benefits to rural and regional communities in Australia.

AWB Ltd is Australia's largest national grain marketing organisation and is one of the world's major wheat management and marketing companies. It is involved in the marketing and management of wheat as well as other grains including barley, sorghum, oats, oilseeds and pulses.

AWB Ltd is a grower controlled publicly listed company with a current market capitalisation of approximately A\$1.2 billion and its international sales generate between 3-4% of Australia's total export revenue.

Under the Wheat Marketing Act (1989) AWB Ltd is the sole exporter for bulk shipments of wheat from Australia. Other companies compete with sales by bags and containers to several markets. AWB Ltd operates in open competition domestically.

AWB's cooperative bulk export single desk marketing system allows growers to capture market premiums by ensuring consistency of quality and supply for customers.

WHAT'S IN IT FOR WHEAT?

The FTA is a bilateral agreement designed to facilitate free and open trade between the respective US and Australian markets, with negotiations focusing on each country removing unnecessary barriers to the inflow of commodities, manufactured goods, products, services and investment.

In wheat, the potential trade between the two countries is already free, subject to the quarantine requirements of the respective countries. There are no barriers to entry after quarantine requirements have been met.

Both Australia and the US are both significant producers and global net exporters of wheat, often jointly supplying more than 40% of the world's wheat trade. Given the high surplus production levels, the demands of the respective domestic market are easily met in most years. While wheat is not part of the current feed grain import orders from the US, corn from the US and wheat from the UK has recently arrived in Australia.

Generally, both countries are more focused on supplying wheat to net importing markets.

Wheat from the US has previously been exported to Australia for feed grain supplies in times of drought, however neither AWB Ltd, nor the previous Australian Wheat Board, has ever exported wheat to the US.

Trade in Australian grain is not undertaken is due to:

- unsubsidised Australian export wheat being unable to directly compete with generous Farm Bill concessions for US wheat producers,
- the significant impact of long distance freight costs,
- traditionally high levels of US production and reserves,
- the advantageous economic alternative in years of low supply for the US to source Canadian or EU wheat at a lower cost than Australian wheat.

POINT: The potential trade in wheat between Australia and the US is already free. Historically, trade in wheat has not been undertaken as both countries are net exporters of the commodity and readily satisfy their domestic demand. Unsubsidised Australian grain cannot compete in the US market, which is distorted by generous Farm Bill concessions to US wheat producers.

ARGUMENTS AGAINST AUSTRALIA'S MULTILATERAL SINGLE DESK ARE NOT RELEVANT TO A BILATERAL FREE TRADE AGREEMENT

Given AWB Ltd's multilateral single desk does not impede the flow of wheat trade between the two countries in any way, it has no place on the negotiating agenda for the bilateral FTA.

While US producers are mounting an argument that the multilateral single desk should be removed, in fact there would be no benefit to US producers if the export monopoly were terminated. The same amount of Australian grain would still be competing internationally with the same amount of US grain in the same markets. The only beneficiary would be the multinational grain trading companies who would extract a trading margin that currently flows to Australian farmers and rural communities.

Australia's multilateral single desk is therefore no impediment to free trade between the two countries, and there are no benefits to either US or Australian producers in its abolition. Accordingly there is no justification for AWB's multilateral single desk to be included in any bilateral FTA negotiations.

...AND ARE NOT IN THE BEST INTERESTS OF AUSTRALIAN FARMERS

The intent of beneficial agricultural economic reform through a free trade agreement is to increase the volume and value of bilateral trade and to thereby improve the standard of living of the producers.

The abolition of the multilateral single desk would negatively impact upon the value of Australia's wheat trade and change the beneficiaries of that trade. The loss of the multilateral single desk would lead to the existing economic returns from the wheat industry being transferred from the Australian farmer and Australian government to the US based multinational grain trading companies. This would transfer many of the benefits of 3-4% of Australia's total exports from the Australian economy, therefore removing the existing benefits to the local industry, local employees, local producers and local communities. The potential income loss to Australia is of the magnitude of A\$400m pa (based on WEA figures).

Any change to Australia's multilateral single desk would reduce the standard of living of the Australian producers and the wider Australian economy while not delivering any benefit whatsoever to US grain producers.

POINT: It is inappropriate for Australia's multilateral Single Desk wheat exporting arrangements to be part of the bilateral FTA negotiations. The removal of the Single Desk would not increase the value or volume of trade in wheat between Australia and the US, but would serve to transfer value away from Australian farmers and Australian rural and regional communities, to US multi-national grain traders.

IMPEDIMENTS TO BILATERAL TRADE ON EQUAL TERMS

Subsidisation of production and exportation

Through the US Farm Bill, US wheat producers are granted a large number of market distorting avenues of government financial assistance that significantly advantage them in comparison to Australian producers.

These include production subsidies, loan rates, export subsidies, non-commercial export credits, funding for export market promotion and development; and programs such as one to financially encourage US growers to produce white wheat rather than red wheat.

These programs, whether through significant compensation payments or subsidised crop or revenue insurance, continue to distort production decisions, in turn impacting prices on the global grain market.

In contrast to US wheat farmers, Australian wheat producers have no direct production assistance from government, and support is restricted to the provision of basic drought or disaster relief.

US government market distorting domestic support measures place Australian wheat producers at an unfair disadvantage when attempting to compete on equal terms with US wheat farmers.

Tariff and other market barriers

Neither the US nor Australia has tariff or market barriers to the importation of grains once the respective quarantine measures have been addressed.

Transportation costs

By definition, the transportation of a high volume commodity such as wheat over a long distance by sea is an expensive exercise, and therefore is a critically important consideration for a FTA. There have been many beneficial reforms undertaken in both the US and Australia over recent years, however there are still some protective measures which act as a disincentive to free and open bilateral trade.

Quarantine (Sanitary and Phytosanitary protocols)

Quarantine or SPS measures should be examined to ensure fair and free and open trade whilst maintaining the highest standards of protection from the incursion of contamination, diseases and pests.

Protocols must, where practicable, protect the current status and recognise the isolation and freedom of diseases and pests. All assessments must be made on a sound scientific basis and within a sensible time frame.

Export Market Promotion and Development

US wheat producers are the beneficiaries of direct subsidisation from the US Government in undertaking overseas market promotion and development activities. In contrast, these are costs that are borne directly by AWB Ltd, and therefore are directly passed onto Australian wheat farmers. Therefore US wheat producers have a direct subsidy that provides a direct market advantage over Australian wheat producers.

This is a direct subsidy that puts Australian wheat growers at a distinct competitive disadvantage that must be removed to allow bilateral trade on equal terms.

POINT: SPS protocols should be addressed during FTA negotiations to ensure assessments are made on a sound scientific basis within a reasonable time frame.

While the negative impact of US producer support measures must be considered in the context of negotiations, AWB Ltd recognises these would be difficult to address in a bilateral agreement and recommend that they are dealt with multilaterally at WTO level.

SUMMARY

- AWB Ltd supports the US-Australia Free Trade Agreement.
- AWB Ltd supports an open Australian market.
- AWB Ltd supports an open US market.
- Trade in wheat between Australia and the US is already relatively free, but due to the exporting focus of both countries and US farm subsidies, trade does not occur.
- It is inappropriate for the Australian government to enter into any discussions with US officials in relation to AWB Ltd's export single desk, which is a multilateral – not bilateral – export marketing tool.
- Changes to Australian Single Desk marketing will make Australian farmers worse off and will not provide benefits to US wheat producers.
- Sanitary and Phytosanitary protocols should be addressed during FTA negotiations to ensure assessments are made on a sound scientific basis within a reasonable time frame.
- Market distorting domestic support measures place Australian wheat producers under an unfair advantage when attempting to compete on equal terms with US wheat farmers. Nevertheless, AWB Ltd recognises these would be difficult to address in a bilateral agreement and recommend they are dealt with at WTO level.