

Submission to the Senate Foreign Affairs, Defence and Trade References Committee

Australia-China Free Trade Agreement

WTO Watch Qld

WTO Watch Qld is a grass roots organization which has grown out of concern among members of civil society about where the neo liberal policies of successive governments, an unquestioning faith in the ability of the free market to deliver wealth and well-being to the majority of the people, and a complete acceptance of the policies of free trade as embodied in the World Trade Organization are leading us. WTO Watch Qld has no political connections.

CONSULTATION

WTO Watch Qld welcomes the opportunity to make a submission to the Senate Foreign Affairs, Defence and Trade References Committee regarding the proposed Australia China Free Trade Agreement and Australia's relationship with China. WTO Watch Qld has over the years provided submissions to various government inquiries, both state and federal, on matters concerning trade and related issues. These include, among others, the DFAT inquiry into the negotiations on the GATS, the Beattie government inquiry into PPP's, the JSCOT inquiry into the WTO, the White Paper on Trade and the FADTR inquiry into GATS and the AUSFTA. WTO Watch Qld has also participated in a number of face to face and phone consultations with the Department of Foreign Affairs and Trade.

Whilst the process of consultation on trade treaties has improved over the years, it is still far from satisfactory. NGO's such as WTO Watch Qld remain unconvinced that such consultation as now occurs with the NGO community is more than 'validatory consultation.' (Consultation that occurs to enable the government to say that consultation has occurred.)

For consultation to be meaningful, it is necessary for members of the public to have access to clear and understandable information to enable them to form opinions. So hand in hand with consultation goes education about trade issues and their pro's and con's. The information which is readily available (for example on the website of the Department of Foreign Affairs and Trade) is generally very one-sided, presenting the 'pro's' but not the 'con's'. The secrecy which attends the negotiation of trade treaties is a major problem for members of the community. Many of us believe that consultation which occurs with industry bodies is at a much higher level, despite the fact that it is the community which bears the impact (often negative) of trade agreements. WTO Watch Qld holds information stalls to talk to members of the general public about trade and globalisation, and has found a very low level of general knowledge about trade and trade agreements. The AUSFTA, however, was the exception to this rule. There was a good level of general knowledge about this agreement. This is no doubt because this agreement had significant media coverage and there was been a much higher level of public debate than has occurred with the many WTO agreements and other bilateral agreements to which Australia is party. This merely serves to illustrate the fact that it is possible to engage and educate the public if the will is there to do so.

TRANSPARENCY AND ACCOUNTABILITY

The Foreign Affairs and Trade References Committee brought down its report into the GATS and the AUSFTA in November 2003 after calling for submissions and holding public hearings in all capital cities. Recommendation 2 of the committee (p40) was that....

The government (should) introduce legislation to implement the following process for parliamentary scrutiny and endorsement of proposed trade treaties:

- a) *Prior to making offers for further market liberalisation under any WTO agreements, or commencing negotiations for bilateral or regional free trade agreements, the government shall table in both houses of*

parliament a document setting out its priorities and objectives, including comprehensive information about the economic, regional, social, cultural, regulatory and environmental impacts which are expected to arise.

- b) These documents shall be referred to the Joint Standing Committee on Foreign Affairs, Defence and Trade (FADTR) for examination by public hearing and report to the parliament within 90 days.*
- c) Both houses of Parliament shall then consider the report of the FADTR committee, and then vote on whether to endorse the governments proposal or not.*
- d) Once parliament has endorsed the proposal, negotiations may begin.*
- e) Once the negotiation process is complete, the government shall then table in Parliament a package including the proposed treaty together with any legislation required to implement the treaty domestically.*
- f) The treaty and the implementing legislation are then voted on as a package, in an 'up or down' vote, ie, on the basis that the package is either accepted or rejected in its entirety.*

The legislation should specify the form in which the government should present its proposal to parliament and require the proposal to set out clearly the objectives of the treaty and the proposed timeline for negotiations.

WTO Watch Qld supports this recommendation. For far too long, these trade treaties have been able to bypass the democratic process. This lack of democratic oversight by elected representatives has stifled public debate and constituted a significant failure of the democratic process.

A process such as the one outlined would also make available timely and meaningful information to our elected representatives at all levels of government, among whom there is a worrying lack of knowledge of the detail and implications of trade agreements.

WTO Watch notes reports that the results of the joint feasibility study into the proposed FTA with China will not be released for public consultation at the behest of the government in China. Whilst this lack of transparency may be normal government practice in China, it is not acceptable practice in Australia.

It should also be noted that the people of China will have no input into the terms of this proposed agreement. It is highly probable that the many millions of Chinese peasant farmers who are likely to lose their

livelihoods in the (albeit unlikely) event of Australia being able to gain access to the Chinese market for our agricultural produce would very much like to have their say.

SPECIFIC CONCERNS

We are today facing unprecedented challenges. These challenges are of such magnitude that it would be negligent were they not considered in the context of our relationship with China and the proposed FTA.

1) Peak Oil theory.

First postulated by US oil industry and government geologist Dr Marion King Hubbert in 1956, peak oil theory is now gaining mainstream acceptance. Dr Hubbert suggested that the rise and fall of production in individual oil wells would follow a similar pattern ie a sharp rise when the pressurised oil in the well is first spiked, increasing as more wells are sunk in the field, plateauing when half the oil has been extracted and tapering away as the remaining recoverable oil is extracted---the Hubbert bell curve. Once the well has peaked, pressure in the well declines, and more energy inputs are required to extract the remainder. Ridiculed at the time, the energy commission in the US has now conceded that he was right, and even the International Energy Commission has issued veiled warnings about future supply.

Fields in the US peaked in 1971, and the remaining oil is being extracted using cheap oil inputs from Saudi Arabia.

The majority of all known oil fields outside the middle east are in decline, and figures for middle east reserves are unreliable. However it should be noted that although Saudi Arabia—the world’s biggest producer—has in recent months claimed that it is able to increase production in response to increasing world demand, it has failed to do so.

Experts believe that new discoveries of significant size are unlikely. For every 4 barrels of oil used throughout the world today, only 1 barrel per day is being found, and demand is increasing rapidly.

<http://www.energybulletin.net/primer.php>

“Our industrial societies and our financial systems were built on the assumption of constant growth, growth based on ever more readily available cheap fossil fuels. Oil in particular is the most convenient and multi-purposed of these fossil fuels. Oil currently accounts for about 40% of the world's commercial energy, and about 90% of transportation energy. Oil is so important that the peak will have vast implications across the realms of geopolitics, lifestyle, agriculture and economic stability.”

If the experts are correct, and world oil supplies are in terminal decline, then it would seem self evident that those societies and nations that are as

self sufficient as possible, ie not dependent on imported goods, are likely to be the most viable.

Already 70% of the clothing and 60% of the footwear available in Australia comes from China. (Andrew Edgar, managing director of Yacca clothing---the Australian 24/11/02) No doubt, the figures for other goods are similar. It has certainly become increasingly difficult to buy Australian made goods.

As oil becomes increasingly expensive, and eventually unavailable for other than essential services, any competitive advantage China may currently have in terms of production costs will be eroded. Meanwhile, Australia will have lost its manufacturing capacity.

2) Global Warming.

Global warming is another 'theory' whose time has come. Even President Bush now acknowledges that global warming is real, and not some figment of a green imagination. Global warming is largely caused by burning fossil fuels—oil for transportation, coal for electricity generation. WTO Watch recommends that urgent action is necessary to prevent catastrophic damage to the planet and its eco systems and since it is generally acknowledged that Australia will be amongst the nations worst affected, such action has a degree of self interest.

WTO Watch submits that the necessary reduction in greenhouse gasses will not be achieved by increasing two way trade between China and Australia (or indeed any other country.)

Air travel alone is a significant contributor to climate change (and global dimming). Currently 600 million tonnes of carbon dioxide are pumped into the atmosphere from commercial jets alone, whilst the number of planes in the air keeps steadily rising. In the context of trade for example, increasing the number of Chinese tourists coming to Australia as a result of an FTA will, ironically, contribute to the destruction of the Great Barrier Reef, one of the prime attractions they come to see. Professor Ove Hoegh-Guldberg, director of the Centre for Marine Studies at the University of Queensland and a world expert on coral reefs, says that the Great Barrier Reef's coral could disappear in as little as 20 years as sea temperatures rise faster than expected as a result of global warming.

Transporting goods vast distances across the world using increasingly expensive and scarce oil supplies and producing thereby large quantities of greenhouse gasses when those goods can easily be made locally is likely to become, in the very near future, not just undesirable, but irresponsible and uneconomic.

3) Global Dimming

Global dimming is the result of tiny airborne pieces of soot, ash and sulphur compounds reflecting back the heat of the sun.

By allowing less sunlight to reach the Earth, global dimming is cushioning us from the full impact of global warming, climatologists say. They fear that as we burn coal and oil more cleanly, or as we reach the end of oil supplies, and dimming is reduced, the full effects of global warming will be unleashed.

The worst-case scenario has temperatures rising by up to 10 degrees by the end of the century - twice more than previously thought. A rise in temperature of this magnitude will result in melting of the Greenland ice sheet which would result in a rise in sea levels of 6 metres, wiping London, New York, Bangladesh and other low lying centres off the map. Scientists have also linked global dimming to the failure of rains in sub-Saharan Africa - and the catastrophic droughts that hit Ethiopia in the 1980s. They worry that the same thing will happen again in areas like Asia, home to billions of people.

Climate scientists are saying that our climate will be radically altered, rendering many parts of the planet uninhabitable - unless concerted action is taken to combat both global dimming and global warming.

This has grave implications for Australia's trade. If, as the experts predict, El Nino events become more frequent and more severe, Australia's farmlands are likely to become less productive. If, as the experts predict, oil supplies are indeed declining rapidly, supplies of fertilizers and pesticides (all made from oil or natural gas) will become unavailable, and Australia's farmlands will become less productive.

A free trade agreement with China, by increasing the transport of goods between the two countries will exacerbate this already serious situation.

For further information on global dimming and peak Oil Theory, see Appendix 1

a) a speech made by Mr McNamara (ALP Hervey Bay) taken from the Queensland government Hansard in support of the Petroleum and Other Legislation Amendment Bill.

b) a summary from the BBC's website of the Horizon programme which dealt with global dimming.

GENERAL CONCERNS

In a triumph of ideology over common sense, the government has acceded to the requests of the Chinese government and has apparently

agreed to recognize China as a market economy before negotiations even start. Under WTO rules, China is not yet recognised as a market economy because not all prices are based on market costs and this makes it difficult to determine whether goods are being dumped or sold at below cost. Not only will it now be difficult to make any determination about dumping, but the government has given away—for no gain—a very significant bargaining tool.

Environmental regulations in China are lax or non-existent and in the rush for ‘growth’, environmental degradation is occurring on a massive scale. Air quality in Beijing routinely hovers at just below hazardous levels during the winter months and China hosts 10 of the most polluted cities in the world. ‘In the central part of China, the people are being poisoned. The rivers and the intricate canal systems that branch off these rivers run black....Tanneries, paper mills, fertilizers and raw sewerage have added to a potion that has now fouled the ground water.’ (The Stinking Secrets of China’s Growth. The Financial Review, 16/11/04) In liberal democracies, most of the pressure to regulate to protect the environment has come from the people. In China, where human rights and freedom are restricted, the people have no such freedom to take action to protect their environment. Should Australia be giving preferential treatment to a country where the people have no control over their destiny?

The plight of workers in China is well documented and it is not the intention of this submission to do more than agree with Greg Combet, Secretary of the Australian Council of Trade Unions, who says ‘It is fundamental that respect for international labour standards form the basis for any free trade agreement. Chinese workers must have basic rights and Australian workers should not have to compete in a rigged market.’

This submission would also like to note that key industry and union figures have major concerns about a free trade agreement with China and that Australia’s trade deficit with China was \$5 billion in 2003 -2004. Australia’s exports to China are mostly farm produce and minerals, and given the impact that global warming will almost certainly have on Australia’s agricultural sector, and given the fact that sooner or later world opinion will force the phasing out of coal as an energy source, that deficit can only grow. In the meantime, the demise of the manufacturing sector in the face of cheap (and possibly dumped) imports from China will return Australia to the status of the 1950’s—that of a farm and a mine.

APPENDIX 1

a) From the Qld Parliament Hansard

Mr McNAMARA (Hervey Bay-ALP) (8.39 pm): I rise to support the Petroleum and Other Legislation Amendment Bill. This bill is necessary to ensure consistency and efficiency in the administration of the petroleum and pipeline industries in Queensland, including implementing our vital coal seam gas regime. I say 'vital' because we will soon be faced with the effects of the rundown of the world's oil reserves after the advent of peak oil.

Peak oil represents the most serious and immediate challenge to our prosperity and security. It will impact on our lives more certainly than terrorism, global warming, nuclear war or bird flu. While it may not be a term with which members are familiar now, I predict it will come to dominate debate in this place over the next 10 years.

The concept of peak oil was identified in 1956 by the late US oil industry and government geologist M King Hubbert. Dr Hubbert suggested that the rise and fall of oil production in a nation, or indeed the world, would follow a pattern for individual wells; that is, rising sharply from when oil under pressure in the ground is first spiked, increasing as more wells are sunk, plateauing when half the oil has been extracted and tapering away as the remaining recoverable oil is pumped out.

This is now referred to as the Hubbert curve. From the halfway peak, all oil flows decrease as the pressure in the oil basin declines. The cost of recovering the oil rises exponentially from this point as it has to be extracted with greater degrees of technical difficulty, such as flooding the reservoir with water to float residual oil into a recoverable position.

Dr Hubbert worked for the United States Geological Survey as a senior research geophysicist for 12 years. He was employed as director of Shell's research laboratory in Houston for 20 years. He taught at Stanford University, the Massachusetts Institute of Technology and the Johns Hopkins University and made a number of outstanding contributions to the field of geophysics. Regrettably, his modelling of peak oil was ignored by government and rejected by industry, but he has been proven right.

As the US energy administration now concedes, oil production in the USA peaked in 1971, as he predicted it would, and has been in steady decline since. Production for all nations outside the Middle East peaked in 1997. The scientific community is currently involved in a vigorous debate about the anticipated date of world peak oil. I quote from an article published in the Scientific American of March 1998 by Dr Colin Campbell and Jean Laherrere. It states-

Using several different techniques to estimate the reserves of conventional oil and the amounts still left to be discovered, we conclude that the decline will begin before 2010.

I will say more about the date of world peak oil in just a moment, but one fact is indisputable: when the Middle East peaks between 2006 and 2020 the world will have passed peak oil, and oil prices will commence to climb irreversibly until all recoverable oil reserves are exhausted within 50 years.

The advent of world peak oil will change our way of life forever. The concept of peak oil is now universally accepted by geologists and mining engineers. It has recently gained acceptance by highly respected oil industry experts such as banker Matt Simmons of Simmons and Co. International and the vastly experienced Washington based energy consulting firm PFC Energy. Matt Simmons has 30 years experience in one of the world's largest energy investment banking groups and served on President George W Bush's Energy Advisory Committee between 2001 and 2004. I table an article by Mr Simmons published in Petroleum News in August 2004 in which he concluded that peak oil 'could be the biggest energy issue the world has ever faced'. I also table a copy of an article from the Business Magazine of 7 November 2004 that contains confirmation of peak oil for the first time by a senior oil industry executive, Francis Harper of BP. He expects global oil production to peak between 2010 and 2020.

Picking the exact date of the peak is difficult because one has to rely on data from oil companies and OPEC members about their oil reserves. Members may be aware that the Royal Dutch/Shell Group on 5 February 2005 cut its 2002 published estimate of its total oil and gas holdings by one-third. It reduced its 2003 estimate of oil reserves by 1.4 billion barrels, or 9.8 per cent, and admitted that two thirds of its listed prospective wells in 2004 were in fact dry holes. Shell has been fined \$US151.5 million for misleading stock markets. The US justice department is undertaking a criminal investigation. Given that company value is directly related to oil reserves, it is not surprising that Shell has lost its top-tier credit rating. Oil companies have a vested interest in overstating reserves, and Australian company regulators should be especially vigilant in this regard.

What does it mean if peak oil is not 2020 but 2006 because oil companies and OPEC members have overstated reserves? In the late 1980s, six of the 11 OPEC members revised their reserve oil figures upwards by amounts ranging from 42 per cent to 197 per cent. If those estimates were merely an effort to manipulate OPEC production quota rules, it means that we have a serious problem right now.

There are many things the Beattie government is doing that will help soften the impact of peak oil whenever it occurs. We are supporting research and development in coal, hydrogen, solar, wind and biomass power. This is all important and must be continued and indeed accelerated. I note that the state development minister, Tony McGrady, recently announced a \$250,000 grant to help the CSR mill at Sarina become Australia's chief ethanol producer. Ergon Energy is investing in wind farm technology, an energy source that has the best energy return on energy invested ratio of all the alternative energy sources. This is an excellent initiative.

We should make no mistake: there is no silver bullet to defeat the most serious impacts of peak oil. We will not find sufficient new oilfields to meet current demand, let alone to feed the soaring demand of emerging economies like China. New oil discovery across the world peaked in 1960 and we now find one barrel of oil for every four we consume. The six giant Saudi oilfields that produce the entire eight million barrels a day of Saudi production are all aged between 40 and 65 years. Nothing approaching the giant Ghawar field size has been found in the last 50 years.

We have coal for electric power for 200 years, but coal cannot

effectively replace oil. While it is possible to make synthetic fuels from coal and while hydrogen extracted from coal can power a fuel cell, these processes use more energy than they produce. In other words, they are net energy losers. This is the unavoidable impact of the second law of thermodynamics. Nuclear power suffers from the same net energy loss problem, as well as the known radiation and waste storage risks.

The only effective replacement energy source for oil is liquefied natural gas, but it is subject to the same Hubbert curve as oil and may even be disappearing at a faster rate. All other energy sources combined cannot replace the volume of energy we derive from oil. For some alternative energy sources, such as ethanol, far more energy is expended in planting, fertilising, growing, harvesting and processing than its end product renders.

No other energy source can fly planes or drive heavy trucks and machinery. Further, most of the world's fertiliser is now made from natural gas, and most of the world's pesticide is made from oil. As fuel prices double and then double again in the years after the peak, we will be faced with some very hard choices in the fields of agriculture, food distribution and transport generally.

I congratulate the government on its recent decision to preserve agricultural land in the southeast corner. The challenges we face after peak oil will require localised food production and industry in a way not seen for 100 years. Local rail lines and fishing fleets will be vital to regional communities. Self-contained communities living close to work, farm, services and schools will not be merely desirable; they will be essential.

There is much more to say on this topic. I note that it has now found its way into the mainstream media via a front-page story in the Wall Street Journal of 21 September 2004 and an editorial in the Washington Times of 2 November 2004. I welcome that public discussion and suggest that this topic should be considered in detail in Australia and in this place. For members who are interested in a very thorough treatment of this issue I recommend Richard Heinberg's detailed 2003 book *The Party's Over*.

Let me conclude with this simple statement of fact. Peak oil is coming- soon- and no alternative energy source available to us today or in the foreseeable future is going to make up the total energy shortfall. The beginning of the end of oil age is upon us, and it is time to respond fully to that challenge. The petroleum bill before the House is a necessary step in that process. I congratulate the minister on this reform as well as on last year's Petroleum and Gas (Production and Safety) Act and the Petroleum and Other Legislation Bill that collectively regulate and encourage the exploration and development of petroleum and gas resources in Queensland. I commend the bill to the House.

b) From the BBC's Horizon site

(http://www.bbc.co.uk/sn/tvradio/programmes/horizon/dimming_prog_summary.shtm)

m1 - there is also a full transcript at

http://www.bbc.co.uk/sn/tvradio/programmes/horizon/dimming_trans.shtml):-

We are all seeing rather less of the Sun. Scientists looking at five decades of sunlight measurements have reached the disturbing conclusion that the amount of solar energy reaching the Earth's surface has been gradually falling. Paradoxically, the decline in sunlight may mean that global warming is a far greater threat to society than previously thought.

The effect was first spotted by Gerry Stanhill, an English scientist working in Israel. Comparing Israeli sunlight records from the 1950s with current ones, Stanhill was astonished to find a large fall in solar radiation.

"There was a staggering 22% drop in the sunlight, and that really amazed me," he says.

Intrigued, he searched out records from all around the world, and found the same story almost everywhere he looked, with sunlight falling by 10% over the USA, nearly 30% in parts of the former Soviet Union, and even by 16% in parts of the British Isles. Although the effect varied greatly from place to place, overall the decline amounted to 1-2% globally per decade between the 1950s and the 1990s. Gerry called the phenomenon global dimming, but his research, published in 2001, met with a sceptical response from other scientists. It was only recently, when his conclusions were confirmed by Australian scientists using a completely different method to estimate solar radiation, that climate scientists at last woke up to the reality of global dimming.

Dimming appears to be caused by air pollution. Burning coal, oil and wood, whether in cars, power stations or cooking fires, produces not only invisible carbon dioxide (the principal greenhouse gas responsible for global warming) but also tiny airborne particles of soot, ash, sulphur compounds and other pollutants.

This visible air pollution reflects sunlight back into space, preventing it reaching the surface. But the pollution also changes the optical properties of clouds. Because the particles seed the formation of water droplets, polluted clouds contain a larger number of droplets than unpolluted clouds.

Recent research shows that this makes them more reflective than they would otherwise be, again reflecting the Sun's rays back into space. Scientists are now worried that dimming, by shielding the oceans from the full power of the Sun, may be disrupting the pattern of the world's rainfall. There are suggestions that dimming was behind the droughts in sub-Saharan Africa which claimed hundreds of thousands of lives in the 1970s and 1980s. There are disturbing hints the same thing may be happening today in Asia, home to half the world's population. "My main concern is global dimming is also having a detrimental impact on the Asian monsoon," says Prof Veerhabhadran Ramanathan, one of the world's leading climate scientists. "We are talking about billions of people."

But perhaps the most alarming aspect of global dimming is that it may have led scientists to underestimate the true power of the greenhouse effect.

They know how much extra energy is being trapped in the Earth's atmosphere by the extra carbon dioxide (CO₂) we have placed there. What has been surprising is that this extra energy has so far resulted in a temperature rise of just 0.6°C.

This has led many scientists to conclude that the present-day climate is less sensitive to the effects of carbon dioxide than it was, say, during the ice age, when a similar rise in CO₂ led to a temperature rise of 6°C. But it now appears the warming from greenhouse gases has been offset by a strong cooling effect from dimming - in effect two of our pollutants have been cancelling each other out. This means that the climate may in fact be more sensitive to the greenhouse effect than thought.

If so, then this is bad news, according to Dr Peter Cox, one of the world's leading climate modellers. As things stand, CO2 levels are projected to rise strongly over coming decades, whereas there are encouraging signs that particle pollution is at last being brought under control. "We're going to be in a situation, unless we act, where the cooling pollutant is dropping off while the warming pollutant is going up. That means we'll get reduced cooling and increased heating at the same time and that's a problem for us," says Cox.

Even the most pessimistic forecasts of global warming may now have to be drastically revised upwards. That means a temperature rise of 10°C by 2100 could be on the cards, giving the UK a climate like that of North Africa, and rendering many parts of the world uninhabitable. That is unless we act urgently to curb our emissions of greenhouse gases.

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