

share of world trade, political importance or significance of their financial contributions to the body.

8.101 Among the most significant ICAs, which involve both Australia and Latin American countries, are the International Wheat Agreement (IWA) and the International Sugar Agreement (ISA).

International Wheat Council (IWC)

8.102 The International Wheat Council is the administrative body of the International Wheat Agreement. It represents the interests of both wheat exporting and importing countries. The IWC administers the Wheat Trade Convention, an agreement among member nations to expand international cooperation in dealing with wheat and other grain problems worldwide. This agreement is designed to encourage international grain commerce and contribute to the stability of the international grain market.⁸⁷

8.103 Argentina is a member of the IWC as well as being a member of the big five world wheat exporters who meet informally outside the IWC. Other members of this informal group are Australia, the United States, Canada, and the European Community.⁸⁸

8.104 Although Australia and Argentina are competitors on the world grain market they have common concerns with conditions and situations that may affect both of them adversely. DFAT told the Committee that Australia and Argentina share common positions on substantive issues related to the wheat trade. The two countries have used the IWC as a forum to:

"... expose and criticise the trade distorting policies of the EC and US in relation to wheat and grain trade."⁸⁹

International Sugar Organisation (ISD)

8.105 Australia and the sugar-exporting nations of Latin America are signatories of the ISA and are members of the International Sugar Organisation. Currently the ISA is an

⁸⁷ *Encyclopedia of Associations: International Organisations*, 26th Edition, Part 1, Descriptive Listings, Gale Research, Detroit, 1992.

⁸⁸ DFAT, submission, Committee Hansard, p. 127 and Department of Primary Industries and Energy, submission, Committee Hansard, p. 1195.

⁸⁹ DFAT, submission, Committee Hansard, p. 127.

administrative agreement and the ISO is essentially a consultative body providing a forum for discussion and the exchange of information regarding the sugar industry.⁹⁰

8.106 Within the ISO there is a difference of opinion between Australia and the Latin American members in respect to the International Sugar Agreement. The ISA contains provision for consideration of an economic agreement aimed at price stabilisation and Latin American countries favour the retention of such a provision in the current renegotiation of the ISA. However, Australia is opposed to an economic ISA and therefore sees no need for this provision in the agreement.⁹¹

8.107 Despite this particular difference of opinion, generally speaking, Australia and Latin American sugar producers share a common position in being critical of the sugar industry policies of the United States and the European Community.⁹²

International Wool Secretariat (IWS)

8.108 The International Wool Secretariat is composed of the wool boards, or corporations, of Australia, New Zealand, South Africa and Uruguay.⁹³ The Secretariat encourages growth in the wool industry through advertising and the international promotion of wool products. Other activities the IWS is involved in include research on wool and wool based materials, development of new products, fashion research and economic analysis.⁹⁴

8.109 Argentine membership has been on the agenda of IWS for some years but has not yet been finalised. According to the Australian Department of Primary Industries and Energy, Australia would welcome Argentine membership of the International Wool Secretariat. However, a problem preventing such membership of the Secretariat relates to difficulties in Argentina putting forward a single organisation to represent that country's wool industry on the IWS.⁹⁵

⁹⁰ Department of Primary Industries and Energy, submission, Committee Hansard, p. 1195. At present the ISO is composed of 36 sugar exporting and 9 importing countries. Latin American members of the ISO include: Argentina, Belize, Bolivia, Brazil, Colombia, Costa Rica, Ecuador, El Salvador, Guatemala, Guyana, Honduras, Mexico, Nicaragua, Panama, Peru and Uruguay.

⁹¹ Department of Primary Industries and Energy, submission, Committee Hansard, pp. 1194-5.

⁹² DFAT, submission, Committee Hansard, p. 127.

⁹³ Department of Primary Industries and Energy, submission, Committee Hansard, pp. 1195.

⁹⁴ *Encyclopaedia of Associations: International Organisations*, 26th Edition, Part 1, Descriptive Listings, Gale Research, Detroit, 1992, p. 194.

⁹⁵ Department of Primary Industries and Energy, submission, Committee Hansard, pp. 1195.

International Tropical Timber Organisation (ITTO)

8.110 The International Tropical Timber Organisation composed of timber producers and consumer nations, was established in 1985. The ITTO administers the provisions of the United Nation's International Tropical Timber Agreement. This agreement, signed in 1983, was created to provide a framework for cooperation and consultation between producers and consumers of tropical timber. The Organisation encourages the development of policies aimed at the sustainable utilisation and conservation of tropical forests. The ITTO also promotes the expansion and diversification of international trade in tropical timber.⁹⁶

8.111 Seven members of the ITTO are from Latin America, namely Bolivia, Brazil, Colombia, Ecuador, Honduras, Panama and Peru. Australia is a consumer member of the Organisation. The submission from the Department of Primary Industries and Energy to the inquiry states that:

"The ITTO reaches decisions by consensus between producer and consumer nations. While it is inevitable that the interest and concerns of Australia will differ in some respects from those of the Latin American members, to date the issues under consideration by the ITTO have been addressed in a cooperative and constructive spirit."⁹⁷

Inter-American Tropical Tuna Commission (IATTC)

8.112 Australia maintains multilateral contacts with Latin American countries in a number of bodies of which Australia is not a formal member. For example, the Bureau of Rural Resources (BRR) of the Department of Primary Industries and Energy maintains contacts with the Inter-American Tropical Tuna Commission. The IATTC, whose members are Japan, France, Nicaragua, Costa Rica, Panama and the United States, manages tuna stocks in the Eastern Pacific. The Commission conducts studies on Pacific Ocean tuna and dolphins associated with tuna and makes recommendations to member countries on conserving tuna and dolphin stocks. The BRR's involvement with the Commission is limited to supplying technical information and methodologies related to fisheries science.⁹⁸

⁹⁶ *Encyclopedia of Associations: International Organisations*, op. cit., p. 260.

⁹⁷ Department of Primary Industries and Energy, submission, *Committee Hansard*, pp. 1196.

⁹⁸ *Encyclopedia of Associations: International Organisations*, op. cit., p. 307. See also Department of Primary Industries and Energy, submission, *Committee Hansard*, pp. 1196. The Bureau of Rural Resources also maintains contacts with other organisations on which Latin American countries have members, such as the International Union of Forest Research.

8.113 The Australian Fisheries Service of the Department of Primary Industries and Energy also maintains contact with organisations which have Latin American members. For example, the Fisheries Service is involved in the work of the Fisheries Cooperation and Development Task Force of the Pacific Economic Cooperation Committee (PECC). Mexico, Peru and Chile are members of PECC. According to the Department of Primary Industries and Energy the PECC's Task Force:

"... has been instrumental in developing fisheries cooperation among Pacific Island countries and Pacific Latin America through the establishment of a Trans Pacific Fisheries Consultative Committee."⁹⁹

General Agreement on Tariffs and Trade (GATT)

8.114 In recent years one of the most significant areas of multilateral cooperation between Australia and Latin America has taken place in the context of the General Agreement on Tariffs and Trade. DFAT states in its submission to the inquiry that:

"Australia, as a young middle-sized country with a trade profile of high dependency on bulk agricultural and mineral commodities, has developed a high level of cooperation with many Latin American countries in the GATT and other international commodity forums."¹⁰⁰

8.115 The GATT was negotiated in 1947 and entered into force on 1 January 1948. Although the agreement was intended as an interim arrangement it has remained as the only international instrument laying down trade rules accepted by countries responsible for nearly 90 per cent of the world's trade. In December 1990 there were 100 contracting parties to the agreement and another 28 countries applying GATT rules on a de facto basis.¹⁰¹

8.116 Of the 21 separate states or entities which comprise Latin America, 16 are contracting parties to GATT.¹⁰² Two additional Latin American countries, Paraguay

⁹⁹ Department of Primary Industries and Energy, submission, Committee Hansard, p. 1196.

¹⁰⁰ DFAT, submission, Committee Hansard, p. 102.

¹⁰¹ *The Statesmart's Year-Book 1991-1992*, Macmillan Press, London, 1991, p. 25.

¹⁰² These countries and their year of accession are:

Argentina	(1967)	Belize	(1983)
Brazil	(1948)	Costa Rica	(1990)
Bolivia	(1990)	El Salvador	(1991)

and Honduras, are seeking membership of GATT and their applications are being supported by Australia.¹⁰³

8.117 All Latin American members of GATT are classed as developing countries. Australia has put in place a number of arrangements designed to assist developing countries in the area of trade. Under a specific provision of GATT, developing countries are entitled to receive concessional tariff treatment under Australia's Generalised System of Preference (GSP).¹⁰⁴

8.118 Australia's willingness to provide tariff advantages to developing countries has assisted Australia in furthering its economic relations with several countries in Latin America. DFAT states that:

"Australia's high profile and respected image in the GATT has resulted in a longstanding and close relationship with a number of Latin American countries."

In particular, DFAT pointed to a substantial increase in exports from Argentina and Brazil that has resulted from the operation of the Australian GSP during the last ten years.¹⁰⁵

8.119 GATT functions both as a multilateral treaty, that seeks to lay down a common code of conduct in international trade and trade relations, and as a forum for negotiation and consultation to overcome trade problems and reduce trade barriers between countries.¹⁰⁶

8.120 There have been seven rounds of multilateral trade negotiations completed within GATT since it was first established. On 20 September 1986 agreement was reached within GATT to launch the Uruguay Round of multilateral trade negotiations. This round was originally scheduled for completion in December 1990. However, the

Chile	(1949)	Guatemala	(1991)
Colombia	(1981)	Mexico	(1986)
Peru	(1951)	Nicaragua	(1950)
Uruguay	(1953)	Suriname	(1978)
Venezuela	(1989)	Guyana	(1966)

DFAT, submission, Committee Hansard, p. 102.

¹⁰³ *ibid.* For information on reservations some South American countries have regarding GATT see Keith Hughes, "Gatt and Some International Trade Issues", *Background Papers (Economics and Commerce Group)* Commonwealth Parliamentary Library, 17 June 1991, pp. 4-5.

¹⁰⁴ Under the Australian tariff preference system (ASTP) a 5-point percentage preference is available to all developing countries, including the countries of Latin America.

¹⁰⁵ DFAT, submission, Committee Hansard, p. 102.

¹⁰⁶ *The Statesmart's Year-Book 1991-1992*, op. cit., p. 25.

deadline was not met. By December 1990 there were 106 countries participating in these negotiations. Negotiations resumed in February 1991 and have continued with repeatedly deferred deadlines. The objective of the negotiations is to:

"... bring about further liberalisation and expansion of world trade; to strengthen the role of GATT and improve the multilateral trading system; to increase the responsiveness of GATT to the evolving international economic environment; and to encourage co-operation in strengthening the inter-relationship between trade and other economic policies affecting growth and development."¹⁰⁷

8.121 In order to pursue these objectives 15 negotiating committees were established as part of the Uruguay Round. In early 1991 the original 15 negotiating groups were replaced with seven dealing with access issues, agriculture, textiles, rules, trade related intellectual property rights (TRIPs), institutional issues and services.¹⁰⁸

8.122 The failure so far to conclude a general agreement on the entire package of issues being negotiated under the Uruguay Round is seen by most observers as being principally caused by a long standing dispute between the European Community (EC) and the United States over agricultural trade reform.¹⁰⁹

Agriculture - the Cairns Group

8.123 The Cairns Group of Fair Trading Nations was formed in Cairns in August 1986 as part of the Uruguay Round of multilateral trade negotiations. Of the Latin American GATT members, Argentina, Brazil, Chile, Colombia and Uruguay are members of the Cairns Group. The other members of the Group are Australia, Canada, Hungary, Indonesia, Malaysia, New Zealand, the Philippines and Thailand.¹¹⁰

¹⁰⁷ *The Statesman's Year-Book 1991-1992*, op. cit., p. 26. See also Keith Hughes, op. cit., p. 3.

¹⁰⁸ For a more detailed listing of the issues examined under the Uruguay Round and the Round's history see *The Statesman's Year-Book 1991-1992*, op. cit., p. 26. See also Keith Hughes, op. cit., p. 3.

¹⁰⁹ *Keesing's Record of World Events*, Volume 35, Number 2, 1989, p. 36508. See also Richard A Higgott and Andrew Fenton Cooper, "Middle Power Leadership and Coalition Building: Australia, the Cairns Group, and the Uruguay Round of Trade Negotiations", *International Organisation*. Vol. 44, No. 4, Autumn 1990, p. 623.

¹¹⁰ Committee Hansard, p. 199. See also Higgott and Cooper, op. cit., p. 590.

8.124 The DFAT considers that Australia's longstanding friendship and cooperation with many Latin American countries through GATT and other international forums:

"... was an important factor in the inclusion of the five Latin American members of the Cairns Group."¹¹¹

Australia's chairmanship of the Cairns Group has acted to further strengthen ties with the Latin American members.

8.125 The Cairns group is composed of countries which are dissimilar in respect of their comparative levels of economic development and the nature of their political systems. Although Australia and Canada, which have played central roles within the Group, can be described as middle powers, the Cairns Group is primarily composed of developing countries, particularly agricultural exporting ones. The Group has been described

"... as a coalition unlike any other in the contemporary international political economy. Members are, in simple terms, from both sides of the East-West and North-South divides in the international order."¹¹²

8.126 Despite differences between members of the Group they share important similarities. Each of the countries has a significant internationally competitive export-oriented agricultural sector with agricultural exports representing between 18% and 73% of their exports. The members of the Group provide between 21.4% and 91.8% of the world's market in thirteen different commodities. The agricultural exports of the group are considerably larger than those of the United States and are second only to those of the European Community.¹¹³

8.127 The Cairns Group emerged as a response to the increasingly intense competition in the international agricultural arena between the United States and the European Community. The countries of the Group were faced with the prospect of losing their traditional markets due to the subsidisation of producers in the United States and Europe. To counter these developments the countries of the Cairns Group believed they had to take collective action to save their markets.¹¹⁴

¹¹¹ DFAT, submission, Committee Hansard, p. 102.

¹¹² Higgott and Cooper, op. cit., p. 601.

¹¹³ Higgott and Cooper, *ibid.*, p. 604. The combined GDP of the Group at close to \$1.06 trillion is not much less than that of Japan at \$1.3 trillion.

¹¹⁴ For information on the issues involved in the reform of agriculture internationally and the arguments presented by the EC in defence of its position see Higgott and Cooper, *ibid.*, pp. 597, 599.

8.128 The aim of the Cairns Group is to secure major reform in international agricultural trade. The aims of the Group are set out in two major documents, the *Declaration of the Ministerial Meeting of Fair Traders in Agriculture*, adopted at the Group's meeting in Cairns on 26 August 1986 and *Comprehensive Proposal for the Reform of Agriculture*, adopted by the Group at a meeting held in November 1989. The 1989 proposal called for the full integration of agricultural trade in the GATT process, which over ten years would ensure a stronger market-oriented agricultural system.¹¹⁵

8.129 Two of the main reforms of the world agriculture system being pressed for by the Cairns Group are:

- . the reduction of distorting internal support measures; and
- . the phasing out of existing export subsidies and the prohibition of new ones.¹¹⁶

8.130 An article published in the journal *International Organisation* in 1990 described the behaviour of the Cairns Group in the Uruguay Round

"... as one geared to securing its desired aim of substantial agricultural reform via the mitigation of tensions and conflict between the major actors."

In other words:

"... the fundamental goal of the Cairns Group has remained that of restraining and modifying the behaviour of larger, more powerful actors through the strengthening of order in the world economy."¹¹⁷

8.131 As noted by the authors of the article, the:

"... members of the Cairns Group, led by Australia, have come to emphasise reforms in the global agricultural system that would reward efficiency and free market forces."¹¹⁸

¹¹⁵ Higgott and Cooper, *ibid.*, p. 612.

¹¹⁶ *ibid.*, p. 613.

¹¹⁷ *ibid.*, p. 600.

¹¹⁸ *ibid.*, p. 605.

According to the then Secretary of the DFAT, Mr Woolcott, the Cairns Group has turned into:

"... a very useful and I think important instrument of Australian trade policy diplomacy."¹¹⁹

8.132 The Department put the view that:

"... [the] Cairns Group has been a major force, indeed the "third force" in the Uruguay Round. Its role in setting the agenda and providing an important "middle way" for progress when negotiations between the United States and the EC have appeared to be heading for deadlock has been of the utmost significance."¹²⁰

8.133 Australia's prominent position in the Cairns Group has been invaluable in strengthening and furthering contacts with Latin American members of the Group, who for their part have played significant roles in promoting the interests of the Group. In its submission to the inquiry DFAT states that:

"The Latin American countries are strongly committed to the Group's objectives and have played an active role in the Group and in pressing the critical nature of agriculture in the Uruguay Round negotiations."¹²¹

8.134 As with any significant organisation with a diverse membership, the Cairns Group of countries has not been without some internal problems. For example, both Brazil and Argentina have gone further than the Group in demanding special and differential treatment for their agricultural economies. The harder line views of Argentina and Brazil are the result of both nations feeling under pressure to obtain funds to cope with their enormous debt problems.

8.135 Australia has played a prominent role in defusing tensions which have surfaced from time to time within the Cairns Group, due to differences in views and priorities held by member countries. In dealing with these internal problems Australia has been brought into close contact with several of the Latin American countries.¹²²

¹¹⁹ Committee Hansard, p. 199.

¹²⁰ Higgott and Cooper, op. cit., p. 625.

¹²¹ DFAT, submission, Committee Hansard, p. 103

¹²² Higgott and Cooper, op. cit., pp. 617-8.

8.136 Much of the success of the Cairns Group in holding together in the face of in both internal and external pressures has been attributed by some observers to "Australian entrepreneurial and technical leadership."¹²³

Trade in Services, TRIPS, Market Access

8.137 As might be expected, the broad coincidence of views of Latin American members of the Cairns Group and Australia does not necessarily extend to other Latin American members of GATT. For instance, while Mexico generally supports the goals of agricultural liberalisation, as an importer of some agricultural products, it has some concerns about possibly higher import prices that might result from agricultural liberalisation.

8.138 On a number of issues the Latin America countries have sought special treatment for developing countries. For example, Peru has done so in the case of agriculture. Most Latin American countries have sought the inclusion of special and differential rights and obligations in relation to trade in services. More recently, however, Latin American countries have joined Australia, and other countries in opposing United States proposals to weaken this section of the agreement.

8.139 Another area where differences between Australia and the Latin American countries is evident is on the question of trade-related intellectual property rights (TRIPs).

8.140 Australia, along with most industrialised countries, favours a comprehensive GATT based agreement covering standards for the protection of intellectual property and measures for the enforcement of intellectual property rights. However, Latin American countries, in general, have opposed the inclusion of TRIPS in the GATT negotiations. They have argued that the World Intellectual Property Organisation is the appropriate body to set international standards in these areas. The Latin American countries believe that any GATT agreement should be limited to combating the trade in counterfeit and pirated goods.¹²⁴

8.141 Nevertheless, it appears that some Latin American countries are changing their views on TRIPs. According to DFAT, since negotiations first started Latin American:

"... participation has been more constructive through their involvement in the various formal and informal negotiating groups."

¹²³ *ibid.*, p. 627.

¹²⁴ DFAT, submission, Committee Hansard, pp. 103-4, 105.

The Department states that in Latin America:

"There seems to be an increasing recognition that intellectual property protection is necessary to stimulate indigenous technology development through local innovation as well as to encourage technology transfer."¹²⁵

8.142 With regard to market access negotiations, it is somewhat disappointing for Australia that the commitments offered by Latin American countries have so far been limited. Mexico and Brazil are the only countries in the region which have offered to make significant tariff reductions.¹²⁶ In its submission to the inquiry DFAT states that:

"Most other Latin American countries have offered to bind tariffs at ceilings often well above present nominal rates, so that the net effect is for an apparent increase in maximum tariff levels rather than a negotiated reduction."¹²⁷

8.143 It is the hope of the Committee that more Latin American countries will see their way clear, as negotiations in the Uruguay Round proceed, to increase their offers to reduce tariffs and other barriers to trade as part of international efforts to liberalise world trade.

Regional Cooperation

8.144 In addition to furthering our relations with individual countries in the Latin American region, Australia's multilateral contacts with these countries have also shown the potential that exists for the possible development of other formal and informal coalitions between Australia and Latin American nations.

8.145 In its submission to the inquiry DFAT states that:

"The effectiveness of the Cairns Group in the Uruguay Round should ensure that both sides are alert to the

¹²⁵ *ibid.*, p. 104.

¹²⁶ Mexico has offered a significant tariff reduction (19%) and Brazil has undertaken significant unilateral tariff cuts. Submission, Committee Hansard, p. 105. It must also be acknowledged that Chile already has low across the board tariffs in place.

¹²⁷ DFAT, submission, Committee Hansard, p. 105.

possibility of future ad hoc coalitions on particular issues of mutual interest.¹¹²⁸

The Committee however formed the impression during the course of the inquiry that little has so far been done, to date, to actively look for and exploit such opportunities.

8.146 One such important area where there may well be scope for mutually beneficial contact is the development of closer links between Australia and some of the Latin American countries in the context of regional trade groupings.

8.147 There is a bewildering array of regional arrangements amongst the countries of Latin America. Some have a long history, others have sprung up or been revitalised in recent years. They include bilateral free trade agreements between several pairs of countries, small groupings of countries at similar stages of economic development as well as region-wide organisations such as the Latin American Integration Association (ALADI). Most are confined to countries of the region although some important ones, like the proposed North America Free Trade Agreement seek to link one and possibly, in time, more Latin American countries to the very large economies of North America. As DFAT put it in its submission:

"A new enthusiasm for regional integration has gripped the region, although differing rates of economic reform and continuing inflation and debt problems have impeded progress."¹²⁹

However the submission concludes that the prospects for regional economic integration look better than ever before.¹³⁰

8.148 The DFAT submission gives a brief outline of the following regional arrangements.

- Organisation of American States (OAS)
- Latin American Economic System (SELA)
- Economic Commission for Latin America and the Caribbean (ECLAC)
- Inter-American Development Bank (IADB)
- Andean Pact
- Latin American Integration Association (ALADI)
- The Rio Group
- United States "Enterprise for the Americas" Initiative
- Bilateral framework agreement with the United States
- North America Free Trade Agreement (NAFTA)
- Southern Cone Common Market (MERCOSUR)

¹²⁸ *ibid.*, p. 14.

¹²⁹ Submission, Committee Hansard, p. 61.

¹³⁰ Committee Hansard, p. 61.

Latin American Economic Integration Fund
Southern Cone Agricultural Cooperation Council (CONASUR)
Mexico/Central America Economic Complementarity Agreement
Group of Three Energy Basin Initiative (COMEVEN)
Partnership for Democracy and Development
Chile/Venezuela Free Trade Agreement

8.149 The DFAT submission draws attention to the "remarkable congruity of outlook amongst governments in the region" and attributes this in large part to a recognition by these governments

"... that a drastic overhaul of both domestic and regional economic structures is vital to the fate of their own administrations, as well as to democracy in Latin America."¹³¹

8.150 The Committee agrees with DFAT's conclusion that, provided these economic groupings are outward looking, then the enhanced growth of Latin American economies should also present enhanced trade and investment opportunities for countries outside the region, such as Australia. The Department believes that the negotiations for integration themselves

"... are already putting external pressure on some countries to accelerate the pace of economic reform and trade liberalisation."¹³²

It is not entirely clear, however, whether the move to greater regional integration might disadvantage Australia in any way.

North American Free Trade Agreement (NAFTA)

8.151 A development that has the potential to have a major impact on Australia in the future is the establishment of a North America Free Trade Agreement (NAFTA) between the United States, Canada and Mexico. Evidence before the Committee on the nature of the Agreement itself and how it might specifically affect Australia was slim. Both DFAT and Austrade gave very brief accounts of the process of negotiations taking place between the United States, Canada and Mexico. Neither submission sought to forecast the possible outcome of the negotiations or analysed the impact that such an Agreement might have on Australia's interests.

¹³¹ *ibid.*, p. 71.

¹³² *ibid.*, p. 72.

8.152 In part, this lack of more detailed analysis may be accounted for by the rapid developments in the negotiations themselves. The Presidents of Mexico and the United States, and the Prime Minister of Canada, first announced their intention to negotiate a Free Trade Agreement in February 1991. By the time this Committee had an opportunity to meet privately with the Head of Mexican Foreign Ministry, Dr Rozental, in March 1992, Dr Rozental informed the Committee that agreement on a text had practically been reached; it now remained for the text to be put to the United States Congress.

8.153 During the course of the inquiry, the Committee became aware of work being undertaken by a group of academics and officials at the University of Texas in Austin on the NAFTA. Members of the group come from both Australia and the United States.¹³³

8.154 It is evident that some work is now being done to examine in greater detail the impact of the likely NAFTA arrangements on Australia. However the Committee is concerned that progress so far has been very slow. For instance, the Committee is unaware of any commodity studies being done in Australia to determine more accurately the impact of NAFTA.¹³⁴

8.155 The Committee acknowledges that there has been a great deal of uncertainty about the exact nature of the provisions in the Agreement. However, the potential for impact on Australia is such that considerable effort to evaluate it is, in the Committee's view, justified.

8.156 North America is the largest market for most countries in Asia. According to an article "Western Trade Blocs" published by the Centre for International Economics:

"Protectionist developments in this market are therefore possibly of even greater significance to the Asia-Pacific region than are those in the EC".¹³⁵ Moreover, the article cites the potential expansion of the North American trade

¹³³ *ibid.*, p. 1594. The Committee was informed that academics at the University of Adelaide and Flinders University are also engaged in bringing together experts on the subject in Adelaide for a conference in July 1992. Committee Hansard, p. 1592.

¹³⁴ Committee Hansard, pp. 1608-9.

¹³⁵ Andrew Stoeckel, David Pearce and Gary Banks, *Western Trade Blocs*, Centre for International Economics, Canberra ACT, 1990, p. 48. The authors note US Administration arguments that the existing US-Canada Agreement, CANUSTA will help the multilateral liberalisation in GATT; at the same time they cite "... six good reasons for fearing CANUSTA could lead to more protectionist policies", pp. 58-9, p. 48.

bloc to include Mexico as being of particular importance. The authors argue that:

"US-Mexico free trade is likely to impose substantial trade diversion losses on Asian economies, which compete with Mexico in US markets for steel, textiles, clothing, footwear and other light manufactures."¹³⁶

8.157 This view is shared by Dr Findlay of the University of Adelaide. In evidence to the Committee, Dr Findlay said:

"... there could be, to some extent, some diversion of or trade out of North America towards Mexico ... if Mexico becomes a more attractive origin as a result of the free trade area, then there could be some diversion of trade."¹³⁷

8.158 Dr Findlay made two further related points that the Committee consider to be very important. First, the anticipated trade diversion would occur

"... even if there is no new trade barrier against Australia."¹³⁸

In other words, even if no GATT rules against discriminatory practices are broken, a NAFTA Agreement could have undesirable consequences for Australia. Moreover, it was pointed out to the Committee that NAFTA might well put in place agreements in areas, such as trade in services, which have not yet been dealt with under GATT and are therefore "unconstrained by GATT rules." This clearly opens up the possibility of practices being sanctioned that may not be in the interests of countries such as Australia.¹³⁹

8.159 It seems to the Committee that it is vital for the Commonwealth Government to make those matters priority concern when being given assurances about the content of agreements such as NAFTA.

8.160 The second matter of concern, alluded to by Dr Findlay, is the lack of depth of research into the consequences of NAFTA for Australia, as opposed to consequences

¹³⁶ *ibid.*, p. 61.

¹³⁷ Committee Hansard, p. 1604.

¹³⁸ *ibid.*, p. 1604.

¹³⁹ *ibid.*, p. 1607.

for the Asia-Pacific region as a whole. Dr Findlay told the Committee that:

"... people have done a lot of work on the impacts on Asia, but nobody has isolated the effect on Australia."¹⁴⁰

8.161 This impact may be two-fold - direct and indirect. Mexico, as a labour-intensive exporter, is a direct competitor with many Asian countries. In Dr Findlay's words, if NAFTA gives the competitive edge to Mexico:

"... our mates in Asia would also be knocked out of North American markets. So we get the knock-on effect of that."¹⁴¹

8.162 There could be more direct effects from NAFTA in specific sectors, such as steel. The Committee has been advised, for example, that no detailed work appears to have been done so far, in Australia, on the possible implications of greater integration, through NAFTA, of the US and the Mexican steel industry on any plans by Australian companies to enter the intermediate steel product area. This needs to be addressed immediately. The possibility of flow-on effects on related matters such as Australian iron ore sales to Japan's steel industry should also be examined.

8.163 At the same time the Committee is aware of the potential of NAFTA to create new opportunities for Australian business. DFAT in its report on the 1991 CAI Delegation to Mexico noted, for example, that:

"... the Mexican textile industry might expand significantly under the NAFTA generating improved prospects for wool exports."¹⁴²

8.164 More generally, the Centre for International Economics argues that a free trade area may create more trade than it diverts and that removing barriers to regional trade can substantially boost regional income.¹⁴³ Dr Andrew Elek of the Australian National University makes a similar point:

"Preferential lowering of market access barriers inevitably causes some diversion of trade: net damage to non-participants can be avoided only if this is outweighed by

¹⁴⁰ Committee Hansard, p. 1605. Mention was made of some work being done by the Industry Commission and in the East-West Centre.

¹⁴¹ Committee Hansard, p. 1604.

¹⁴² DFAT report on the CAI Trade Delegation visit to Mexico, 28 April to 1 May 1991, attachment G to letter dated 21 April 1992 from Mr I. Wilcock, Assistant Secretary DFAT, to Committee.

¹⁴³ Stoeckel, *op. cit.*, p. 72.

new trading opportunities created by the increased dynamism of FTA [Free Trade Agreement] participants or by the simultaneous lowering of some external trade barriers."¹⁴⁴

Dr Elek points out that the NAFTA partners expect that:

"... the trade creating affects of a more integrated and efficient North American economy will outweigh any trade diversion costs."¹⁴⁵

The economists of the Centre for International Economics put it succinctly:

"... a free trade area need not be a drain on the world economy IF it covers most trade and IF average protection does not rise."¹⁴⁶

However, these are important "ifs". Much more investigation must be undertaken before firm judgements about the impact of NAFTA on Australia can be confidently made.

8.165 Dr Findlay pointed out to the Committee that, in the specific case of NAFTA:

"The integration of, say, Mexico into North America, the support that would give for the reform program in Mexico - all those things are growth promoting."¹⁴⁷

Increasing purchasing power by a country like Mexico that **might** result from a NAFTA agreement **might** also be of indirect advantage to Australia.

8.166 As far as the Committee is aware, no empirical research into the total impact of NAFTA on Australia has yet been completed.

8.167 The Committee accepts that, in the absence of a firm, agreed NAFTA text, ratified by all the parties to it, it is difficult to reach definitive conclusions. The Committee also accepts that the NAFTA agreement will, in the beginning, in all likelihood cover only part of the possible range of arrangements that might eventually be agreed upon between the three parties. There will therefore be opportunities for Australians, further down the track, to seek to influence future developments in the NAFTA.

¹⁴⁴ Dr A. Elek, submission, attachment, p. 6.

¹⁴⁵ *ibid.*

¹⁴⁶ Stoeckel, *op. cit.*, p. 72.

¹⁴⁷ Committee Hansard, p. 1605.

8.168 The Committee also accepts that it is essential to remind the parties to the negotiations, as the Australian Government has done, that:

"... they have got obligations to do things in a non-discriminatory way so as not to raise trade barriers."¹⁴⁸

8.169 The Committee welcomed the assurance in the submission from the Ambassador of Mexico that:

"... the proposed North American Free Trade Agreement will be fully compatible with the principles of GATT."

and that it will:

"... not involve the raising of additional barriers to third countries."¹⁴⁹

8.170 According to Dr Findlay, Australian Government authorities are monitoring progress on NAFTA and have good access to information on the negotiations.¹⁵⁰ The Committee is not, however, satisfied that enough has been done in the way of examination of specific consequences for Australia of NAFTA. Nor is the Committee convinced that the negotiations should be allowed to run their course without addressing the question of specific impact on Australia. General reminders to the negotiators that NAFTA should be consistent with GATT are necessary. So also, in the Committee's view, is informed judgement about impact on specific sectors of the Australian economy that would enable well-founded representations to be made, if necessary, **before** the final text is agreed between the parties.

8.171 The fact that further accessions to NAFTA by other Latin American countries, such as Chile and Peru, are considered by many observers to be real possibilities adds to the urgency of establishing a more comprehensive and detailed analysis of the consequences of NAFTA for Australia. As Dr Elek pointed out:

"It may prove more difficult to ensure that adding more economies to NAFTA will also be of net benefit to the rest

¹⁴⁸ *ibid.*, p. 1609. According to the DFAT report on the CAI 1991 delegation visit to Mexico "At almost every opportunity, including with President Salinas, Serra Puche and Foreign Minister Solana, Dr Blewett said that Australia supported the negotiation of a NAFTA but would be watching closely for any possible unintended, adverse effects on third parties such as Australia. He received assurances in each case that Mexico would be particularly careful to ensure that such consequences would not develop and that Mexico would not be party to rules discriminating against others." Attachment G to letter dated 21 April 1992 from Mr I. Wilcock.

¹⁴⁹ Ambassador of Mexico, H.E. Mr A. Morales, submission, p. 22.

¹⁵⁰ Committee Hansard, p. 1594.

of the world, since the potential synergy will be less than in the case of Mexico."¹⁵¹

8.172 Recommendation sixty: The Committee recommends that the Australian Government, as a matter of utmost urgency, conduct, in close consultation with the private sector, a detailed study of the implications of arrangements that are likely to be included in any North America Free Trade Agreement (NAFTA), and which have the potential to have a significant impact on Australia. Particular sectors that might be the subject of such study include the steel, textile, dairy, meat and sugar industries. The purpose of the studies would be to enable the Australian Government to seek to influence, in a timely manner, the outcome of NAFTA negotiations.

8.173 The Government should also be alert to future areas of negotiations on NAFTA where Australian interests may be affected and institute specific studies of those areas at the earliest possible stage. An issue of importance to Australia that should be addressed in detail is the possible value to Australia of seeking, together with New Zealand, some kind of linkage with NAFTA.

8.174 If relatively little has been done to date on detailed analysis of the implications of NAFTA for Australia, even less attention has been paid to the implications of the other regional groupings that have recently gained momentum in Latin America. Of these, MERCOSUR, the free trade agreement being negotiated between Argentina, Brazil, Uruguay and Paraguay is considered by DFAT to be the most important.

8.175 There are probably several reasons for this lack of attention. Latin American efforts at regional integration in the past have generally yielded little in the way of concrete results. Also, as a region it has, as noted repeatedly in this Report, for long been regarded as remote and of little consequence for Australia. It is also true that Australian Government resources have been stretched and primarily devoted to areas that rightly, have been considered as having the highest priority, namely the multilateral GATT negotiations and the development of Australia's economic relationship with the economies of its immediate region.

8.176 However, just as the Committee concluded in earlier Chapters of this Report that more attention must now be paid to Australia's bilateral links with the Latin American region, so also greater attention must now be paid to understanding and analysing the regional developments taking place there. Not only are prospects for the success of sub-regional groupings such as MERCOSUR and NAFTA greater than ever before, the prospects of region-wide significant integration, be it through the United States initiative "Enterprise for the Americas", or through a complex network of bilateral arrangements, must not be ignored.

¹⁵¹ Dr A. Elek, submission, attachment, p. 6.

8.177 **Recommendation sixty one:** The Committee recommends that the Government institute a detailed study of the implications of Latin American regional trade and economic groupings for Australia. The study should, as far as possible, draw on expertise available in both the academic and business world.

8.178 These regional integration proposals assume added importance in the light of the interest of several Latin American countries in closer association with economic developments in the Asia-Pacific region.

Latin American Involvement in the Pacific

8.179 A number of Latin American countries border on the Pacific, namely Chile, Colombia, Ecuador, Peru, Costa Rica, El Salvador, Guatemala, Mexico, Nicaragua, Honduras and Panama. With the exception of Mexico, and to some extent Chile and Peru very recently, the involvement of these countries in South Pacific issues, so far has been "slight".¹⁵²

8.180 Little interest has, for example, been shown in the South Pacific Forum¹⁵³ by the Latin American countries. At present two Latin American countries, Ecuador and Chile are technically eligible to be members of the Forum. However, only Chile has indicated an interest in joining the South Pacific Forum and currently attends Forum meetings as an observer.¹⁵⁴

8.181 Substantially more interest has been shown by Pacific Latin American countries in the **Pacific Basin Economic Council (PBEC)**.¹⁵⁵

8.182 The PBEC is an international association of more than 600 corporations which do business in the Pacific Basin. The Council was established in 1967 at the initiative of Japanese and Australian business groups. At present, members are drawn from eleven countries including three from Latin America, Chile, Mexico and Peru. The other members of the PBEC come from Canada, Hong Kong, Japan, the Republic of Korea, New Zealand, Taiwan, the United States and Australia. The Australian

¹⁵² DFAT, submission, Committee Hansard, p. 130.

¹⁵³ The Forum, of which Australia is a member, is an international organisation which provides technical advice, training and the dissemination of information concerning social and economic issues to 22 governments and administrations in the South Pacific.

¹⁵⁴ DFAT, submission, Committee Hansard, p. 131.

¹⁵⁵ Committee Hansard, pp. 198-9

Department of Foreign Affairs, Defence and Trade said in its submission to the inquiry that Chile, Mexico and Peru had joined the Council as:

"... part of their push to become more involved in regional economic forums."¹⁵⁶

8.183 These three countries have also in recent years, demonstrated their interest in the **Pacific Economic Cooperation Conference (PECC)**. This is an unofficial organisation of government officials, business, representatives and academics from countries in the Asia-Pacific region. The aim of the Conference is to promote regional economic cooperation by:

"... encouraging regional consultations, coordination of information and promoting public awareness of the increasing interdependence of the Pacific economies."¹⁵⁷

The PECC resulted from a seminar held in Canberra in 1980, which was organised at the initiative of the then Australian and Japanese Prime Ministers, and brought together government officials, academics and business leaders from a large number of countries in the Pacific region.¹⁵⁸

8.184 At a meeting of the PECC held in Singapore in May 1991 applications from Chile, Mexico and Peru were approved for full membership of the Council. Mexico had been participating in activities of the PECC for some years before its membership was approved. Australia assisted in bringing the three Latin American countries into the Council by arguing for the lifting of a moratorium on new PECC members, which had been in place between 1986 and 1989.¹⁵⁹

8.185 In addition to the three Latin American members and Australia, the PECC is composed of Brunei, Canada, China, Chinese Taipei, Indonesia, Japan, the Republic of Korea, Malaysia, New Zealand, Pacific island nations, who participate through the South Pacific Forum, the Philippines, Singapore, Thailand and the United States. The Pacific Trade and Development Conference (PAFTAD) and the PBEC are represented on the PECC's International Standing Committee.¹⁶⁰

8.186 Mexico and Chile are the two countries in Latin America which have shown the most interest in furthering and improving their relations with Pacific and Asian nations.

¹⁵⁶ DFAT, submission, Committee Hansard, p. 123.

¹⁵⁷ *ibid.*

¹⁵⁸ *ibid.*

¹⁵⁹ *ibid.*

¹⁶⁰ *ibid.* PAFTAD is the academic wing of PECC.

8.187 Chile has traditionally been an outward looking country seeking extensive participation in international affairs. However, during the military dictatorship in that country in the seventies, restricted diplomatic contacts were in force. With the return of a civilian government to power, Chile has sought to return to its normal role in international relations. As noted previously, Chile is a member of the PBEC and in May 1991 became a full participant in the PECC.¹⁶¹

8.188 Like Chile, Mexico has also become an outward looking, diplomatically active country. The interest of Mexico in developing its presence in the Asia-Pacific region has been demonstrated in recent years by its action in opening embassies in all the ASEAN countries (except Brunei), while at the same time giving heightened focus to its relations with Australia and New Zealand. Mexico's membership of the PBEC and the PECC, along with its expressed strong interest in joining the Asia Pacific Economic Cooperation process (APEC), are all indicative of its desire to broaden its diplomatic and trade contacts. This broadening of its contacts appears to be part of a Mexican strategy to lessen, to some extent, its traditional trade dependency on the United States.¹⁶² As the Ambassador of Mexico said in his submission:

"Mexico is displaying a very active policy of trade diversification."¹⁶³

Asia Pacific Economic Cooperation (APEC)

8.189 By far the most significant effort at regional economic cooperation in the Asia Pacific region is the Asia Pacific Economic Cooperation (APEC) process that has evolved from the initiative first put forward by the then Australian Prime Minister, Mr Hawke in Seoul in January 1989.

8.190 In an address to an international conference in March 1991, Mr Woolcott, the Prime Ministers' Special Envoy on APEC, spelt out the essence of APEC's principles and of APEC's general outlook on the world as follows:

- ". first, cooperation should be aimed at strengthening the open multilateral trading system;
- second, it should involve what might be called open regionalism, in which the aim is to strengthen the gains from interdependence - including by encouraging flows of goods, services and technology - but without disadvantage to other economies;

¹⁶¹ DFAT, submission, Committee Hansard, pp. 36-7.

¹⁶² *ibid.*, p. 46.

¹⁶³ Ambassador of Mexico, H.E. Mr A. Morales, submission, p. 5.

third, it should complement existing bodies in the region, including ASEAN, the Pacific Economic Cooperation Conference (PECC) and the Pacific Basin Economic Council (PBEC); and

fourth, it involves non-formal cooperation with equal respect for the views of all participants and with policies, including in the area of participation, built upon consensus."¹⁶⁴

8.191 Mr Woolcott laid particular stress on the increasingly significant role that he expected APEC to play in "the successful management of developing regional inter-dependence".¹⁶⁵ The Committee particularly noted his expectation that APEC would assist in identifying difficulties and antagonisms, "hopefully before they have grown into disputes."¹⁶⁶

8.192 At the inaugural APEC ministerial level meeting held in Canberra in 1989 it was agreed, in general terms, that participation in the group should be assessed on the basis of economic linkages with the region. It was also agreed at this meeting that membership of APEC could be extended to countries by consensus of all participants.

8.193 Both Mexico and Chile have expressed an interest in participating in APEC.¹⁶⁷ During discussions with the Mexican Foreign Minister in 1991 Dr Blewett, then Trade and Overseas Development Minister, stated that Australia was sympathetic to Mexico's desire for closer involvement in APEC. However, Dr Blewett pointed out that any decision on membership for Mexico would have to be taken by all members of the group.¹⁶⁸

8.194 Australia's first priority with regard to membership was to ensure that the People's Republic of China, Taiwan and Hong Kong are involved in APEC. Australia's view was that without the involvement of the so called "three Chinas", APEC was "really rather incomplete".¹⁶⁹ Mr Woolcott, told the Committee that, "Once the three China issue is settled I think the next cab off the rank would be likely to be Mexico."¹⁷⁰ Since then, the question of the membership of "the three Chinas" has been satisfactorily resolved.

¹⁶⁴ Address by the then Secretary of the DFAT, Mr Richard Woolcott on "The ASEAN Countries and the World Economy: The Challenge of Change" in *The Monthly Record*, March 1991, p. 80.

¹⁶⁵ *ibid.*, p. 81.

¹⁶⁶ *ibid.*, p. 81.

¹⁶⁷ Committee Hansard, p. 199.

¹⁶⁸ DFAT, submission, Committee Hansard, p. 122.

¹⁶⁹ Committee Hansard, pp. 224-5.

¹⁷⁰ Committee Hansard, p. 225.

8.195 The Committee considers that there is likely to be considerable benefit, both for Australia and for APEC more generally, in extending membership to a number of Latin American countries. Furthermore, the Committee believes this should be done sooner rather than later.

8.196 There may be reservations amongst some APEC participants about the credentials of the Latin American countries interested in membership. While it is certainly true that Latin American participation in PECC and PBEC is relatively recent, this should be seen in the total context of the very rapid change that has been taking place in the economic orientation of the Latin American countries in a few short years. The Committee has no reason to believe that the Latin American countries that have expressed an interest in APEC are anything other than genuine. Nevertheless, the Committee considers it important that those countries confirm and reinforce their interest by active participation in both PECC and PBEC activities as a precursor to participation in APEC.

8.197 The Committee has noted the view of existing APEC participants that participation in the group should be assessed on the basis of economic linkages with the region. In this respect, the Committee was struck by the fact, drawn to their attention by Mr Rozental, the Head of the Mexican Foreign Ministry, that 90% of Mexico's trade is with the region.¹⁷¹ Obviously this largely reflects the heavy dependence of Mexico on trade with the United States. Nevertheless, with the United States an important member of APEC, it is also true that this puts Mexico into the category of countries with one of the strongest economic linkages with the region.

8.198 Chile, too, has substantial trade links with the Asia-Pacific region. Its main trading partners in order of importance are the United States, Japan and Germany. In 1990 Chile's total trade with Asia and Pacific (excluding the United States and Canada) accounted for over US\$3 billion and represented 20% of Chile's total foreign trade.¹⁷²

8.199 The Committee concludes that it is in Australia's interests to see Mexico and appropriate Latin American countries included in APEC.

8.200 One of the positive developments in APEC has been the consensus on the importance of maintaining its strong commitment to the multilateral trading system and the part APEC has been able to play in encouraging the maintenance of such a system in international economic forums such as GATT. Mr Woolcott has argued that a multilateral trading system:

"... is particularly important for small and middle powers like the economies of ASEAN and Australia, which cannot

¹⁷¹ Private meeting of the Committee with Mr Rozental on 28 February 1992.

¹⁷² Committee Hansard, p. 1331. The percentage of Chilean exports going to the Asia-Pacific region is even higher, 26%.

rely on economic or political power to achieve access to their major markets."¹⁷³

8.201 In the Committee's view, a country like Mexico could make a valuable contribution to strengthening the voice of small and middle powers within APEC, and hence also within wider international economic forums. As Dr Garnaut said in his submission:

"Latin American countries are potential allies for Australia in its own international efforts to promote open multilateral trading arrangements and in its efforts to ensure the Asia-pacific remains open and dynamic."¹⁷⁴

8.202 In the case of Mexico, there is the added consideration that a cross-linkage of membership between all the potential members of NAFTA with APEC could be helpful in ensuring that NAFTA remains an outward-looking and non-discriminatory regional grouping.

8.203 Recommendation sixty two: The Committee recommends that the Australian Government actively support the application by Mexico for membership of APEC.

8.204 The Committee is very much aware of the sensitivities amongst some members of APEC over membership questions and concerns about the impact of APEC on ASEAN. At the same time, the Committee is in agreement with the view of Dr Elek that:

"... since no discrimination against other economies is involved there is no reason why Latin American economies could not participate in any understanding reached."¹⁷⁵

8.205 The Committee shares the view of the Ambassador of Chile that the participation of a selection of Latin American countries in APEC:

"... would only strengthen their relationship with Australia but it would also mean additional support to Australian objectives of promoting transpacific economic cooperation and the liberalisation of world trade."¹⁷⁶

¹⁷³ *ibid.*, p. 81.

¹⁷⁴ Professor R. Garnaut, submission, p. 3.

¹⁷⁵ Dr A. Elek, submission, p. 1.

¹⁷⁶ Committee Hansard, p. 1323.

8.206 Recommendation sixty three: The Committee recommends that Australia also encourage the favourable consideration by APEC members of applications by other Latin American countries for membership of APEC.

Graham Maguire
Chairman