

29 April 2004

Mr Brenton Holmes
Secretary
Senate Select Committee on the Free Trade Agreement Between Australia and the US
Parliament House
CANBERRA ACT 2600

Dear Mr Holmes

I refer to your letter to the National Farmers Federation (NFF) dated 25 March 2004, inviting submissions to the Senate Select Committee on the Free Trade Agreement Between Australia and the United States.

NFF, as the national peak body representing the views of Australian farmers, welcomes the opportunity to comment on this agreement. Please find attached a submission articulating NFF's views.

NFF is aware several of its members will be providing separate submissions to your Committee on specific commodity matters. NFF's submission is, therefore, more generic and in relation to agriculture as a whole.

Please be aware that on 21 April 2004, NFF submitted its views on the US FTA to the Joint Standing Committee on Treaties (JSCOT). NFF views have not changed since this time and so the attached submission is identical in nature.

NFF would welcome the opportunity to appear in front of the Committee to articulate the Federation's views in more detail.

Please do not hesitate to contact me or NFF's Senior Policy Manager Trade, Ben Fargher, in regard to this submission. Ben or I can be contacted on 02 6273 3855.

Yours sincerely

ANNA CRONIN
Chief Executive Officer

NATIONAL FARMERS' FEDERATION

**Submission to the Senate Select Committee on the Free Trade Agreement
Between Australia and the United States**

April 2004

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National Farmers' Federation

1. Background

For Australian farmers to continue growing their enterprises, they need access to international markets. For this reason, one of NFF's highest strategic priorities is to achieve the liberalisation of the world's agricultural trading system.

Agriculture remains the most distorted of all sectors of world trade and the United States is one of the worst offenders in regard to agricultural protection.

The US is an important market for many Australian agricultural industries. However, Australian farm exporters face significant market access barriers, as well as a competitive disadvantage, from substantial American farm subsidies.

Given the market access barriers and the importance of the US market to Australia, NFF actively engaged in the US FTA negotiations from the outset.

For the Committee's information, on January 15 2003, NFF submitted to the Department of Foreign Affairs and Trade (DFAT) its views on the proposed negotiation of a Free Trade Agreement (FTA) with the United States. On April 11 2003, NFF provided a submission to the Senate Foreign Affairs, Defence and Trade References Committee Inquiry into the proposed Australia-US FTA.

In late 2002, NFF established an expertise-based US FTA Working Group that included representatives from the red meat, dairy, grains, horticulture, wool, pork, sugar, poultry, cotton and rice industries, to work on the FTA negotiations. This Working Group regularly consulted DFAT and DAFF officials in regard to the FTA.

Further, NFF and several other agricultural industry representatives from the dairy, beef, sugar, horticulture and grains industries participated in the final round of FTA negotiations in Washington DC in January 2004.

2. NFF's policy position during the FTA negotiations

Agriculture is a very important sector of the Australian economy.

In 2001-02 agriculture comprised four per cent of Australia's GDP, with a value-added of A\$26.0 billion¹. In 2001-02 agriculture comprised 20.3 per cent (A\$31 billion) of Australia's goods and services exports².

Agriculture is one of the largest employers in Australia, providing more than 380,000 jobs (four per cent of Australia's labour force) in 2001-02.

Agriculture also represents a significant input into many other Australian industries, particularly the food processing industry, which had a value-added of A\$14.5 billion in 2002-03 (two per cent of GDP).

1. Source: ABS, *National Income, Expenditure and Product*, table 47.

2. Source: ABARE, *Australian Commodities*, tables 5 and 27. Exports are greater than value added, because export value includes value added in non-agricultural industries.

The US is an important market for many Australian agricultural industries. In 2002 Australian agricultural exports to the US were valued at A\$3.5 billion. Beef exports were Australia's largest individual merchandise export item to the US in 2002, valued at A\$1.6 billion. However, the volume of beef and other commodity exports such as dairy and sugar is severely constrained by a series of tariffs and quotas.

Given agriculture's importance to the Australian economy, the value of the US market for Australian agricultural exporters, and the significant market barriers that exist, NFF supported the negotiation of a US FTA, conditional of agriculture being at the heart of both the negotiations and the final agreement.

NFF's specific policy position, which was maintained throughout the course of the negotiations, is outlined below:

- NFF seeks free access for Australian agricultural exports to the US market. Further, we seek this commitment to access "up front" and not subject to long phase-in timelines.
- NFF believes the World Trade Organisation negotiations must remain Australia's priority. This is particularly important given Australian farmers export to many markets globally and bilateral arrangements are not effective at breaking down harmful subsidies that seriously damage the Australian agricultural sector. In this regard, NFF seeks a FTA with the US that adds to and does not detract from Australia's efforts in the WTO.
- NFF seeks to ensure that agreements reached in US FTA negotiating chapters outside agriculture (for example, environment, intellectual property, telecommunications and investment) do not adversely impact on Australian farmers or rural communities.
- NFF is aware that some United States farm groups argue that Australia uses quarantine as a non-tariff trade barrier. NFF strongly rejects this view. NFF supports a transparent and science-based quarantine system as stipulated under the WTO Sanitary and Phytosanitary (SPS) Agreement. NFF does not believe it is in the United States or Australia's interests to undermine this science-based system in any bilateral agreement.

3. Outcome

3.1 Market access

In summary, the proposed FTA offers important market access gains for several agricultural industries. However, NFF is disappointed with the negotiated outcome in a number of areas.

On the positive side, two-thirds of all agricultural tariffs will be eliminated immediately. This includes tariffs on lamb, sheep meat and horticultural products. It must be noted, however, that many of these tariffs were already very low, or applied to products not of high commercial significance. Nonetheless, free trade into the US

for these products is welcome and industries can invest with confidence and grow what is a large potential market.

Australian dairy farmers are disappointed that the agreement does not result in free trade in dairy products over time. However, the agreement is seen by the dairy industry as very positive as it will, from the date of implementation, triple Australian quota access to the US, with access growing at five per cent per year thereafter.

For dairy, the deal will be worth approximately A\$56 million in year one and result in a farm gate profit of 5-7 cents per kilogram fat (equivalent) for all milk. This represents an ongoing improvement in farm gate returns of A\$2-3,000 per year for a million-litre farm.

Through the removal of tariffs on wheat products, such as flour, cereal products and wheat gluten, there are potential benefits for the Australian grains processing industry.

NFF is advised that the US FTA outcome for horticulture is viewed as positive on balance and is supported by Horticulture Australia Ltd. By way of example of benefits, before the negotiations began, two per cent in value of fresh Australian horticultural exports entered the US tariff free. Under the proposed FTA, close to 100 per cent of all major current fresh exports will face zero tariff levels.

Despite these benefits, NFF is disappointed with the outcome of US FTA negotiations for a number of reasons.

First, NFF was pushing for an outcome that delivered free trade in agriculture. NFF was led to believe, by the Australian and US Governments, that this was achievable. NFF sold the negotiations to its members on this basis. This was clearly not achieved.

What makes the outcome disappointing is that contrary to the US farm lobby's assertions, Australia is not in a position to flood the US market with product. Australia's productive capacity simply does not allow it. Australia operates a beef production system one-sixth the size of the US. Australia supplies the US the equivalent of four hamburgers out of every 100 consumed.

Australia's limited capacity applies in the case of dairy also. Australia currently produces around 22 billion pounds of milk. This is one-eighth of the US production volume. Approximately half of this milk is consumed locally in Australia and the remainder is exported to over 100 countries.

Second, for some Australian exports, such as beef for example, Australian product is complementary and not competitive in nature. As a result, NFF believes the US has no justification for not providing Australian farmers with unimpeded access to their market.

While an additional 70,000 tonnes quota access will be granted for Australian beef, this will accrue over an 18-year transition period, and a permanent safeguard will apply thereafter. The beef industry's minimum base-line access request was not met in these negotiations. NFF's member organisation, the Cattle Council of Australia, has not yet ratified its formal position on the US FTA.

NFF is concerned that the existence of a permanent safeguard on beef sets a bad precedent in other bilateral negotiations. It is important to note that the US lobbied with Australia against the use of a safeguard on beef by Japan, which was imposed last year.

Australia's sugar access remains unchanged under the deal. No increase in access was achieved. Australian sugar producers are justifiably dissatisfied and frustrated by this outcome.

The fact that the US FTA is not comprehensive in nature, that is, does not cover all agricultural products, was one of the most disappointing aspects of the negotiated outcome.

NFF looks forward to examining the analysis commissioned by the Australian Government of the impact of the proposed FTA on agriculture.

3.2 Quarantine

As already mentioned in Section 2 above, NFF was concerned to ensure Australia's scientific-based quarantine system was not undermined during the FTA negotiations.

NFF was assured on numerous occasions and at the highest political levels that there was no market access for quarantine trade-offs in the US FTA negotiation. NFF has seen no evidence to dispute this.

Some groups in Australia, including some agricultural groups, have indicated concern that the US FTA quarantine chapter results in the formation of two Committees to monitor quarantine issues (a SPS Committee and a Standing Technical Working Group on Animal and Plant Health).

NFF understands a meeting of senior officials from Australia and the US occurred in mid 2002 (prior to formal negotiations commencing) and that this meeting made progress toward improving the understanding of both country's respective positions across a number of agriculture-related issues.

NFF understands one of the outcomes of this meeting was an agreement to develop a closer working relationship on SPS-related market access issues. In this regard, NFF is not concerned if this relationship is formalised by the formation of a Committee(s). NFF sees no evidence in the text of the US FTA that US representation on these Committees has the power to undermine Australia's scientific-based system or Import Risk Assessment process in particular.

Some groups in Australia have specifically raised the issue of the provision for a US trade official to be present as part of these new Committee arrangements. NFF is not overly concerned by this, given the agreement relates to a trading relationship between two countries, and NFF sees no capacity for the trade official to influence Australia's Import Risk Assessment Process. Obviously, NFF would expect an Australian trade official to participate on the Committee also.

3.3 Issues in other negotiating groups outside agriculture

NFF was concerned to ensure that decisions made outside the FTA agriculture negotiations were not to the detriment of Australian farmers.

Issues of possible concern included the environment, intellectual property, competition policy and investment. NFF sought and received several assurances from the Australian Government about these issues during the negotiations.

NFF is comfortable with the negotiated outcome in these areas. For example, NFF is confident Australia will not bear any additional US imposed environmental legislation under the deal.

Moreover, NFF was concerned that significant pressure may be forthcoming from the US to extend the period of data protection for agricultural and veterinary chemicals under current proposed legislative amendments being considered by the Australian Government. NFF believes there is strong justification for Australia maintaining shorter phases of data protection than in the US, helping to ensure generic market competition and cost effective access to chemicals for Australian farmers. NFF understands this outcome was achieved under the negotiated agreement.

3.4 Impact on World Trade Organisation (WTO) negotiations

As stated in Section 2 above, NFF's number one trade policy priority is achieving a tangible outcome in the World Trade Organisation (WTO) agricultural negotiations.

NFF strongly believes the WTO provides the most effective forum to achieve tangible cuts in agricultural protection globally. This is particularly important given bilateral deals are not effective at breaking-down harmful domestic subsidy programs.

Given this, and Australia's role in the WTO, not only as a strong advocate of trade liberalisation but leadership position as Chair of the Cairns Group, NFF would be extremely concerned if this FTA agreement undermined Australia's efforts in the WTO. NFF has seen no evidence at this time that it has. For example, NFF attended a Cairns Group meeting in Costa Rica in February 2004, after the US FTA negotiations were completed, and the meeting was very positive. It must be noted, however, that the inclusion of a safeguard mechanism on beef and the non-comprehensive nature of the US FTA is a particular concern.

NFF believes the Australian Government must devote substantially more resources to the WTO agriculture negotiations and the Cairns Group in particular.

The Australian Government believes this agreement will not undermine its ability to gain a favourable outcome in the WTO agricultural negotiations. In this regard, NFF believes the Australian Government must act forcefully to ensure a positive outcome.

4. NFF's current policy position

NFF is disappointed with aspects of the US FTA and NFF's expectations were clearly not met in a range of areas, particularly in regard to the outcome on sugar and beef. However, on balance, as the market access benefits for several Australian agricultural industries are significant, and

- (a) NFF does not believe the US FTA undermines Australia's quarantine system;
- (b) NFF does not believe negotiated outcomes in chapters outside agriculture negatively impact Australian farmers;
- (c) NFF has seen no evidence at this time that the US FTA undermines Australia's ability to gain a favourable outcome in the WTO negotiations;

NFF supports the US FTA and believes all political parties should support the agreement through the Australian Parliamentary system.