MACRO OBJECTIONS TO THE USA-AUSTRALIA FREE TRADE AGREEMENT

Friday, 30 April 2004

Secretary
Senate Select Committee on the Free Trade Agreement
between Australia and the United States of America
Suite S1.30.1,
The Senate,
Parliament House
Canberra ACT 2600
Email: FTA@aph.gov.au

Sirs

Thank you for the opportunity to make this submission to you on the USA-Australia Free Trade Agreement which the Howard Government has negotiated.
I followed the negotiations and have examined the terms. You will have received specific objections to specific terms of the bilateral Free Trade Agreement because they:
- Economically disadvantage Australia.
- Place trade above all else in society and specifically exclude important factors bearing on both production and trade, such as environmental impacts and the freedom of movement of labour.
- Are deleterious to Australia's future as an independent democratic nation.
- Socially and culturally disadvantage Australia.
- Are an impediment in the path towards fair trade worldwide.

I support these objections in full. I know they have been fully researched and argued.
I wish to raise my objections to the agreement on the basis of good business practice.
The unfavourable terms of the FTA as negotiated are a graphic illustration of why we should never have entered into negotiations for an FTA with the United States in the first place, and why we should abrogate the agreement immediately.
I am a marketing consultant to small business, and co-author of a book on small retail, *Success in Store: how to start or buy a retail business, enjoy running it and make money*. I plan to apply to the Australia-USA trading relationship some of the lessons I have learnt in consulting with small business.

Yours sincerely

Geoffrey Heard

I. Bad business

Business 101: the best business partnerships are between approximately equal partners — both being well run, ethical businesses of about the same size, complementary in nature, both important to each other as clients/suppliers, but neither having a stranglehold on the other.

Let us consider the various elements of this statement.

A. Size matters!

An argument often ignored in discussions within Australia about competition, advantage and anti-competitive practices in the market place is competitive power and channel power.

Put simply, the bigger the business, the more power it has in the market place, both in relation to competitors and in relation to its supply chain.

To put Australia's and America's relative economic sizes into perspective, it only needs to be noted that an area within an 80 km radius of the centre of Los Angeles encompasses a population *and* an economy larger than Australia.

That's just one American city and we are not even taking into account the full extent of greater Los Angeles.

The advantage of size in the USA-Australia FTA negotiations example is manifest. Australia, the local milkbar taking on the USA supermarket chain, ended up significantly worse off than it was.

Because of its size, the United States does not *need* Australia in any real sense. Certainly, the US can *use* Australia, but it does not *need* it.

In reality, Australia does not *need* the USA as a close trading partner and should avoid like the plague such intimate arrangements with *any* large nation or pseudo-nation (e.g. the EU).

There may appear to be advantages for Australia in partnering with the USA, along the lines of grovelling for scraps from the rich man's table, but in reality these advantages do not exist for reasons given below.

Size meant Australia sat down at the negotiating table like the mendicant with the rich man. In the end, Australia had to take what the rich man offered. The USA rifled Australia's pockets and promised that in future, Australia could continue to sit at the table provided it continued to allow the USA to rifle its pockets.

1. Size in business

Sheer size gives huge advantages in business. It is easier to absorb downturns and to respond to growth conditions, to control the terms of trade, control supply and distribution, to absorb mistakes and to respond to challenges.

In Australia's current business environment, when Coles-Myer sets a retail price, that becomes a benchmark for the whole industry. Every other retailer must take it into account and match it in some way. When Coles-Myer buys cheese, it dictates the terms of trade. If the cheese maker cannot supply at the Coles-Myer mandated price and under the Coles-Myer mandated conditions, Coles-Myer will simply buy elsewhere. Because of its size, it can source anywhere in the world. Even a moderately large regional cheese maker, however, cannot counter by *selling* anywhere in the world. Developing overseas markets is expensive. The cheemaker isx trapped by the Coles-Mayer size and power.

This is bad enough. The virtually uncontrolled growth of Coles-Myer in the Australian market place, with its massive promotional budgets and its ability to cross-subsidise to cover years of losses while it penetrates and takes control of new market sectors, has been a disaster for many smaller businesses and no service to Australians as workers and consumers.

Under the USA-Australia FTA, the picture for Australian business generally is about to get much worse. The investment elements will give the behemoths of US business virtually free access to Australia. Coles-Myer will face the sort of market caning it has been accustomed to handing out as our retail market is invaded and taken over by the US giants. The same will apply over time in every level and type of business in Australia. There will be a short period of high competition in some areas, lots of vacuous comments about competition being good for consumers, then there will be the crashing of Australian businesses falling over and the aggregation of power and control in US capital hands. In other areas, US capital backed by much lower interest rates will quietly take over existing Australian businesses then use their hidden size advantage to control the market.

Either way, the outcome is serious economic losses for Australians and Australia as US corporations exploit the loss of competition in the market place, and capital value and profits move into American hands.

2. **Size in Australia-the-nation versus US corporations**

There are already transnational corporations, mainly US-based, operating in Australia which are bigger than our State and Federal governments.

They, along with major Australian corporations, have access to government and influence on government decision-making which can only be the envy of smaller competitors. Smaller competitors suffer from a slew of advantages offered by to big business, including special tax concessions and regulations ranging from unrestricted retail trading hours in many States to the introduction of the GST, which favour big business over small.

Under the USA-Australia FTA as negotiated, the situation is about to become worse. As noted above, the relaxed investment laws will mean more big US investment in Australia (if this is not going to happen, why did the US negotiators push Australia on it and why did the US President hail it as a breakthrough?), resulting in more corporations which challenge or exceed the size of Australia's governments.

They will use that size to cower governments into introducing business and social conditions that suit these giant businesses even better than the current situation. This will be to the detriment of Australians as business owners, working people, consumers and community members.

B. *Well run? 'fraid not.*

We have long known that if the USA sneezes, Australia catches cold. It is being increasingly argued that the USA actually has pneumonia right now — it just needs a day or two more to manifest itself.

The United States is *not* a well run business. It teeters on a knife edge, vastly, disastrously in debt — the US owes the world around US$16,000 for every single one of its 280,000,000 people, and is heading further into debt daily.

Its sagging dollar survived recently only because of Japanese purchases; and while it is rising a little now, this is only a blip on the long term trend, which must be down.

The United States survives as an economic force today only because it is huge, has control of the purse strings through the World Bank and the IMF (although that is slipping a little; both have voiced concern at the US's out of control debt spiral), and the dollar is the fiat oil trading currency. This is the keystone of USA's economic strategy — it means that all countries must hold reserves of US dollars in order to trade in oil. This stops the dollars flying home where the US would have to stump up with value for them — value it cannot produce.

One of the main reasons why the US had to invade and take control of Iraq was that Saddam Hussein switched to trading oil in euros in November 2000 — then instead of taking a bath on the deal, as predicted by US observers, he made a huge windfall profit for Iraq as the euro rose against the greenback.

The United States is far from a tight ship. It is running incredibly high international debt, its government(s) are spending more than they can gather in and its giant corporations are playing little or no tax.

When it falls over, the impact will be enormous. It is questionable whether the world economic system as we know it will survive. But fall it must — it is the sick man of the Americas.

Part of the USA's reason for its almost desperate pursuit of FTAs with countries like Australia and those in Central and South America is clearly to provide it with an economic buffer and a prop for the sagging dollar.

Australia itself is in a far from healthy economic state with heavy reliance on what are essentially mining activities, all aspects of extractive production and primary agriculture as it is run, and service industries, with a declining secondary manufacturing sector. In addition, we have a very large component of our industry owned by foreign interests, many of them American, which are simply components of larger organisations and easily eviscerated, manipulated, run down, traded or closed because of factors outside the Australian business environment. The FTA will worsen this situation.

How tightly to we want to be tied to the brontosaurus when the inevitable collapse occurs? How much do we want our industry, for example, to be dependent on it, both as a supplier and as a market?

The safe way to work is to spread our trading and risk as widely as possible.

C. Ethical? No.

The United States invaded Iraq in part to gain a trading advantage in oil — to simply steal the multi-multi-billion oil resources of Iraq, to put itself in a position to steal the oil resources of other neighbouring states, and to ensure that it continues to enjoy the massive trading advantage that accrues to it by having its dollar as the designated oil trading currency.

Bonsai Australia is treading the same path, standing over Timor Lesté in its time of trouble and holding it to ransom. It is taking 60% of Timor's oil and gas, a share of around $66 billion at current values, plus the whole of the manufacturing and base port facilities associated with the extraction process, against the threat of withdrawal of a few million in immediate aid, military support against Indonesia and access to the world via Darwin. At the same time, Australia is giving Indonesia nearly $100 million a year in aid.

In addition to the above, the United States has again and again shown it will cheat under international trade rules to create a political advantage at home or a market advantage for American corporations — or both. An example was the steel subsidy blithely announced by President Bush for political purposes. Nations around the world rose up in arms and appealed to the World Trade Organisation for it to be removed. By the time action was taken, though, subsidised US steel flooding the market had forced a number of smaller overseas competitors to shut down. Venezuela was one victim.

Ethical? There is no convincing evidence on either side.

D. Complementary in nature. Not!

Successful partnerships come about in business and, indeed, in most aspects of life, when the partners bring complementary sets to the relationship. A typical good business relationship is that of a supplier and client.

Earlier, I likened the USA to a supermarket chain and Australia to a convenience store. The metaphor fits, which is a massive problem with the FTA.

Just as the supermarket and the convenience store are competitors providing a comprehensive range of products to customers, but very different in size, so are the

USA and Australia competitors but very different in size.
Australia and the United States do not complement each other, they are competitors virtually across the board with very similar sets.
This means that there is no way for either of them to gain an advantaged from mutual trade except by the other suffering a disadvantage. Needless to say, the bigger the partner, the more likely they are to benefit. The smaller partner inevitably suffers.

1. **No competition between parent corporations and subsidiaries**
   The USA is not only a competitor but in many things, Australia actually competes with one hand tied behind its back. In addition to the fact that size gives the US control of the internal and external markets where Australia seeks to compete with it, much of Australian business is either owned or controlled by American corporations. They own the Australian "competitor" to their own domestic operations. Clearly, not a lot of competition is going to happen and outcomes of such pseudo competition will be manipulated to suit the parent companies' ends, not the good of the Australian branch and Australia! With the dramatic opening up of the Australian capital market to allow virtually unrestricted takeovers or start-ups by US corporations, this situation will worsen.
2. **Car production example**
   A case in point is the two car giants, General Motors and Ford. A compliant media reported a Howard government fantasy that the FTA would open up the United States to imports of Australian utes. That fact is, there is no significant market for Australian utes; Americans want their big trucks and high-set SUVs — for them, size counts. The simple facts are that American companies own the utility designs and would have been producing them in the USA long ago if there had been a market. What the FTA really does is open up the market in the opposite direction; American car components makers are anticipating a massive increase in sales to Australia which can occur only with Australian companies going broke and Australian workers going on the dole.

E. Important to each other as clients/suppliers

Australia has some importance to the United States as a client. Our trade balance with them is tilted in their favour, thus going a small way towards countering the US's massive negative balance with the world as a whole.
The quantum of trade and the cash amount involved are relatively small in the total scheme of things from the US point of view, however.
The United States has welcomed the Free Trade Agreement with Australia as of benefit to the USA in five significant sectors — manufacturing, services, media, pharmaceuticals (even as I write, I am hearing a report that Congress is being assured that the "rights" of American pharmaceutical corporations have been "fully protected" in the FTA) and finance/investment.
The United States was confident enough of profiting from the FTA to put hard, multi-billion dollar figures on the extent of its gain immediately the FTA negotiations were completed.
Australia is a useful client and capital outpost for the USA. The USA is an important supplier to Australia— our current trade is balanced two to one in the USA's favour — and is set to become more important under the FTA.
As a supplier, Australia is of no importance to the US; everything we produce, they produce more of and in greater variety (with the possible exception of sheep meat) or they can get it elsewhere at a lower price.
The modeling featured on the Federal Government's FTA website prior to the negotiations showed that even an ideal outcome from Australia's point of view *might* (not *would*) have provided Australia with a 0.3% gain in the balance of trade with the

USA over 10 years. To make the fragility of this figure quite clear, it is worth noting that this amount might equate to an hour's movement in the AU$ exchange rate on world markets. Other modeling showed a 2% loss. Figures the Federal Government releases today (30/4/04) are of the same marginal ilk.

The message is clear: there is a significant and calculable net gain to the USA as it improves its position as a supplier to Australia. Given the areas in which the US has said it will benefit upfront, plus the experience of Canada and Mexico under NAFTA, it may be assumed that the degree of profit for the US equates to a loss for Australia.

In the longer term, with increasing US investment in Australia — buying the Australian farm — and the manipulation of that investment including repatriation of profits, profit transfer within corporate structures and anti-competitive protection of parent corporation profit (e.g. closing Australian production and making Australia an importer) will exacerbate the situation.

Nothing more should have been expected given the experience of Canada and Mexico, and the recent FTAs the USA has been forcing, or attempting to force, on Latin America.

F. *A further US advantage; the US-ification in the Australian business environment*

In addition to the obvious business imbalance in the FTA that will deliver profits to the USA, there is a more subtle factor at work which will undermine the ability of Australia to get on anything like fair and equal terms.

Implicit in the FTA is a massive shift in the terms under which business operates in Australia. The FTA is based on a philosophy of libertarian market capitalism. At a stroke, it US-ifies the Australian business and social environment and sets that change in concrete by precluding large areas from government purview.

Australia under successive economic rationalist Labor and Liberal/National Coalition governments has made some significant moves in this direction. Recently, however, with the failure of privatisations of essential services becoming apparent both here and overseas, the weakness of the libertarian market model in supplying some services, and other problems at the public/private interface, more and more disquiet about letting "the free market" take care of delivery, has become apparent in the Australian community.

It would not be too much to say that governments were facing a backlash and in light of that, were doing some backpedaling towards a more regulated market and a limit on privatisation.

However, the FTA delivers a huge boost to the market libertarians. It places trade above all else, including human welfare, it removes most aspects of trade from government purview and regulation, and it both expands and restricts our current definition of trade to suit the capital end of the trade spectrum.

An example of expanding the definition: including publicly-owned commodities and services like water and water supply in "the market".

Examples of restriction of the definition: excluding labour questions — if capital is free to move to find the cheapest labour, labour should be equally free to move to find the best wages; excluding environmental questions — every element of production has an environmental cost which is not considered in the FTA.

II. Other factors in and around the US-Australia FTA and alliance

Business 101 says small businesses prosper by operating independently, specialising, and responding to their own markets. Milkbar Australia can prosper by being independent of supermarket USA and doing business with its own customers on its own (human) terms, not those dictated by the supermarket giant. There is "me too" marketing, but that's about survival and modest profits at best, always overshadowed by the market leader and it has a great history of withering on the vine after a few years.

You don't need to have studied business to know this. We would all goggle in disbelief if we saw a convenience store negotiating an arrangement with a supermarket chain — its direct competitor.

Unthinkable, right? But this is exactly that Australia is doing with the USA-Australia Free Trade Agreement

The trade part of the agreement is bizarre, but it should not be considered in isolation. There are things happening around it which are inextricably linked to it.

A. Security

The Prime Minister is insistent that questions of defence are quite separate from the FTA. What a ridiculous statement on three counts.

First, military matters and military treaties have always been about trade! Right at this moment, Australia is contributing to the USA-led invasion and occupation of Iraq. The US's invasion is about trade as discussed above. There is no question that Australia contributed to the Iraq invasion in the hope of gaining trading concessions at the end of it. The USA made it quite clear at the outset that it would be reserving trade and investment opportunities in a rebuilt Iraq for itself and those who joined it in the invasion.

There is also a trade in military manpower — if Australia wasn't there, the US would hire mercenaries as a substitute. Already 10% of the military establishment in Iraq is mercenary, the so-called contractors. They are part of the trade of defence.

In addition, an important component of the USA's export to Australia is defence equipment. The Howard Government has been assiduous in buying US-manufactured and specified equipment with the stated purpose of tightly fitting Australia's defence establishment into a US defence jigsaw.

The failings of this latter ploy are obvious if we revisit our metaphor of the Australian convenience store and the US supermarket. This is the milkbar signing on to use, maintain and help pay for the development of the supermarket's security system — built by the supermarket chain to its own specifications to meet its own needs! Milkbar Australia has been doing it pretty right for years, using the typical milkbar owner's low cost approach — building relationships with customers and neighbours while keeping a sharpish eye on them and having the law and police powers in reserve. It works and it is very economical! Why should the milkbar trade that in for an expensive, high tech system with costs that could (literally) skyrocket? Further, the high tech system actually will not work for the convenience store because the equipment bought won't fit into the shop or major components purchased, which may not work at all because they are still experimental, and will only be effective when linked with other components the milkbar can't afford to buy (the AWACS planes)!

But the USA-Australia FTA with ensure the USA is advantaged as a military supplier to Australia, regardless of hows unsuitable its equipment is to us.

B. Genetically Modified crops

While State governments are frustrating the ambitions for expansion of the GM crop corporations, under the FTA they will be free to club Australia into submission using the impediments to trade rules. The rules place the responsibility on Australia to prove it is *not* guilty, i.e. that the crops are *not* harmful in some way to consumers, agriculture and the environment in general. All risk will be placed on Australia's shoulders

This is like the milkbar dropping its branded stock and replacing it with the supermarket chain's "own brand" products, all cheaper than the branded products, returning a profit to the giant supermarket, giving a lower profit margin to the small shop and generally of lower quality. Ridiculous.

Genetically modified crops are the lowest level commodities, the new bottom of the market. If milkbar Australia goes GM it will be dealing in the "own brands" of the giant supermarket USA and in direct competition with it. It cannot win such a competition. Traditional, non-GM crops give Australia a chance to maintain and build its own niche at the more profitable middle to top of the market — where most buyers actually are, prices and profits are higher, the market more stable, and the competition less fierce! Go a step further, go organic, and the differentiation is complete ... and VERY profitable!

C. Quarantine

The same argument applies as for GM crops. Changes are already occurring, they will be cemented in place and extended by the FTA. The unspoken part of the argument will be that Australia gets a competitive advantage by having crops or livestock free of diseases which ravage crops or livestock elsewhere.

Unspoken — Australia should contribute to equalising world trade by taking the risk of introducing diseases where none now flourish!

III. Finally...

Regardless of all other considerations, in the end the fatal flaw with the FTA is the difficulty of renogiating it or abrogating it once it is in place.

The FTA includes secret grievance processes and draconian penalties for so-called loss of trade or profit.

Withdrawal from the FTA could be very, very painful.

It is imperative that Australia abrogate this disastrous agreement immediately.