



FOR MEDIA

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**THE IMPACT OF AN AUSTRALIA-US FREE TRADE
AGREEMENT – THE LABOR PERSPECTIVE**

**Speech to Australian APEC Study Centre Conference
National Press Club, 29 August 2002**

Has Congress given a green light to negotiating a US-Australia Free Trade Agreement?

Australians seeking greater access to the lucrative US market celebrated earlier this month with the passage of the trade promotion authority (TPA) through Congress.

Advocates of global trade liberalisation were right to cheer.

The TPA empowers the President to negotiate a new global trade agreement without reference, line by line, back to Congress. The Congress can then accept or reject the negotiated agreement.

In welcoming the passage of the TPA the Australian government also claimed it gives the go-ahead to the early negotiation of a free trade agreement between Australia and the United States.

But does it?

A detailed examination of the United States *Trade Act of 2002* reveals that while the Congress has given the green light to negotiations within the new WTO round, it has

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given at best an amber light to negotiating separate, bilateral trade agreements with countries like Australia.

It is sensible for the US Congress to have agreed that the Bush Administration should focus its negotiating efforts on further multilateral reductions in trade barriers.

In its much more cautious approach to separate bilateral deals, the Act contains special restraints on bilateral negotiations for “import sensitive agricultural products”, including sugar, beef, cotton and dairy products – all of keen interest to Australia.

Before beginning any negotiations on these products the Administration must consult Congressional committees on whether any tariff reductions are appropriate, taking account of the impact on the US domestic industry.

This can hardly be described as fast-track authority.

In respect of bilateral deals that include agriculture, the trade promotion authority may be better described as an amber light that could more easily turn red than green.

In welcoming the passage of the TPA through the Senate, the Australian Trade Minister reiterated his earlier claims that a free trade agreement with the United States could boost Australia’s GDP by up to \$4 billion a year.

This figure is based on econometric analysis commissioned by the Department of Foreign Affairs and Trade (DFAT).

But it requires the unrealistically favourable assumptions of all tariffs and most quotas being removed.

Most of the estimated gains from such a clean FTA come from Australia removing its protection against US imports. The Australian government has never stated this publicly.

Most of the remaining small gains would come from the United States removing its barriers against Australian agricultural products, which America will find very hard.

Where is a trade agreement with Australia on the American priority list?

The Government has expressed confidence that the Administration will give Australia priority in negotiating a free trade agreement and that negotiations will commence in October:

“We believe Australia is very near the top of the list when it comes to trade negotiations” (Trade Minister Mark Vaile, 3 August 2002).

This is at odds with the reported statements of US Trade Representative Bob Zoellick that the Administration’s priorities were to finalise free trade agreements with Singapore and Chile, and to launch new negotiations with Morocco, five central American countries and five southern African countries “and also possibly one with Australia” (*The Age*, 16 August 2002).

Mr Zoellick's reported priorities are consistent with his statement on 1 August upon the passage of the TPA that lists a possible free trade agreement with Australia behind Chile, Singapore, Bolivia, Ecuador, Peru, Colombia, Southern Africa, Central America and Morocco.

Of course, it is possible that the Administration will elevate Australia up the list, but at this point the Australian Government seems keener to begin negotiations on a free trade agreement with the United States than is the Administration.

Labor says: put Doha first

Three years ago the prospects of further global trade liberalisation were in tatters. The Seattle launch of a new round spectacularly failed to gain lift-off.

Anti-globalisation was all the rage.

It is understandable that, in these circumstances, countries might seek out bilateral or regional trade deals.

In fact, a massive proliferation of proposed free trade agreements followed the Seattle debacle – though very few have been concluded.

Discussion among East Asian countries of preferential regional trade agreements that might exclude Australia had worried the Australian Government.

And so was reborn the idea of a free trade agreement between Australia and the United States – an idea that was first raised in the mid-1980s but never actively pursued.

Australian Labor Governments favoured multilateral trade liberalisation over discriminatory bilateral agreements. Through its initiation and leadership of the Cairns Group of agricultural fair trading nations, the Australian Labor Government showed effective leadership during the successful Uruguay Round.

With the launching of a new round of multilateral trade negotiations in Doha late in 2001, hopes rose for further global trade liberalisation.

But the Doha round lacked impetus. That is, until the passage of the trade promotion authority through the American Congress earlier this month.

Adding further impetus to the new round has been the Americans' offer to halve their farm subsidies if the Europeans and Japanese agree to match them. And the Europeans have made some encouraging noises about decoupling their farm subsidies from production.

In a dramatic six weeks, new life has been breathed into the Doha round.

Labor urges the Australian Government to seize the opportunity of the renewed interest in the Doha Round.

We welcome Trade Minister Mark Vaile's initiative in convening a meeting of 25 trade ministers in Sydney in mid-November to help maintain the new-found momentum of the Doha Round.

Labor's message is: put Doha first.

What are the advantages of a discriminatory trade agreement with the United States?

The Government puts the maximum benefit of a preferential free trade agreement with the United States, under the most favourable assumptions, at \$4 billion per annum, or about 0.6 per cent of GDP.

But this does not take account of the impact of entering into a discriminatory agreement on Australia's trading relationships with excluded countries. East Asia buys more than half of Australia's exports and the United States about 10 per cent.

The economic modelling done for the Government shows that under a US-Australia FTA at least some of Australia's imports would be diverted from East Asia to the United States.

Australia could not expect the countries of East Asia to be entirely sanguine about this loss of export markets to Australia as we implemented a discriminatory trade agreement with the United States.

The solution to this potentially large problem would be to ensure that any FTA with the United States is not discriminatory against other trading partners.

But why would the US Administration agree to the removal of import restrictions on Australian agriculture and extend those concessions to all other countries separate from the Doha round of multilateral negotiations?

National Farmers Federation President Peter Corish has provided the answer:

There is only one way we will get any meaningful reform, and that is through results at the World Trade Organisation. If you do a deal in the WTO then you effectively get 140 FTAs all at once".

Why not devote Australia's scarce negotiating resources and political capital to the multilateral round?

Labor's position

These considerations lead logically to Labor's position on a US-Australia FTA, which is as follows.

In granting President Bush trade promotion authority earlier this month, the US Congress breathed life into the trade negotiations launched by the World Trade Organisation in Doha in November 2001.

Those negotiations hold the key to eliminating the many distortions in world trade, which limit Australia's trading potential and lock so many poor countries out of lucrative international markets.

The passage of the US *Trade Act of 2002* also opens the way for the Howard Government and the Bush Administration to begin negotiations on an Australia-US free trade agreement.

Labor is not opposed to bilateral trade agreements per se, but we want to ensure any such agreements work to strengthen the multilateral system, not undermine it.

Labor will await the details of the FTA with the United States before making any judgement about its merit.

Labor views with concern the strict conditions on bilateral trade negotiations set down by the US Congress in the *Trade Act of 2002*.

"Sensitive" agricultural products are exempt from the President's power to proclaim tariff rate reductions under bilateral FTA negotiations, and cannot be discussed at all unless Congress has been consulted and the US International Trade Commission has reported on the effects of trade liberalisation in those sectors.

Even armed with TPA, President Bush is limited to making tariff cuts of up to 50 per cent, and most cuts will be phased in slowly, over periods of up to 10 years.

The US *Trade Act* also expresses a very clear preference for the US to save its best negotiating effort for the WTO's Doha Round. This makes perfect sense to the Labor Party, which has long recognised that global problems like trade barriers are best tackled on a global scale.

An FTA with the US must: create substantial new economic opportunities for Australia; include agriculture and steel; respect Australia's legitimate national interests; and not detract from the WTO's Doha Round of global trade negotiations.

The Labor Party would not support an FTA that undermined Australia's strong free trade credentials, which are among our most valuable national assets.

Labor remains concerned about the impact of the Australia-US negotiations on Australia's scarce trade negotiating resources, at a time when strong Australian leadership is required in the WTO's Doha Round and in the Cairns Group of agricultural exporters, which Australia chairs.

We are also conscious of the potential for any preferential trade agreement to change the direction of Australia's trade relations.

The Howard Government will need to ensure that any trade deal with the US will not damage or limit Australia's other trade relations, particularly in the Asia-Pacific region.

The breadth of issues that might be covered in the FTA should be subject to public debate in Australia, but it must be well-informed debate.

The Government must provide Australians with plenty of information as the FTA negotiations progress, and actively seek their views on what they want from an FTA.

We look forward to an early announcement from the Bush Administration and the Howard Government on the timing and scope of the FTA negotiations.

Labor supports stronger economic and investment relationships with the United States. An economic cooperation agreement between our two countries that did not discriminate against our other trading partners could achieve these worthy aspirations.