
US Australia Free Trade Agreement

Agriculture: the strategic issues

Must agriculture be included?

There is little doubt that the idea of a 'free trade' agreement between the USA and Australia has popular appeal – probably on both sides of the Pacific. The ready assumption of most readers of the Sun-Herald or USA Today is that there couldn't be much standing in the way of such an agreement. Could there? Popular - even well informed - sentiment toward the idea is positive.

In 'the grand scheme of things' there isn't much in the way of closer economic integration between the two countries – except certain trade barriers - and the barriers themselves, although surprisingly high, are few and difficult to defend as sensible economic policy. This does not mean, however, that these barriers are easily overcome: quite the opposite. They mark the entrenched positions of industries that remain islands of high protection and support and who have demonstrated, time and again, that they are able to resist the logic of good economic policy let alone the sentiment that, more often than not, is the main driver behind proposals for bilateral a 'free trade' agreement.

Contrary to popular sentiment – probably too much so - most 'analysts' contemplating an FTA between Australia and the USA tend to seize on the difficulties: won't the main irritants in the current trade relationship – mostly in food trade – defeat the idea? Media analysts, who find conflict easier to understand than actual ideas, skeptically ask if it is really likely that the USA will open its lamb market – forgetting that the US lamb market has long been our greatest export outlet for lamb meat and that the present scrap is about a temporary, WTO-regulated measure. They miss, generally speaking, the real barriers that – because they are effective – are largely invisible to them: sugar, dairy, cotton and Australia's contingent use of quarantine for protectionist purposes.

Could these barriers – almost the only serious market access barriers in the bilateral trade relationship – *really* be addressed in an FTA? Or will the political damage that is threatened by an attack on these barriers outweigh the benefits that our leaders might see flowing from the sentimental support for the idea of an FTA? Is there some way in which an FTA could be concluded without facing up to the liberalization of the

US market for dairy products or the Australian market for poultry meat? Must these barriers to food trade in fact be included in an FTA negotiation? Or can they be 'put in perspective'; ignored?

The WTO requires that all discriminatory agreements authorized under Article XXIV of GATT – Free Trade Agreements or Customs Unions - cover 'substantially all trade'. Without picking too closely over the meaning of 'substantially', this implies in the case of an FTA between Australia and the USA that trade in agricultural products must be included.

How substantial is this trade?

Table 1 United States Exports to Australia

Rank 2000	Agricultural Exports by HS Category	Value \$US m	% of total exports
27	23.--residues and waste from the food industries; prepared animal feed	55.9	0.48
31	24.--tobacco and manufactured tobacco substitutes	38.8	0.33
34	21.--miscellaneous preparations	31.1	0.27
38	08.--edible fruit and nuts; peel of citrus fruit or melons	27.1	0.23
41	19.--preparations of cereals, flour, starch or milk; bakers' wares	24.4	0.21
42	20.--preparations of vegetables, fruit, nuts, or other parts of plants	23.6	0.20
45	16.--edible preparations of meat, fish, crustaceans, molluscs or other aquatic invertebrates	20	0.17
46	03.--fish and crustaceans, molluscs and other aquatic invertebrates	19.3	0.17
47	12.--oil seeds and oleaginous fruits; miscellaneous grains, seeds and fruits; industrial or medicinal plants; straw and fodder	19.2	0.16
50	18.--cocoa and cocoa preparations	16.2	0.14
51	07.--edible vegetables and certain roots and tubers	15.4	0.13
60	17.--sugars and sugar confectionery	10.1	0.09
64	01.--live animals	7.8	0.07
65	13.--lac; gums; resins and other vegetable saps and extracts	7.8	0.07
72	05.--products of animal origin, nesoi	5.6	0.05
73	02.--meat and edible meat offal	5.1	0.04
76	15.--animal or vegetable fats and oils and their cleavage products; prepared edible fats; animal or vegetable waxes	3.5	0.03
78	11.--milling industry products; malt; starches; inulin; wheat gluten	3	0.03
80	04.--dairy produce; birds' eggs; natural honey; edible products of animal origin, nesoi	2.3	0.02
84	10.--cereals	1.8	0.02
85	09.--coffee, tea, mate and spices	1.8	0.02
87	14.--vegetable plaiting materials and vegetable products, nesoi	0.5	0.00
93	06.--live trees and other plants; bulbs, roots and the like; cut flowers and ornamental foliage	0.2	0.00
	Total	340.5	2.93

Source: US International Trade Commission

The sum of this agricultural trade is approximately \$US2 billion out of a total trade of

almost \$18 billion or about 11%: substantial enough, one would think, to demand inclusion of the sector as a whole. Of course, the market access paradox applies: the more restrictive the barriers to mutual agricultural trade – and the greater the potential benefit of trade liberalization - the weaker the WTO obligation to include agriculture in an agreement. This is because where trade barriers have greater effect the trade is less 'substantial' and the obligation in Article XXIV less binding. If worked on a product-by-product basis, 'salami-style,' this perverse logic can be used to exclude a large number of highly protected markets from coverage in an FTA¹.

Table 2 US Agricultural Imports from Australia

Rank 2000	Agricultural Exports by HS Category	Value \$US m	% of total imports
1	02.--meat and edible meat offal	819.5	13.19
8	22.--beverages, spirits and vinegar	282.2	4.543
15	01.--live animals	96.2	1.548
17	03.--fish and crustaceans, molluscs and other aquatic invertebrates	87.2	1.403
21	08.--edible fruit and nuts; peel of citrus fruit or melons	57.5	0.926
24	12.--oil seeds and oleaginous fruits; miscellaneous grains, seeds and fruits; industrial or medicinal plants; straw and fodder	48	0.773
25	04.--dairy produce; birds' eggs; natural honey; edible products of animal origin, nesoi	46.9	0.756
26	51.--wool and fine or coarse animal hair, including yarns and woven fabrics thereof; horsehair yarn and woven fabric	45.4	0.731
27	17.--sugars and sugar confectionery	44.5	0.717
28	11.--milling industry products; malt; starches; inulin; wheat gluten	38.8	0.624
31	13.--lac; gums; resins and other vegetable saps and extracts	33.9	0.545
49	05.--products of animal origin, nesoi	12.3	0.199
51	23.--residues and waste from the food industries; prepared animal feed	8.8	0.142
60	21.--miscellaneous edible preparations	5.5	0.088
61	20.--preparations of vegetables, fruit, nuts, or other parts of plants	5.3	0.085
66	16.--edible preparations of meat, fish, crustaceans, molluscs or other aquatic invertebrates	4.5	0.073
69	15.--animal or vegetable fats and oils and their cleavage products; prepared edible fats; animal or vegetable waxes	3.5	0.057
71	06.--live trees and other plants; bulbs, roots and the like; cut flowers and ornamental foliage	3.1	0.05
72	19.--preparations of cereals, flour, starch or milk; bakers' wares	2.6	0.041
74	07.--edible vegetables and certain roots and tubers	2.3	0.038
89	18.--cocoa and cocoa preparations	0.3	0.005
90	09.--coffee, tea, mate and spices	0.2	0.004
93	10.--cereals	0.1	0.001
95	14.--vegetable plaiting materials and vegetable products, nesoi	0	0
98	24.--tobacco and manufactured tobacco substitutes	0	0
	Total	1,648.6	26.539

Source: US International Trade Commission

Bilateral agricultural trade is much more substantial in value and as a proportion of exports *from* Australia than *to* Australia. More than a quarter of Australian exports, valued at \$US1.6 billion in 2000, were agricultural products (food and wool), including our biggest single export item (meat). The largest agricultural (food) export from the United States to Australia – pet food (?) – ranks as the 27th largest US export to Australia, valued at \$US55m and representing less than half of one percent of total US exports to Australia in 2000.

Barriers to agricultural trade

It is very likely that in the absence of barriers to food trade between the two countries that there would be higher volume of trade. There are a relatively small number of barriers to agricultural trade between Australia and the USA but, on both sides, the remaining barriers are high and buttressed by strong and longstanding industry lobbies that are unlikely to be swayed by the other attractions of a bilateral FTA.

US barriers

1. Sugar (*quota*)

Under the Uruguay Round outcome the US provided a yearly global minimum access commitment for imports of sugar and syrup derived from sugar cane or sugar beets of at least 1.139 million tonnes. The in-quota tariff rate is US1.4606 c/kg (0.664 c/lb) and the out-of-quota tariff rate is US39.85 c/kg (18c/lb) reducing to US33.87 c/kg (15.3 c/lb) in 2000.

In accordance with the US's agreement to maintain Australia's minimum import share of 8.3% of the base quota for raw sugar Australia's initial allocation for FY 2000/01 has been set at 87,408 tonnes (the same as last year).

2. Cotton (*quotas and high tariffs*)

Imports of cotton into the US are subject to a tariff rate quota (TRQ) set at 3% of US domestic consumption in 1995 rising to 5% in the year 2000. Under the Uruguay

Round outcome in-quota levels are to increase from 237,980 bales (480 lbs per bale) for 1995 to 369,634 bales from the year 2000 onwards. In-quota imports of cotton are dutiable at free or low rates of duty (depending on type) and out-of-quota imports of cotton were set at US\$36.9 c/kg in 1995 phasing to US\$31.4 c/kg in the year 2000.

3. Dairy Products (quotas)

The US dairy market, like the sugar market, is highly protected. Imports of dairy products into the US are subject to a TRQ with out of quota tariffs set at prohibitive levels with the result that US domestic prices for dairy products are significantly above the world market price.

Table 3 US wholesale prices as a proportion of world price (1999)

Product	Skim Milk Powder	Whole milk powder	Butter	Cheese
Percent of world price	176	204	190	161

Source: ABARE Impacts of Liberalizing World Trade in Dairy Products (2001)

For the major traded dairy products - even by the year 2000 - global access to the US market is still only around 3% of 1995 US domestic consumption of those products.

Under the agreements reached following the Uruguay Round of WTO negotiations, global cheese access to the United States increased from 110,000 tonnes to 140,000 tonnes. Three thousand of the additional 30,000 tonnes of cheese were allocated to Australia – bringing Australia's total allocation in the US market to 7,000 tonnes - phased in over the six years to the year 2000. In-quota tariffs range between 10% and 16% and out-of-quota rates would range between 60% and 65% (using international spot prices to calculate *ad valorem* equivalents where necessary). Australia's total cheese quota allocation is divided into five varietal categories (cheddar, granular, Swiss/Emmentaler cheese and other cheese).

US global access also increased over the six years to the year 2000 for the following dairy products: butter from 320 to 7,000 tonnes; skim milk powder (SMP) from 820 to 5,500 tonnes; and butteroil from 544 to 6,100 tonnes. Using current international spot prices to calculate *ad valorem* equivalent tariff rates, in-quota tariff rates are around 7% to 8% for butter, less than 1.5% for SMP and 10% for butteroil and, out-of-quota tariff rates are around 100% for butter, 35% to 40% for SMP and 120% for butteroil.

4. Wine (State labeling requirements)

An importer of wines into the US must comply both the federal laws of the US plus the laws of any individual state in which wine is to be sold. Labelling requirements are detailed and strictly enforced. A certificate of label approval, issued by the Bureau of Alcohol, Tobacco and Firearms, is required to effect the release of wine and spirits from Customs.

5. Lamb: (temporary tariff increases)

The United States action to raise duties on imports of lamb meat probably should not appear in this list of barriers: it is after all only a temporary 'safeguard' and the USA is obliged by a WTO Disputes Settlement Body decision, in any case, to rescind the measure. No government would normally consider negotiating the removal of a trade barrier that is supposed to be temporary and is, in fact, illegal.

However, protection for the US lamb producers is likely to be a persistent problem despite the illegality of the current measures because the industry's 'protector-in-chief' is now the Chairman of the Senate Finance Committee - Senator Max Baucus of Montana. Sen. Baucus has recently signaled that he wants to work around the WTO ruling, or make another attempt to implement safeguard action that *will* comply with WTO requirements. Given the typical vagueness of the WTO rules on contingent protection, it is quite possible that Senator Baucus will find some means of doing just that. The fact that the measure is aimed at Australian imports and that the Senator is also the author of the only current legislation before the Congress proposing the negotiation of an FTA and is Chair of the Committee that will oversight any negotiation of an FTA with Australia, add up to a likelihood, in my view, that the US lamb import barriers - legal or not, good policy or not - will remain an issue in any FTA negotiations.

Australian barriers

Almost all of the agricultural barriers maintained by Australia on US products are phytosanitary prohibitions or restrictions – many of which have been maintained by Australia without a WTO-compliant import risk assessment (IRA). Following strong criticism of Australian procedures by the WTO Panel on imports of salmon from Canada,

the government has begun to establish, or revise, IRAs across a range of products. The USA has complained on many occasions about 'excessive' opportunities created by the legislation for the Australian industry to frustrate progress on an IRA by procedural means including repeated demands for consultations or by appealing decisions.

Prohibition on poultry meat and certain pork meat

Quarantine regulations effectively prohibit the import of poultry meat – except when cooked at extreme temperatures for a long period of time – and cooked pork meat other than canned pork meat. An IRA is being conducted to determine whether these bans – which are, however, already in place – are justified.

Sterilization of imported feed grains

Current requirements for the import of feed grains – formerly banned altogether - include steam sterilization of imports at the port of entry. US importers complain that this requirement effectively prohibits commercial imports. According to the US, only the port of Brisbane currently has such a treatment facility available. The USA has sought changes to the existing IRA, but has raised concerns about the 'stakeholder consultations' on the IRA that it believes may again frustrate any liberalization of the bans.

Fresh fruit and vegetables

According to the US Trade Representative's office, Australian quarantine barriers also prohibit or severely limit the entry of many fruits from the United States, including Florida citrus, blueberries, stone fruit, apples and pears. Some of these limits are now subject to IRA processes that may see higher imports from the USA. Industry sources estimate that the Australian market for US citrus fruits alone is worth \$US20 – 75 million.

Table grapes from California – long subject to prohibitions – may now enter Australia subject to a fumigation regime. The estimated value of the trade is \$US12 - \$US19 million.

Estimated benefits from trade liberalization

It is beyond the scope of this paper to attempt an estimate of the value of bilateral trade liberalization: economic modeling now underway by CIE as consultants to the Department of Foreign Affairs and Trade should provide us with the evidence. However a reasonable guess in the case of Australian exports to the USA is that the value would be at least hundreds of millions of dollars due to the level of prices in the highly protected US markets for sugar and dairy products and the very large size of the market compared to Australian production in both of these products and in cotton.

The potential gains for US exporters to the Australian market are much more limited: probably less than \$US100 million in additional exports of fruit and vegetables, poultry and pork products. Of course, the *welfare* gains to the USA would probably be large - reflecting the greater economic efficiency of importing some high-cost products rather than relying on domestic production: but consumers and tax-payers are never present to represent their own welfare needs when decisions are made about trade protection.

How can it be done?

Those who are skeptical about a 'free trade' agreement between the USA and Australia are hardly ever concerned about the scale of the benefits relative to the benefits of alternative policies. Few of the skeptics – in the media at least – seem to be able to make such well-informed judgments. The skepticism is focused, normally, on matters of 'realpolitik': can this thing be done in the face of probable opposition from protected industries – particularly in the USA where the trade 'losses' are likely to be greatest – and on what terms?

The terms would be set by Article XXIV

Were Australia and the USA to agree to negotiate an FTA it would be *almost* inconceivable that either party would wish to create an FTA that did not comply with the terms of WTO Article XXIV on the coverage of liberalization and the duration of the transition period.

Both the USA and Australia have resisted the spread of discrimination in trade and expect to gain from continued multilateral trade reform – in agriculture, services and market access. It is very likely that any FTA agreed between them would conform to the limits that Article XXIV places on derogations from the MFN principle.

Up until now, the USA and Australia are among the least prolific joiners of 'free trade' agreements or customs unions: the USA has had only two *reciprocal* agreements (NAFTA and Jordan) while Australia has a reciprocal agreement only with New Zealand. Up to now, the two countries have been – probably for different reasons - among the most dogged defenders of non-discriminatory agreementsⁱⁱ.

But the perverse reality of the current trading system is that, as a result of creeping 'regionalism', Most Favored Nation (MFN) status has begun to mean 'least favored nation' status. The number of discriminatory regional agreements is now more than 130 and their trade coverage, in theory at least, is something more than 80% of world imports and exports. Economies that are not members of discriminatory trading 'blocs' or negotiating to join such a bloc have long-since begun to look isolated and, in the case of small economies such as Australia, peripheral. A policy of non-discrimination continues to make good economic sense on the import side of the trade ledger – at least for small economies - *whatever* trading partners do and the 'costs' of non-discrimination are smaller than they were a decade ago, now that trade-weighted MFN tariffs in developed economies (at least) are lower on average. But trade preferences matter most where tariffs are not the binding trade measure: where import quotas remain in place for historical reasons or tariff quota access is preferentially allocated to trading partners inside a 'regional agreement' as is all-too-frequently the case in agricultural trade.ⁱⁱⁱ

It remains in the interests of the USA and Australia as late-adopters of regional policies –outside the major regional 'blocs' – to continue to support the limits that Article XXIV imposes on derogations from the MFN principle: that agreements

- Should cover 'substantially all trade'
- Should be achieved normally within ten years
- Should not raise the average level of protection faced by imports from non-parties.

The USA wants 'Free Trade' agreements

There is still some reason to question whether the US administration 'really wants' to negotiate an FTA with Australia: they've said very little about it, despite plenty of opportunity to do so. But here has never been a better time to propose an FTA to the United States.

The Bush Administration has told the Congress that it is *eager* to begin expanding the number of 'free trade' agreements to which the US adheres. It has been warning that the USA will be 'left behind' if the Administration does not have the authority to negotiate bilateral deals with Chile or Singapore regional deals with all of the countries of the American continent.

In the absence of this authority other countries have been moving forward with trade agreements while America has stalled. We are in danger of being left behind. There was a time when U.S. involvement in international trade negotiations was a prerequisite for them to succeed. That is no longer true. Indeed, other countries are writing the rules of the international trading system as they negotiate without us.

The European Union has free trade agreements with 27 countries, and 20 of these agreements have been signed since 1990. Just last year, the European Union and Mexico – the second-largest market for American exports – entered into a free trade agreement. The European Union is also negotiating free-trade agreements with the Mercosur nations and the countries of the Gulf Cooperation Council. Japan is negotiating a free trade agreement with Singapore, and is exploring free trade agreements with

Mexico, Korea, and Chile. There are approximately 130 free trade agreements in force globally, but the United States has only two agreements in force: one is with Canada and Mexico (NAFTA), and the other with Israel.

In the long run, our deadlock hurts American businesses, workers, and farmers, as they will find themselves shut out of the many preferential trade and investment agreements negotiated by our trading partners. To cite just one example, while U.S. exports to Chile face an eight percent tariff, the Canada-Chile trade agreement will free Canadian imports of this duty. That is why we will resume negotiations with Chile on a free trade agreement this month.

We cannot afford to stand still – or be mired in partisan division – while other nations seize the mantle of leadership on trade from the United States. This would be a huge missed opportunity, indeed an historic mistake.

Ustr Robert Zoellick - Committee on Ways and Means of the U.S. House of Representatives, March 7, 2001

Reinforcing – although in fact complicating – this trend, the new Chairman of the principal trade oversight committee of the US Senate, Senator Baucus, has introduced legislation proposing the commencement of negotiations with Australia, New Zealand and the Republic of Korea.

There are gains for both parties

It would be *almost* inconceivable that Australia would agree to negotiate an agreement that did not include agriculture, or that omitted a major agricultural export products such as dairy or sugar - since these are where the biggest trade gains are likely to be found.

But would the USA gain from the bilateral liberalization of agricultural trade? From an economic point of view, it seems very likely. The gains from trade liberalization that would follow the opening of US markets to a globally competitive producer of certain products that are highly protected in the USA might be offset, to some extent, by trade 'diversion' costs due, for example, to US processing industries sourcing primary inputs from Australia rather than from other trading partners on the basis of the preferential access available to the US market.

In the case of two of the most highly protected US food industries – dairy and sugar – however, it is unlikely that the diversion costs would be great since Australia is one of the lowest cost suppliers to world markets for the primary commodities. There may be greater 'diversion' costs associated with preferential arrangements on cotton.

The 'economic point of view' would probably not be shared by US producers of the primary commodities, although the processors of dairy products and the customers of the US sweeteners industry would undoubtedly welcome lower prices.

The USA has already agreed to liberalize food trade under an FTA

The North American Free Trade Agreement is really three bilateral agreements between the USA and Canada, the USA and Mexico, and Canada and Mexico. The agreement between the USA and Mexico provides for the complete liberalization of bilateral barriers to agricultural trade within 15 years (10 years for most products). The USA bilateral agreement with Jordan liberalizes all agricultural barriers within 10 years and a similar deal is currently being negotiated with Chile.

It is *possible* that the USA would decline to offer Australia the same terms it offered to Mexico on agricultural trade - after all, Australia is hardly as important to the US in terms of trade or cultural exchanges as Mexico.^{iv} But the Mexican (NAFTA) precedent creates a reasonable expectation of similar treatment.

The objectives for the Free Trade Area of the Americas (FTAA) on agriculture are to have general market access provisions identical with those for other products – that is, progressive elimination of all tariff barriers – together with the elimination of export subsidies.^v

There will be opposition from both US and Australian industries

It is *likely* that several agricultural lobbies in the United States and in Australia will oppose liberalization of agriculture trade in the context of an FTA. There is every reason to expect them to 'white ant' any agreement to progressively liberalize agricultural trade: as they have done in the case of the NAFTA agreement on the US side and as they have done in Australia following the government's decision to comply with the WTO ruling on imports of Canadian salmon. But there is no reason why this should prevent the conclusion of negotiations of an agreement that includes agriculture or even the approval of such an agreement by the US Senate.

The prospect of the strong opposition of some agricultural lobbies - probably the *only* significant opposition to the proposal from United States industry groups - could certainly dissuade the Bush administration from seeking prior approval ('fast track' or 'trade promotion' authority) for the negotiations. But does it merit any special 'strategy' on our part, or should we keep 'mum' and allow the Administration to make its own judgment?

The answer to that question depends on whether there is significant benefit for Australia in the Agreement - I believe there is, although for reasons I will come to later, the greatest potential benefit is not likely to be found in access to the US market. In my view this benefit undoubtedly merits our efforts and planning - 'strategy' if you like - to counter the opposition of some US agricultural lobbies (dairy, sugar, cotton, nuts).

Strategies

After twenty years of attempting to follow and influence some aspects of US foreign agricultural policy, I am confident only in saying that there will be no single successful strategy to deal with US opposition to the liberalization of markets such as dairy and sugar in favor of Australia.

The US political economy is large and complex due to the number of players, the openness of the Congress and other key decision makers to the (proper) influence of private interest and the size of the stakes in the game. If you want something against the interests of an industry such as the dairy or sugar industries then you will have to work a very broad front to secure sufficient support for your position. Even then the odds are long. After all, in the case of the dairy industry, we are talking about one of the most important agricultural activities in the USA with representation in every State and the power, in Congress, to secure laws that over-ride fundamental constitutional provisions such as the freedom of commerce between the states. This is an industry that has a habit not only of getting what it wants but getting what its Congressional supporters believe that it may want but had not thought to ask for such as injections of unsolicited cash from the public coffers in the form of 'market-loss' payments of more than half a billion (US) dollars in 2000/01. The domestic sweetener industry is smaller than the dairy industry but similarly equipped.

Against any one of these industries, a foreigner has no well-founded hope of mounting a successful, self-interested campaign. The *only* campaign that is likely to succeed against the determined opposition of any one of them would be to discover, or perhaps form, a coalition of powerful domestic lobbies whose interests were coincident with our own. The richness of the US political economy means that there probably exist elements that could form such a coalition if we look hard enough. To begin with, neither the agricultural producer lobbies nor the industry lobbies is monolithic. It is even likely that we would find some degree of support for an FTA among them. For example, in the US poultry export industry - if they believed that an FTA would put an end to the shenanigans over quarantine barriers on Australian imports of poultry meat. Other industries might also support an FTA: the citrus industry, the feed supply industry, Californian fruit and vegetable export industry. Processed food firms with an interest already in exports to or investments in the Australian market: Mars, Kraft, Dole, Bunge,

Heinz etc could be expected to have some interest - although it would be a mistake to imagine that these firms would adopt a high profile in support of the FTA against the opposition of dairy, sugar or nut producer organizations in the United States. Top-level farm organizations such as the Farm Bureau Federation have in the past supported a strong trade liberalizing agenda but it's far from clear where they would stand on a discriminatory preferences for Australia that were strongly opposed by domestic producer groups.

Of course, non-food industry groups that hoped to benefit from the FTA - possibly the film and video industry or the telecommunications industry - could also be expected to support agricultural liberalization as part of an FTA. But it would certainly be too much to expect them to expend much *lobbying* effort on broad-based coverage of agriculture.

Finally, we could probably find a certain amount of support in the form of statements and perhaps Congressional testimony - if it came to that - from some of the public policy interest groups that support a trade liberalization agenda: the Cato Institute, the Brookings Institute, the Heritage Foundation and the like.

But the truth is that the ledger of support and opposition to the inclusion of the highly protected agricultural products in an FTA is likely to lean heavily to the side of opposition. None of the support mentioned above amounts to more than a popgun in comparison with the heavy artillery that the dairy or sugar industries are able to roll out.

So is the cause hopeless? No; not in my view. Although I doubt we could win a case for the preferential liberalization of these markets by going 'head to head' with the US industry groups in the Congressional lobbies, we may not need to take an aggressive stand on this issue at all. The reason is what I would call the 'law of inertia' that holds sway - most of the time - over pendulum of political economy. This 'law' is nothing more than an observation about the behavior of decision-makers in most circumstances: they avoid taking decisions for change - most of all *visible* decisions - whenever possible. Under great duress, when there is a crisis that relates to their continued hold on power or their perquisites of power, the 'law' of inertia may temporarily collapse and be replaced by action on the part of the managers. But the order and peace that the law of inertia sustains quickly re-asserts itself: most of the time. As long as the decision on whether to

include all agricultural products in an FTA with Australia does not awaken a 'crisis', displacing the law of non-decision with unfortunate determination and resolve, then my guess is that we could see agriculture included in an FTA, eventually.

What is this 'law' of inertia, how does it apply, and why?^{vi} Simply, the law of inertia states that, except in a crisis, the decision makers on trade issues will take only those decisions can be made to *appear* to be no decision; postponing an action, avoiding a consequence, hiding the consequences or restating a problem to minimize it. For example, if forced to make proportional cuts in export subsidies, the decision makers will first attempt to redefine the subsidy or reset the base-dates or the base amounts to ensure that the cuts actually made are as close as possible to zero, whatever the 'headline' numbers may say. An actual 'zero result' would not be any more acceptable as an outcome than the full proportional cut. But something that has the appearance of an act of compliance without actually implementing a decision is the most desirable outcome. Or, in some cases, non-compliance itself could be made acceptable – turned into 'compliance' – by co-opting the other parties to the agreement to a redefinition of the problem in a way that gives all parties a reason to step back from the brink action. For example, by assimilating export credits to export subsidies, parties that use export credits could be convinced to revise their views about the urgency of dealing with the export subsidy issue.

There is a perfectly rational basis for this 'law'. Trade measures make some people richer, but only at the cost of other people: they re-distribute wealth. Re-distribution is a very dangerous power. Because if, on the one hand, I redistribute A's wealth to B, by taxing A and subsidizing B, then A will never forget that I took from her and B will not remember, a day or so later, that I had ever given him anything. If he does remember, he will rationalize the redistribution as 'only fair' or his just deserts - for some imagined reason, who can plumb the depths of self-esteem - and will possibly use his new wealth as the 'ground zero' from which to launch further demands in the future. On the other hand, if I reject B's demands that I tax A to give him the subsidy that he believes that he some how deserves, I may jeopardize my own hold on power.

In these circumstances, except in a crisis, the managers of trade policy are naturally inclined to avoid making enemies. This is in one sense a good thing. From the

outset a trade policy manager should have tattooed on his or her forehead the motto: 'above all do no harm'. In the complexities of a real economy, trade policy managers are likely to be so ill-informed about the real consequences of their actions in the market place or about the real motives of the parties affected by a decision - who are almost always economical with the dispute - that doing nothing is the only way to be sure of doing no harm.

What the managers will actually do is more or less predictable – in the absence of a crisis. The 'law' says they'll not actually do nothing: but they'll come as close as possible to appearing to do nothing. If they're lucky they may be able to retreat behind the rules of WTO and refuse B's demands citing the treaty. But people just like themselves - who couldn't afford to make enemies - made the rules of WTO: they are vague at crucial points. The more likely outcome is that the managers will at least partially accede to B's demands by hiding the tax on A: often in a price where the tax is disguised by the value A puts on the goods or services. So, if B is a farmer, the managers will tax A by raising the price of flour, or milk or pork sausage to a level that satisfies B's demands. The tax on A will be even more devastating for the economy than just giving B a gift from public revenues, because not only will B be wealthier without being more productive, but A will consume less due to the higher prices and the whole economy will shrink a little. A will probably not, however, notice much. So the Managers' objective of doing nothing, or what amounts to the same thing, *appearing* to do nothing in the satisfaction of B's demands, is achieved. B is better off and A doesn't realize she's worse off.

Imaginary? Not so. It's precisely how the Common Agricultural Policy works. The subsidies that have compensated Australian dairy farmers for deregulation work in precisely this way, as do the tariffs that continue to protect the motor vehicle and textile industries.

How does the 'law' apply in the case of the expected opposition of US agricultural lobbies to liberalization of protected markets such as dairy, sugar and lamb? There is no need to guess: we can see the 'law' at work in the case of the sugar deal in NAFTA between Mexico and the United States.

The NAFTA sugar 'claw-back'

The headline agricultural agreements between Mexico and the United States under the provisions of NAFTA are impressive, especially in light of the high levels of protection that have prevailed for decades in both US and Mexican industries. However, the 'law of inertia' asserted itself where it mattered most to the USA - in the case of sugar trade - to reduce the value of the concessions as close as possible to nothing, although not actually to nothing, during a lengthy 'transition' period.

Mexico and the United States agreed in Chapter 7 of NAFTA agreement to convert all non-tariff barriers in their agricultural trade to tariff-rate quotas with zero in-quota rates. The over-quota tariffs were set at a rate deemed to be equivalent to the protection offered by the current quota limitations and then decline to zero, generally over a 10-year period but over a 15-year period - from January 1, 1994 - for corn and dry beans for Mexico, orange juice and sugar for the United States.

US sugar policy, based on recourse loans and high levels of tariff-quota protection, maintains domestic sugar prices well above the world market price. In FY1997, the U.S. price for raw cane sugar averaged 22.0 cents/lb., while the *landed* world price adjusted for transportation to the U.S. market averaged 13.2 cents/lb. As a result of this price differential, U.S. consumers and manufacturers of food products and beverages have paid up to \$3bn more for sugar in recent years – depending on domestic/world price differentials - than they would if imports were allowed to enter without any restriction.

The original provisions of the NAFTA subjected Mexico's sugar exports to the United States to several conditions that squeezed access to the US sugar market down to a trickle:

- During the 15-year transition period, Mexican exports were to be limited to no more than Mexico's net production surplus of sugar - domestic sugar production less domestic sugar consumption. At a minimum, Mexico was allowed to ship 7,258 tonnes of raw cane sugar duty-free but any further exports were to be conditional on the net trading position of the Mexican sugar industry as a whole, not on the competitiveness of individual producers
- For the first 6 years of NAFTA, duty-free access was limited to no more than 25,000 tonnes, raw value. In year 7 (ie. 2001), the maximum duty-free access

quantity was to become 150,000 tonnes, and, in each subsequent year, the maximum duty-free quantity was to increase by 10 percent. To put these tonnages in perspective, the import quotas allocated by the USA to the Philippines or the Dominican Republic are over 400,000 tonnes

- NAFTA also provided that these maximum levels of quota could be exceeded if one of two conditions prevailed. The first condition required that Mexico achieve net production surplus status for 2 consecutive marketing years. The second condition specified that Mexico be a net surplus producer for the first year and be projected as a net surplus producer in the second year unless it was subsequently determined, contrary to the projection, that Mexico was not a net surplus producer for that year.

This narrow chink in the wall of US sugar protection was, however, too large for the comfort of the sweetener lobby. With support from the US Congress, the US industry succeeded in its demand that the Administration alter the sugar provisions of the original NAFTA text by means of 'side letters' that the US insists - contrary to the views of the Mexican government - supercede the NAFTA agreements.

The side-letter 'agreement' stipulates that projected Mexican sugar production would have to exceed Mexico's consumption of *both* sugar and High Fructose Corn Syrup (HCFS) for Mexico to be considered a net surplus producer. For the first 6 years of the NAFTA, Mexico was entitled to duty-free access for sugar exports to the United States in the amount of its projected net surplus production, up to a maximum of 25,000 tonnes. If Mexico were not a net surplus producer, it still would have duty-free access for 7,258 tonnes. From FY2001 through 2007, Mexico will have duty-free access to the U.S. market for the amount of its surplus as measured by the formula, *up to a maximum of 250,000 tonnes*.

NAFTA specifies a declining high-tier tariff schedule for raw and refined sugar over the transition period to duty-free sugar trade in calendar year 2008. For 2001, the raw sugar tariff is 10.58 cents a pound, and the refined sugar tariff is 11.21 cents a pound. For comparison, the average world price of sugar in 2001-2002 is projected by ABARE to be around \$US0.10. This puts the current over-quota rate for the 'free trade' partner at

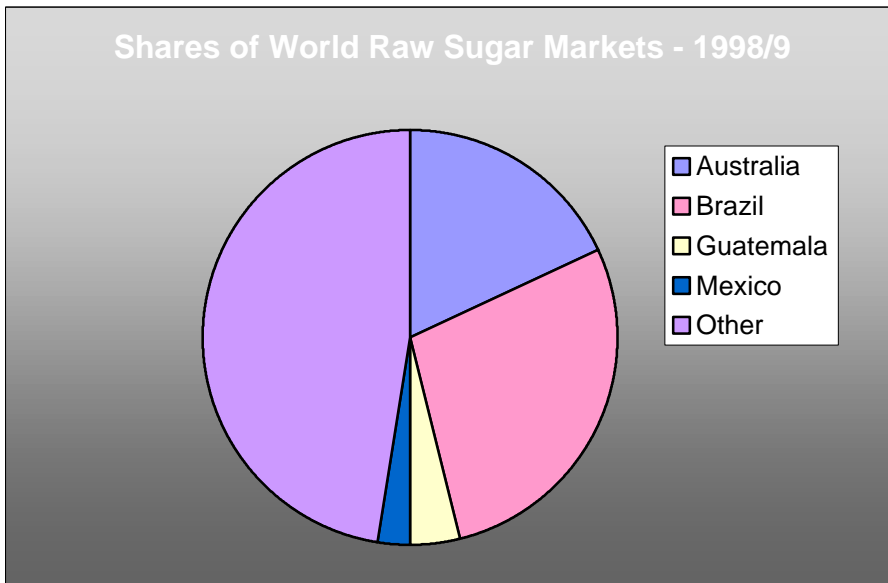
about 110 percent of the world price.

The lessons of NAFTA sugar

The impressive 'headline' decisions to liberalize even the highly protected market for sugar on a bilateral basis in NAFTA were, to some extent, driven by a 'crisis' decision process. In the early months of 1994, the USA was looking for leverage on Europe in the Uruguay Round of negotiations: the deal with Mexico suggested that the US was able and prepared to reach agriculture 'tariffication' deals with countries outside Europe – and exclude the EU from the benefits - if the EU continued to delay agreement on a multilateral agreement on agriculture.

The law of trade policy inertia thereafter asserted itself to claw back the concessions until they amounted to as little change as possible, postponed for as long as possible.

What might this mean for an Australia – US FTA? It could be argued that something like an initial 'crisis', that might propel the USA to agree to include liberalization of agricultural trade, even with Australia, exists. That 'crisis' has been precipitated by the dramatic spread of FTA's that exclude agriculture altogether, mostly on the basis of the 'salami' analysis of trade patterns to which we referred earlier. Seen from a US perspective, the fact that the recently concluded EU-Mexico or Japan-Mexico agreements minimize agriculture coverage is a problem for the USA: if this becomes the *de facto* rule, the US will have difficulty maintaining in WTO that agriculture should be treated in the same manner as other products.

Figure 1 World Raw Sugar Exports: Country Shares

Source: ABARE: Research report 99:14

The USA could (fairly safely?) assume that Australia would share this perspective and would be ready to accept a 'low-impact' liberalization schedule in order to ensure that agriculture were fully included in an FTA. In view of changes made to the provisions of Article XXIV during the Uruguay Round, the maximum transition period is now likely to be 10 years rather than 15. Although a decade is an eternity in politics, it still offers value in market terms: the discount rate is high, but not infinite so the present value of the concession is important and bankable.

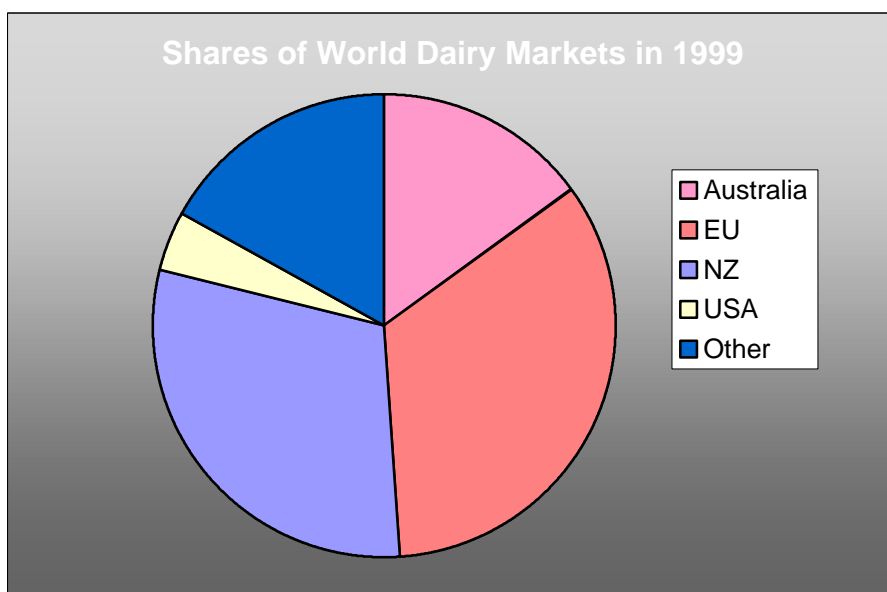
It is much less certain, however that the present value of the *preference* over that time frame is greater than zero.

Bilateral or multilateral 'free trade'?

If we can imagine the USA accepting a free trade agreement with Australia, then we must expect that it will reach similar agreements with the other countries of its own continent. The FTAA proposal is certainly a higher priority of the Bush administration than any of its bilateral negotiations. It is also closer to realization: despite the current coolness of Brazil to the idea, the 34 countries that participated in the Buenos Aires Ministerial

Meeting in April 2001 have already endorsed a target date of 2005 for completion of the negotiations. We can easily imagine, too, that if the USA can negotiate an FTA with Australia, there is no reason why it should not reach a similar agreement with New Zealand.

Figure 2 World Dairy Exports: Country Shares 1999



Source: ABARE: Research report 01:4

The countries of Central and South America (minus Mexico) account for just over 5 percent of US trade and Australia and New Zealand together for about 1.1 percent (see the table in the endnotes). However, a 'free trade' agreement with these regions represents a considerable threat to two of the most 'sensitive' US agricultural industries: sugar and dairy. The Figures show why: Australia, New Zealand and Brazil dominate world markets for sugar and dairy between them. US markets for these products are, however, highly protected with tariffs exceeding 100%.^{vii} The implication is that the opening of US markets, even on a preferential basis, to Australia, Brazil and New Zealand (not to mention Argentina, Colombia, Honduras and Uruguay) would severely undermine, if not eliminate, the protection available to the US industries for sugar, dairy and (probably) nuts. The effect would be equivalent to opening the US borders for these

products on a multilateral basis, since the addition of imports from other sources – less prominent in world markets - would not substantially change the picture for the protected US industries.

This liberalization would be a good thing for consumers in the United States who are the chief victims of the high levels of protection for the sugar and dairy industries, and would undoubtedly be seen as a very bad thing by the domestic industries. Trade policy managers are also likely to view it as a 'bad thing' because it would offend their sense of reciprocity in trade negotiations. The USA would have little to 'gain' in the mercantilist calculations of trade negotiations from agreements with Australia, New Zealand and Brazil that would compensate the effect in the US market on the dairy and sugar industries.

Figure 3 Sugar: Effects of multilateral liberalization

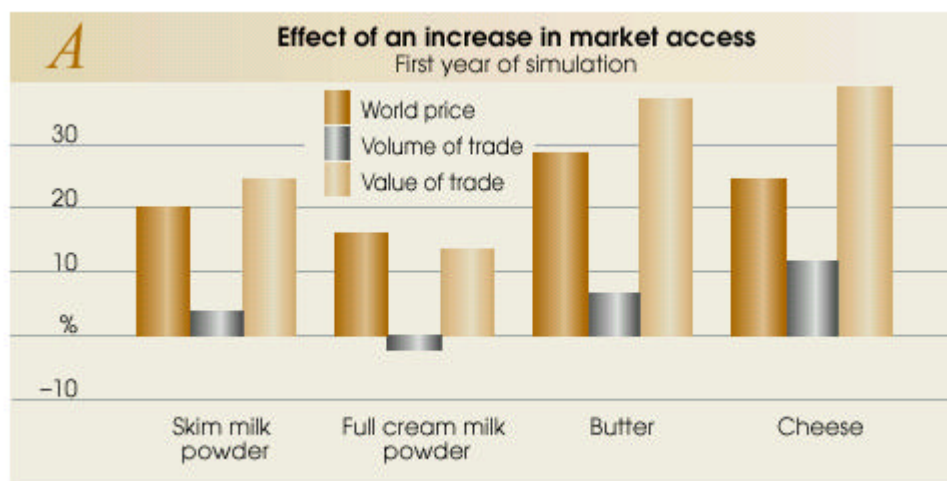


Source: ABARE: Research report 99:14

Faced with the logic of liberalizing trade with these countries, the US would be better advised to negotiate *multilateral* liberalization of the sugar, dairy, nuts and fibers markets. Although it seems a paradox at first, such multilateral liberalization would probably be *less threatening* to US producers than liberalization on a preferential basis with Australia, New Zealand and Brazil, because the simultaneous opening of protected markets for dairy and sugar products in the USA, Europe and Japan would see world market prices rise by 30 to 40 percent, reducing the price 'shock' of liberalization on the

US industry and possibly offering some US firms an opportunity to compete at the new, higher, world price.^{viii}

Figure 4 Dairy: Effects of Multilateral Trade Liberalization



Source: ABARE: Research report 01:4

The multilateral liberalization of these markets is *also* likely to be a better option for Australia, New Zealand and Brazil:

1. Under multilateral liberalization, the ABARE studies indicate that prices would be higher in world markets where the potential volume of trade is much larger than in the case of a preferential arrangement with the United States alone (see Figure 3, in particular). This means that the total returns to Australia, New Zealand and Brazil would be greater than they would have been in the case of 'preferential' liberalization where competition (Australia-Brazil on sugar; Australia-NZ on dairy) would have reduced US market prices for imports to something approaching the world price but would have offered more limited the volume opportunities.
2. The 'claw-back' threat would be less than in the case of 'bilateral' liberalization. Multilateral liberalization would be guided by WTO rules rather than by whatever rules are agreed within the 'free trade' area. This does not mean, however, that there would be *no* 'claw-back': the WTO agreement on Textiles and Clothing

demonstrates that the law of inertia operates effectively even in the multilateral arena.^{ix}

No happier outcome could be imagined for either the USA or Australia than that the USA might be led, by their logic and eventually by the outcomes of its bilateral negotiating strategies, to implement multilateral liberalization of market access barriers in its most highly protected industries.^x

Keeping it simple

Does the prospect of an FTA including agriculture that is at least 10 years off at the farther end of a long, possibly tortuous implementation period offer sufficient attraction to merit making the effort to launch negotiations? In my view, the answer is 'yes' if it were a *low-cost* option: by which I mean if the alternative uses for the energies of our industry and government analysts and negotiators and for our relationship 'capital' with the United States were not put out of reach by a bilateral negotiation.

We do have more valuable alternative uses for these resources: the creation of a mandate for multilateral liberalization of food markets – dairy and sugar prominent among them – and the negotiation of WTO agreements to fulfill that mandate. This is a more valuable use of resources because the likely results of multilateral liberalization will be more valuable than the results of discriminatory bilateral agreements with the United States. The reason is not difficult to see (and are spelled out in detail in the ABARE reports referred to earlier): multilateral liberalization will grow the entire world market for the primary commodities concerned, permanently expanding global consumption (as a result of lower prices in North America and Europe) while raising the average world price. The global 'bonus' in both of the most highly protected markets will be bigger than the US market can offer on its own – particularly if preferential access to the US is shared with our major global competitors in those products (New Zealand and Brazil).

Specialized resources would, therefore, be *better* devoted to the preparations for the proposed comprehensive WTO negotiations;^{xi} this is simply a matter of good housekeeping. But this does not mean that they should be *exclusively* devoted to multilateral negotiations. We should not abandon the FTA idea if it is possible to manage

both 'tracks'. If there is a response from the USA to the overtures made so far by Australia and the legislation proposed by Senator Baucus – we are yet to see a substantial response from the Administration to either of these – then it would be foolish to step away from the table. The opportunity to address the remaining bilateral barriers to food trade – ours and theirs – and the opportunity to raise investment opportunities (and the food-industry technology opportunities that accompany investments) a little further above the horizon on both sides of the Pacific add up to a package that is worth some efforts on our part.^{xiii}

It appears that the substantive 'cost' of an agreement for the Australian agricultural sector would be low: little more than accelerated Import Risk Assessments on a number of US products subject to quarantine barriers.^{xiii} Although there could always be traps in the fine print, this concession doesn't seem to be such a big deal and seems to be far outweighed by the value of even long-postponed benefits in the US markets for agricultural products. If the USA – in its current anxiety to conclude FTA's with smaller trading partners – is ready to commit to an agreement on terms similar to that reached with Mexico or Jordan then, from an agricultural perspective, we have only to be concerned to ensure that the agreement is

1. Simple, so it can be quickly negotiated – within, say, 12 months - reducing the resources burden
2. In line with our obligations under Article XXIV of GATT, and
3. Compatible with our objectives for multilateral liberalization.

The last of these objectives appears to be met by goals identical with those spelled out in the negotiating proposals for the FTAA – to which the USA is already a party.^{xiv} I have already assumed that the second will be the policy of both the USA and Australia. This leaves the challenge of keeping it simple.

Here, the legacy of the Uruguay Round is invaluable. Tariffication of agricultural access barriers using tariff quotas (TQs), the progressive elimination of quotas on fiber (such as cotton) and the technologies for dealing with export subsidies in value and volume terms have immensely simplified the process of future bilateral or multilateral liberalization. The elimination of in-quota and above-quota tariff rates and the progressive expansion of the quantum subject to the lower rate can be scheduled in a

clear and predictable way. Although there are *bound* to be attempts to claw-back or sophisticate this liberalization process – in accordance with the ‘law’ of trade inertia – we should cooperate with them, if necessary, keeping things simple by agreeing that either party should have the option of ‘back-end’ loading the liberalization schedules as an alternative to other forms of ‘management’. This would allow the ‘law’ to operate – at least in the early years – probably without much endangering the final result within the 10-year time frame foreseen by Article XXIV because

- Both parties want to maintain strong respect for the Article XXIV provisions, including the 10-year time frame in order to retain effective controls on the trend toward ‘regionalism’ among e.g. developing countries
- Both parties want to create technologies for TQ liberalization that are transparent and predictable – so that they can be applied in the multilateral sphere
- Any ‘back-end’ loading agreed may not, in fact, determine the timetable of liberalization. It is very likely that the market place, if confident about the end results, will anticipate them

One other area where simplicity is essential is in the rules regarding contingent protection such as safeguards or anti-dumping within the ‘free trade’ area. It would be tempting to try out new ideas in an FTA with the United States – perhaps a ‘half-way house’ on the replacement of anti-dumping thresholds and concepts by competition policy thresholds and concepts between the ANZCER provisions and the current WTO provisions. But this would be a lengthy and difficult debate that would rob the negotiations of any pretence at ‘simplicity’. It should be left for further exploration in the WTO negotiations. The rules on contingent protection in the Free Trade area – notwithstanding the current disputes on the use of lamb safeguards – should be those of the WTO and disputes on their use within the area should be referred to the WTO disputes process.

It may, nevertheless, be possible to create some disincentives to the adoption of ‘back end’ loading by, for example, by removing the right to use any ‘contingent’ trade protection measures permitted by WTO such as safeguards or anti-dumping in the final ‘loaded’ years.

Australia should implement its own liberalization measures as fast as possible – particularly the review of excessive quarantine measures - whatever elements of ‘back

end loading' are adopted by the United States.

Other issues

Alignment of the results with the results of WTO negotiations: Both sides will want to implement 'free trade' rules that are aligned with, but go beyond, the objectives that they have proposed for the WTO negotiations in Agriculture including SPS. Because the USA and Australia have very similar objectives in Agriculture this is less likely to be a problem than it is likely to be in, for example, anti-dumping or government procurement.

Timing: Both sides will want to complete the negotiations, should they take place, before the conclusion of the WTO negotiations to take advantage of the 'demonstration' effect. But there seems little hope of getting far with a bilateral agreement – if it were agreed to negotiate - before the (planned) launch of the WTO round at the end of this year. The prospect of simultaneous negotiations on a complex multilateral agreement and a detailed bilateral 'integration' agreement might be an argument for restricting the agenda for an FTA to some simple goods and services negotiations (rather than a full 'integration' agenda). But the breadth of the FTA negotiating agenda is determined, in the end, by whatever is needed to offer both sides the prospect of a 'balanced outcome'. It might be vain to hope that the discipline of time will control complexity.

A deadline: Never underestimate the value of a plausible deadline in bringing trade negotiations to a conclusion. A visible event, that the negotiators are unable to affect, is usually required. In this case, the planned date for the conclusion of the FTAA (2005) would be a candidate for the date on which an FTA between Australia and the USA should be completed: with a view to submitting the agreement to Congress at the same time as the FTAA agreement.

ⁱ For example, the recently concluded EU-Mexico free trade agreement excludes trade in grains, meats, dairy products and specific fruits and vegetables (bananas, avocados). Since the agreement reportedly covers 97 percent of trade even with these products

excluded it appears to be consistent with the WTO requirement for coverage of 'substantially' all trade. But it is difficult to understand how it could be called a 'free trade' agreement when it apparently leaves untouched items that are among the most important EU and Mexican food imports and exports in trade with third countries.

ⁱⁱ The reason trade measures should be non-discriminatory is that discrimination is costly – creating inefficiencies due to trade diversion. But non-discrimination policies have different historical origins in Australia and the United States. It is arguable that Australia learned about the costs of trade discrimination from its disastrous experiments with discrimination against Japan up to the early 1950s and the disappointing results of its discrimination in favor of the UK and Canada from 1936 to the late 1960s. United States policy reflected US experience as the target of discrimination by the British Empire in the 1930s. A policy of non-discrimination was entrenched in the ground-breaking 1938 Trade Agreements legislation and in the text of the Atlantic Treaty that established the 'lend-lease' support arrangements for Britain during World War II. Although Keynes (among others) argued for the re-installation of the Imperial system of trade preferences after the War – with support from Australian representatives at the 1948 London Conference that established the text of the GATT - the US succeed in establishing MFN as a fundamental principle of the post-war multilateral system.

ⁱⁱⁱ For example, 'historical' access for NZ to the EU markets for lamb and butter. Or the 'Europe Agreements', which allocate preferential access to EU agricultural markets to countries that are candidates for EU membership.

^{iv}

Table 4 Top 50 US trading partners in 2000
value of trade and percent of total

Country	(\$US m)	Percent of total
Canada	407,995	20.41%
Mexico	247,631	12.39%
Japan	211,831	10.60%
China	116,316	5.82%
Germany	87,981	4.40%
United Kingdom	85,038	4.25%
Korea	68,202	3.41%
Taiwan	64,895	3.25%
France	50,035	2.50%
Singapore	37,003	1.85%

Malaysia	36,564	1.83%
Italy	36,050	1.80%
Netherlands	31,677	1.58%
Brazil	29,215	1.46%
Hong Kong	26,077	1.30%
Belgium & Luxembourg	24,621	1.23%
Venezuela	24,201	1.21%
Ireland	24,136	1.21%
Thailand	23,032	1.15%
Philippines	22,727	1.14%
Israel	20,725	1.04%
Saudi Arabia	20,449	1.02%
Switzerland	20,116	1.01%
Australia	18,898	0.95%
India	14,349	0.72%
Sweden	14,160	0.71%
Indonesia	12,932	0.65%
Spain	12,054	0.60%
Nigeria	11,267	0.56%
Colombia	10,657	0.53%
Russia	10,115	0.51%
Dominican Republic	8,827	0.44%
Argentina	7,802	0.39%
Republic of South Afr	7,289	0.36%
Norway	7,254	0.36%
Turkey	6,773	0.34%
Chile	6,683	0.33%
Iraq	6,121	0.31%
Costa Rica	5,993	0.30%
Austria	5,787	0.29%
Honduras	5,665	0.28%
Finland	4,821	0.24%
Guatemala	4,500	0.23%
Denmark	4,487	0.22%
Egypt	4,217	0.21%
New Zealand	4,055	0.20%
Angola	3,783	0.19%
El Salvador	3,708	0.19%
Peru	3,658	0.18%
Algeria	3,592	0.18%
TOTAL above 50		96.34%

Source: US Bureau of Census

v

FTAA Objectives for Agriculture

(San José Ministerial Declaration): http://alca-ftaa.iadb.org/eng/ngag_e.htm

- The objectives of the negotiating group on Market Access shall apply to trade in agricultural products. Rules of origin, customs procedures and Technical Barriers to Trade issues will be addressed in the Market Access negotiating group.
- To ensure that sanitary and phytosanitary measures are not applied in a manner which would constitute a means of arbitrary or unjustifiable discrimination between countries or a disguised restriction to international trade, in order to prevent protectionist trade practices and facilitate trade in the hemisphere. Consistent with the WTO Agreement on the Application of Sanitary and Phytosanitary Measures (SPS Agreement), said measures will only be applied to achieve the appropriate level of protection for human, animal or plant life or health, will be based on scientific principles, and will not be maintained without sufficient scientific evidence. Negotiations in this area involve identifying and developing measures needed to facilitate trade, following and examining in depth the provisions set down in the WTO/SPS Agreement.
- To eliminate agricultural export subsidies affecting trade in the Hemisphere.
- To identify other trade-distorting practices for agricultural products, including those that have an effect equivalent to agriculture export subsidies, and bring them under greater discipline.
- Agricultural products covered are the goods referred to in Annex I of the WTO Agriculture Agreement.
- Incorporate progress made in the multilateral negotiations on agriculture to be held according to Article 20 of the Agreement on Agriculture, as well as the results of the review of the SPS Agreement.

^{vi} Mancur Olsen is responsible for much of the analysis of the forms of political economy borrowed in this analysis. I am indebted to one of the leading analysts of the political economy of the WTO, Michel Kostecki, in a lecture he gave at a workshop conducted by the UN International Trade Center (June 2001), for reminding me of the 'law of inertia' – which he called the principle of 'non-decision' – and of the stratagems of trade decision makers for implementing the 'law' and the rational bases for their actions.

^{vii} According to the US Department of Agriculture data, about 2 percent of US tariffs – 24 individual tariff lines - exceed levels of 100 percent *ad valorem*. These are all agricultural tariffs that effectively exclude trade except for a small volume of product (usually less than 4 % of domestic consumption) that enters at a lower rate under 'minimum access' tariff quota provisions. Of these 24 tariff lines, 7 are dairy tariffs, 5 apply to sweeteners (sugar), 4 to tobacco products, 3 to nuts (peanuts) and 2 each to animal feed and oilseeds.

See "Profiles of Tariffs in Global Agricultural Markets", (AER-796), ERS-USDA, 2001.

^{viii} An examination of the likely behavior of world market prices for dairy products and sugar under conditions of multilateral liberalization is beyond the scope of this paper. The issues are, however, examined in depth in two publications of the Australian Bureau of Agricultural Economics: Research Papers 99:14 and 01.4.

^{ix} In the case of the ATC Agreement in WTO, elimination of the quotas was to be phased in over 10 years from 1994. Most developed country importers manipulated the process, however, to ensure that the bulk of the new access would not be available until the last year of the transition period.

^x It would, however, be necessary to actually *undertake* the bilateral negotiations.

Although there is every reason why the relevant lobbies in the USA should be convinced by the logic – by the 'thought experiment' involving a range of feasible FTAs – they will not be. They will inevitably hope that the 'worst' outcome could be avoided in the FTA's or that the 'evil day' could be postponed for well over a decade (when current industry players would have taken a pension and retired). They will not 'give in'.

^{xi} I assume that the Article 20 negotiations, the 'continuing process', will not result in any significant liberalization of world food markets: there does not appear to be enough on the table to interest all parties in taking ambitious steps.

^{xii} The efforts would certainly be greater than many people appreciate. Let's imagine that the bilateral negotiations are no more complex than those between the United States and Chile. That negotiation was launched in December 2000 with the objective of concluding in December 2001. By that time there will have been at least twelve meetings of the 17 negotiating groups involving hundreds of delegates and tens of thousands of person-hours of work to bring the text to a form where it could be considered to be the basis of a treaty.

^{xiii} I am ignoring the other 'costs' as beyond the scope of this paper. They would be greater than in the case of agriculture: for example, Australia would have to offer much greater access to US firms in the area of 'government procurement'. I doubt, however, that there would be any *economic* costs associated with an FTA – with the possible exception of the requirements of agreements on environment. But the model for these agreements in other US FTA's (e.g. Mexico, Jordan) is an undertaking to enforce our

own environmental legislation. This seems unexceptionable.

^{xiv} See note (iv) above.