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New Horizons in Trade:
The WTO Round and Australian Free Trade Negotiations in Post-Iraq 2003
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What is at stake for the farming community?

Introduction
Thanks for the opportunity to speak here today. We have here today an excellent panel to discuss some of the key economic and political issues of the moment.

What is at stake for the farming community………put simply, a lot!

Australian farmers, particularly grain growers, are among the most export dependent in the world, and Australian rural exports account for about 20% of total export value.

In the Australian wheat industry, 80% of production is exported – in a normal year this is worth $5 billion per year to farmers and their rural communities – and represents about 4% of all Australian exports, and 15% of the total farm exports.

Other agricultural industries like the beef industry, with exports worth about $5 billion, the sugar industry (exports worth about $1.4 billion last year) and the dairy, horticultural (including wine) and cotton industries are all similarly reliant on exports.

Exports provide a round a quarter of regional Australia’s income, and one in four jobs in rural Australia.

Trade issues are therefore crucial for the Australian farmer – if they can’t remain competitive on the international market, it immediately puts at risk the profitability and survival of farmers and their communities.

Declining terms of farm trade have meant that farmers have had to do more with less. Most farmers have only stayed profitable by consistently increasing their productivity to stay ahead of the game.

To illustrate this, according to ABARE research, in the past 25 years Australia’s agricultural productivity, per worker, has increased by 50%.

To do this farmers have embraced new technology and work smarter - as well as harder, in increasingly tough world agricultural environment.

Today, I will speak from the perspective of the Australian wheat industry, but, as you can see, these issues affect the farming industry as a whole.
Distorted trade
I don't need to remind people that the trade playing field is far from even. Globally, agricultural trade is the most distorted sector of trade in goods.

In no other areas are trade barriers as high, - average tariffs are more than 3 times higher than in non-agricultural goods, and some tariffs are as high as 800 per cent.

In no other area does domestic support distort international markets to the extent that it does in agriculture, with over US$311 billion in 2001 in support and protection for agriculture by rich developed countries worldwide.

In no other area are export subsidies tolerated. For manufactured goods, export subsidies were recognised - and prohibited - as the most harmful form of subsidies in the early stages of post-war multilateral trade negotiations.

An equivalent of one billion Australian dollars are pumped into supporting US and EU farmers each and every day of the year.

The US alone has committed US$170 billion on its Farm Bill.

A recent independent report from Minneapolis (titled “US Dumping on World Agricultural Markets: Can Trade Rules Help Farmers? - prepared by the Institute of Agriculture and Trade Policy) suggests that US wheat exports are sold for 40% below the cost of production – in other words, they are dumping their product internationally.

The impact of this on world wheat trade is pronounced – it leads to price distortion and mixed market signals, promotes over production and reduced world prices, which then creates a viscous circle by creating the need for further support mechanisms.

We have shown we can compete against those odds – Australian farmers are among the most efficient in world, and in the wheat industry, have done so with an integrated marketing system that allows them to successfully compete in a distorted world market.

The Australian Government does not have the deep treasury pockets, or political will, to subsidise its farmers in this fashion.

Instead, the wheat industry has set itself up in a manner that allows it to compete, without distorting world trade, through an integrated Single Desk marketing system.

The stakes are clearly high and the competition clearly doesn’t want to fight fair.
**WTO**

The need for trade reform is clear, and the World Trade Organisation – despite its problems – offers the best chance for this to take place.

Multilateral trade negotiations in forums such as the WTO have delivered enormous benefits to Australian agriculture in attempting to “level the playing field” so to speak.

The impact of the successful conclusion of the Uruguay Round should not be underestimated, with significant agricultural reform occurring in the US and EU as a result.

Importantly, the Uruguay Round demonstrated that agriculture was no longer the sacred cow of international trade negotiations.

It has been estimated that for Australia (in Government research), the outcome for industrial and agricultural products of the Uruguay Round added about $4.4 billion a year to real Gross Domestic Product.

However, most commentators will agree it does not go far enough.

Only further trade reform through a new round of negotiations in the WTO will deliver the changes necessary to further free up agricultural trade and deliver significant benefits into the pockets of Australian growers.

The Doha round provides the next opportunity to drive the reform agenda.

AWB, on behalf of Australian wheat growers, will continue to push for:

- elimination of export subsidies and trade distorting production supports
- improved market access by reducing real tariff levels,
- a review of non-humanitarian food aid donation and export credit programs,
- as well as a case-by-case examination of State Trading Enterprises

But, while we should be optimistic about the new WTO round, quite frankly, it appears to be floundering. Deadlines keep being missed and commitment to the process from key and influential players seems lukewarm.

The US has strong sectoral interests which appear to dominate the US negotiating agenda

Reaction to the Harbinson text – which was to establish the negotiating platform for agricultural reform – has also been fairly underwhelming.

We need strong leadership from the US and EU and a commitment from all countries to a full-blown multilateral round of trade negotiations.
The benefits of trade reform are obvious when we look at the industrial sector. Since 1947 when the General Agreement on Tariffs and Trade was first introduced, successive trade rounds have seen average tariff levels drop from 38% to 3% by the conclusion of the Uruguay Round in 1995. Over that time, the indexed trade volume has increased 15 fold.

The message is that if you reform trade, you increase access, you increase trade volumes and you increase wealth. I am sure the farmers of Australia would love to see these results applied to their respective industries.

**Single Desk**

While we want to seek genuine reform, there are some who want to see the Single Desk wheat marketing dismantled in the process.

This is despite it being a market driven system which costs the Australian Government – and Australian taxpayers – nothing to run and is recognised the world over as one of the most innovated and effective marketing systems.

We are not shy about having State Trading Enterprises (of which AWB is included) considered as part of a comprehensive round of WTO negotiations.

However, we need to recognise that the issue is not STEs per se, but whether the STE concerned distorts trade and contravene world trade rules.

AWB’s strong view on this is that each STE should be examined on a case-by-case basis.

We strongly refute claims made that the practices of AWB, as an STE, is trade distorting or has any detrimental impact on world trade. This ultimately should be the yardstick.

Without the Single Desk, we believe farm profitability would drop, and rural communities would suffer.

We estimate the livelihood of 155,000 farmers and their families depend on this system, that it financially supports about 70,000 direct employees, and that it affects more than 550,000 people within rural and regional Australia.

**Free Trade Agreement**

While WTO appears to be floundering, the Free Trade Negotiations between the US and Australia have gathered momentum – alongside US attempts to seek similar bilateral trade agreements with other countries.

Agriculture will be an important aspect of a US/Australian FTA, but again, it is likely to prove a sticking point.
AWB supports an FTA between the two countries because of potential broad benefits to the rural economies from increased trade in a range of agricultural commodities.

Currently, some of the main US trade barriers are for commodities such as sugar and dairy, with significant barriers also in place for others such as lamb and cotton. According to the Centre for International Economics (CIE), the barriers to Australian sugar exports amount to a tariff equivalent of 80 per cent and for dairy exports the tariff equivalent amounts to nearly 24 per cent.

Research from the CIE estimates that a FTA between the US and Australia would see exports of sugar to the US increase by US$441 million, while dairy exports would grow by US$263 million.

But from a wheat industry point of view, an FTA between these two countries would not directly add one dollar to the wheat cheques for Australian farmers.

There is simply next to no wheat trade between Australia and the US – not because there are impediments to doing so – but because Australian and the US were, last year, the world’s two biggest wheat exporting nations.

An FTA is not going to change that.

However, US farm groups are lobbying the US government to dismantle Australian Single Desk as part of the FTA negotiations.

It is inappropriate to enter into any bilateral discussions relating to the multilateral wheat Single Desk – it is a global export marketing tool which has no impact whatsoever on bilateral trade between the US and Australia.

The Single Desk system cannot be put at risk, and we welcome the commitment from the Federal Government that it will not be used as a bargaining chip in these negotiations.

Iraq
It is also appropriate that I make comment on Iraq – which clearly represents a major trade issue for Australian wheat growers.

Iraq is a major wheat market for Australian growers – we supply on average about two million tonnes of wheat – worth $800 million – to the market through the United Nations Oil-For-Food program.

Two days ago (June 3rd), the original extension date for the Oil-For-Food program expired. By then, and since the hostilities began, we dispatched more than 400,000 tonnes of wheat to Iraq to meet their humanitarian requirements.

There are still uncertainties about future trade with the country though.
The Oil-For-Food program has been extended a further six months from June, during which time, arrangement for future trade with the incoming Iraqi administration will be put in place.

AWB on behalf of Australian wheat growers have contracts for a further 800,000 tonnes of wheat with Iraq. There has been no indication from the UN, and the US that these contracts will not be honoured - we are actively involved to try and ensure they are.

We are hopeful we will retain our market share. We have a proven relationship with the Iraqi people, we provide a proven wheat product that has met their market requirement for more than 50 years, and we have a proven supply and delivery pipeline – and freight advantage - to deliver it.

We are confident of meeting competition within that market, provided it is done on commercial grounds, with out the distortion of production subsidies, non-commercial export credit arrangements, or donations under the guise of food aid.

And the practice of the US in Egypt – where they make significant cash donations and then require American wheat to be purchased with that money – should not be replicated in Iraq.

The US finally have the opportunity to demonstrate that their rhetoric for free trade is fair dinkum.

**Conclusion**

It is clear Australian farmers have a lot at stake in the current round of trade negotiations.

It is for this reason that the agriculture component of the current WTO Round, and our Free Trade Negotiations, are so important, and at the same time, will provide the biggest hurdle.

But we must continue to pursue trade reform, with the recognition in these discussions that there are opportunities for our highly efficient, world leading farming community to capitalise upon.

AWB is happy to stand toe to toe with our competitors in each of the 55 countries we export to – we are proud of the fact we compete commercially without distorting any trade – and we would welcome other countries reforming their marketing practices so they too can see what it is like to be proud of being successful free traders.

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