



INSTITUTE FOR INTERNATIONAL BUSINESS, ECONOMICS & LAW

THE WTO NEGOTIATIONS: OUTCOMES AND IMPLICATIONS FOR THE AUSTRALIAN WINE INDUSTRY

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Thank you for inviting me to be at your meeting today and join this panel. It's a real pleasure to be here and to have the opportunity to review the state of play in the WTO negotiations and their implications for Australia and the Australian wine industry.

We all know that this year is a very big year for international trade. Everyday, the newspapers are full of stories on this or that trade negotiation. 2003 is a year that has been marked by unprecedented levels of activity on the trade front at the bilateral, regional and global level.

The past few weeks have been a particularly exciting time even if the excitement hasn't always been occasioned by good news.

The comments we heard earlier from Peter Barnes and Minister Truss were a good introduction to my presentation. Australia is active on the bilateral front -- negotiating free trade area agreements with Singapore, Thailand and the United States. Canberra is also exploring closer economic cooperation with China and Japan. Just a few days ago, we got some very welcome news in the form of China's willingness to deepen and liberalise its future economic and trade relations with Australia. At the same time, President Bush's visit to Canberra has added new urgency to the bilateral negotiations with the United States. A large American negotiating team is here now wrapping up a week that has been advertised as the penultimate negotiating session for the FTA talks.

A week ago, APEC leaders met in Thailand for a highly successful meeting where they agreed some important new regional initiatives and reinforced their now longstanding commitment to the liberal global trading environment. APEC made a major contribution to re-energizing the stalled WTO talks when the leaders agreed to support an early return to the negotiating table on the basis of the most recent text introduced in the Cancun meeting. And APEC recognized that new flexibility in negotiating positions would be called for if the Doha talks are to be successful.

We all know that trade is important for Australia. Despite its small population, Australia is one of the world's major trading nations. As the country's role in international trade grows, enhanced and secured access to overseas markets is increasingly central to future prosperity. In both absolute terms and relative to production for the domestic market, international trade is assuming a greater significance with

each passing year. With the volume of exports up by nearly 20 percent in the past year alone, this is certainly true for the Australian wine industry.

Over the past twenty years, Australians have positioned themselves to take advantage of the opportunities offered by a growing engagement in international markets. Enlightened decisions by economic policy-makers have led to regulatory and trade reforms that have nurtured a highly competitive business environment. Earlier this year, the OECD held out Australia as an example of how to successfully build and manage a modern economy.

I have been asked to focus today on the current “Doha Round” of WTO negotiations. Before I do that, I want to say just a few words about the Free Trade Agreement under negotiation with the United States. Ralph Ives, the chief negotiator for the FTA for the USA, came through Adelaide last week on his way to the current Canberra meetings. We had the chance to meet with a range of business, media and government leaders and discuss both the direction of the talks and the opportunities an FTA offers for new business. Representatives of the wine industry were among the first people Ralph met with in South Australia.

Now, any good economist will tell you that the economic benefits one might expect from a bilateral free trade agreement pale in comparison to the rewards of a successful multilateral negotiation under the WTO. I don’t disagree with that for a minute. But even if the WTO route is the best option, it doesn’t mean there aren’t important benefits to be garnered from the right kind of bilateral agreement.

This is particularly the case these days with modern FTA’s that have been dubbed by the Productivity Commission as “Third Wave” agreements. Third wave means that the agreements normally encompass liberalization not only in areas of economic activity treated under the traditional GATT and more recent WTO agreements but also typically extend to “WTO Plus” questions not yet covered in the global trading system like rules for foreign direct investment, competition policy and enhanced and updated intellectual property rights protection.

Recent research studying the impact of “WTO Plus” provisions found that in many modern FTAs there is evidence that foreign direct investment responded significantly to non-trade provisions of the FTAs and that the result has frequently been net investment creation. They suggest further that non-trade provisions in the third wave FTAs create an efficient geographic distribution of foreign direct investment. As an overall comment, it seems clear this kind of positive investment effect is symptomatic of real economic benefits where FTAs or other regional negotiations lead to meaningful reforms in competition policy, investment regulation, procurement, etc.

The negotiation of these modern FTA’s in parallel with the WTO talks has often been referred to as “competitive liberalization” because the objective is to keep driving the bicycle of trade liberalization forward. Sometimes when one of the bike’s wheels gets a bit sticky – like the WTO after Cancun – we need to keep it turning by pushing a bit harder on the bilateral wheel. Why should the Australians and Americans hold up their own plans for trade liberalization because India objects to a more open economy?

Certainly, the wine industry’s interest in free trade with the USA is easy to understand. In the past year, the value of Australian wine exports to the USA market has increased by a remarkable 33 percent to A\$ 869 million! A good third wave FTA between the United States and Australia is not only good for business between the two countries but also can make a positive contribution to the chances of getting a good WTO result.

Now, back to the WTO. For this industry, there are some very important sector-specific questions under negotiation in the Doha Round. What happens on geographic indications and tariff reductions is likely to have a big impact on future international trade in wine and spirits. Before I get to the specifics, I want to take a few minutes to set up a broader perspective of the significance of the negotiations. I also want to give you some examples of how negotiations on issues outside of your sector can impact on your competitive position.

A good starting point is international trade in services. Only twenty years ago, nobody was negotiating the liberalisation of trade in services across borders. Today, services trade liberalisation is integral to any trade agreement.

Certain internationally-tradable services are now generally recognized as basic building blocks of the modern economy. The efficiency with which they are supplied is crucial to the prosperity of other industries most of which rely on these services for some part of their own business. Efficiency and lower costs derive from a competitive environment that can be enhanced importantly by permitting the entry of foreign services providers in the market.

Everybody's business uses telecommunications. Last year, the global telecommunications market was worth more than \$US one trillion. This market is relatively open, but it wasn't always that way. Before the WTO's 1997 Agreement on Basic Telecommunications Services, only a small percentage of the world's telecommunications markets were open to effective competition. Today more than 95 percent of global telecommunications markets are open to access by foreign competitors. At the same time, electronic commerce has grown wildly and in the United States alone, the value of advertising revenue on the internet now exceeds US\$ 10 billion annually.

Liberalisation of telecom markets has important implications for the growing ICT services market. Last year, for the first time, worldwide spending on information technology services (at US\$ 426 billion) exceeded worldwide spending on IT hardware (at US\$ 376 billion). No wonder that in the request/offer process of the current WTO services negotiations, both developed and developing countries are pushing for increased access for computer-related services.

On October 7, the Australian carried an article that documented the importance of a competitive business environment and tied this together from a very practical standpoint. According to the article, in the Japanese broadband services market -- where there is fierce competition between a wide range of providers -- broadband services are by far the fastest and cheapest. Prices are thirty-five times less than in the USA for access and download speeds. A Japanese user can download an entire movie over the internet in 20 minutes. It takes six hours to do that in the USA and 12 hours in Switzerland. Trying to download the movie over a standard dial-up modem would take up to seven days.

In economies where there is no competition, where there is really no choice except for the incumbent provider -- such as Swisscom in Switzerland, prices are higher and speeds are slower. In Switzerland, broadband services are 110 times more expensive than in Japan. If you need broadband for business, think of what these differences can mean to your competitiveness.

Now we call the WTO round the "Doha Development Agenda" and it is supposed to produce big trade benefits for developing countries. Your first reaction to some of what I've just said might be to think that these are issues of primary importance to companies in the developed world. That's not the case. Some recent case studies by the OECD demonstrate the importance of these services for developing countries in a very dramatic way.

Despite the government's reluctance to support a major opening of its own market, India has generated US\$ 10 billion in annual exports of IT and business services. Today around 185 Fortune 500 companies have outsourced some part of their software requirement to Indian companies. And it's not just the Indians. According to the OECD, today there are more than 100 software development companies operating in Costa Rica, employing more than 1,000 professionals and exporting to countries in Latin America, the Caribbean, North America, Europe and Africa.

Back to telecom. According to a recent OECD report, the growth effects of telecommunications liberalisation can be demonstrated by studying the positive link that exists between performance in the telecommunications sector and economic growth. Developing countries with full telecom liberalisation have tended to grow almost 2 percent faster than other developing countries. That is pretty significant.

Compared to services, agriculture is actually a pretty small economic actor on the global trade scene. In most developed countries less than three percent of the population is employed in the sector and agriculture's relative importance in international trade is also on the decline. Notwithstanding this background, agriculture has to be seen as the central issue in the Doha Round of WTO negotiations for several reasons:

- First, it is through enhanced access to developed country markets for agricultural products and reductions in rich country subsidies that the world's poorest countries stand to realize the promise of this "development round";
- Second, while the Uruguay Round made a start, it is time to bring the rules for agricultural trade more within the system's acceptable rules of conduct. You've heard it already, but how much sense does it make for the United States to pay \$4 billion in subsidies to domestic cotton production when the annual value of the crop produced is only \$3 billion?
- Third, whether we like it or not, progress on agriculture is linked to progress on other issues. There is a longstanding saying in WTO negotiations that "nothing is agreed until everything is agreed". This means there will be no progress in cutting market access barriers to wine until those who care about reforming world trade in agriculture are comfortable with the progress being made.

How important is the agriculture and development nexus? Consider the case of sugar. Sugar is one of the most policy-distorted commodities in global trade. Subsidies to sugar producers paid by the US, EC and Japan alone now total US\$ 6.4 billion annually – approximately equal to all developing country exports. High-cost sugar prices in the developed country markets have encouraged the growth of high-cost inefficient sugar substitute industries. The production and consumption of sugar substitutes has now displaced at least 10 million tons of annual sugar consumption – equivalent to one-third of world sugar exports – in the past thirty years. As a result of all of this, the world price for sugar today is below the cost of production of many of the most efficient producers. How can we expect developing countries to trade their way into economic development in this kind of environment?

At the start of the meeting in Cancun, delegates expected the focus of the negotiations to be on agriculture. The United States and European Communities produced a joint proposal for the negotiations that nobody liked. The Cairns Group and developing countries generally criticized the joint text as lacking ambition both in regard to cutting subsidies and opening markets. Shortly before the conference, a splinter group of the Cairns Group, known as the G-21, led by Brazil and including China and India demanded larger cuts in subsidies and greater market access opening by the developed countries. The stage was set for a real negotiation on the core issues in agriculture.

But, as we heard from Minister Truss, agriculture wasn't the subject of much substantive discussion in Mexico. The unfortunate nature of the outcome was compounded by the fact that the negotiation broke down over disagreements relative to the so-called Singapore issues which, while politically sensitive, are economically unimportant in comparison to agriculture. From the commentary of the past few weeks, it's clear that the Cancun meeting is now recognized as a major missed opportunity to move the agriculture reform agenda forward.

Industrial tariff reductions are also another important component of the "development" aspect of this negotiation. A WTO study asserted that improved access to developing country markets for industrial products is important for exporters in other developing countries. Between 1990 and 1999, the share of intra-developing country trade in manufactures increased from 29 to 34 percent. And it is frequently on products of greatest interest to other developing countries where developing countries maintain their highest tariff protection.

The World Bank has calculated that a hypothetical agreement to reduce tariffs to an average level of one percent in industrial countries and five percent in developing countries would raise developing country income by US\$108 billion - more than twice as much as the gain estimated for developed countries.

Before Cancun, the Negotiating Group on non-agricultural market access had a number of different tariff-cutting approaches under consideration. Most of these relied on the application of a mathematical formula - which depending upon the numbers used could produce very different results. Happily, the tendency in Geneva was moving toward what has become known as the Swiss Formula. If eventually adopted, the effect would be to cut high tariffs much more than low tariffs. I don't need to tell you that while tariffs have become much less of an issue in many markets over the past twenty years, there are still many countries that maintain peak tariffs in certain sectors and sometimes these high tariffs can be important in inhibiting significant sectors of Australian export like wine.

At a conference I attended about two months ago in Perth, Western Australian Wine Industry Association President Denis Horgan explained why access to foreign markets - and in particular the American market - is so important for this country's winemakers. For a variety of reasons, including what Mr. Horgan cited as the disproportionate impact of the Wine Equalisation Tax on small producers, the nearly 1600 small Australian winemakers are finding it increasingly difficult to succeed in the domestic market and have no alternative, in order to remain commercially viable, to exporting to overseas markets.

And the statistics bear out Mr. Horgan's contention: As we saw from Lawrie Stanford's excellent presentation, the UK may still be Australia's largest market for wine by volume exported, but the value of shipments to the USA was 3 percent greater than that achieved in the UK in the most recent year. The value of shipments to South East Asia grew by 11 percent, notwithstanding a small decline in the volume of shipments. So, in the short term, there are good reasons to think that enhanced access might best be realized in the USA and Thai markets through the Free Trade Agreements, but greater access has to be a goal for the broader WTO negotiations as well.

Access is one thing - restrictive rules are another. Paragraph 18 of the Doha Ministerial Declaration mandated agreement by the time of Cancun on a multilateral system of notification and registration of geographic indications for wines and spirits. Depending upon the eventual outcome and scope of this negotiation we could have an agreement that further facilitates trade in wines and spirits or we could end up with a result that needlessly stifles trade or ties us up in lots of red tape.

The very wide divergences separating two opposing camps in the negotiation on a registry has made coming to an agreement difficult. At issue in the GI negotiation for wines and spirits are two radically different concepts of what is meant by a notification and registration system. The camp led by the European Communities has always seen registration as a three-step process with direct legal consequences. In the EC scheme, GIs would be notified by WTO Members, published by the WTO Secretariat and subjected to an 18-month period of challenge and negotiation in case of conflict. After that point, a surviving and duly-registered GI could no longer be claimed (1) not to be in conformity with the definition of GIs in the WTO TRIPS agreement or (2) to be literally true but misleading, or (3) to be a generic name.

A counter proposal generally supported by the new world wine producers concentrates on the notification part of the system and basically seeks to create a database with no legal effect. How and when this issue is going to be sorted out remains to be seen. And the debate is significantly complicated by many countries' efforts to expand the WTO TRIPS' agreements' protection of geographic indications to many other products beyond wine and spirits.

Linkage of unrelated negotiating topics is one of the curses of the WTO. The GI's negotiation is complicated by the linkages some countries have made between progress on the registry and progress in agriculture. Others have tied their willingness to make meaningful services offers to an ambitious formula to cut tariffs on industrial products. This is a negotiation where the issues under discussion are frequently technically complex, and where many governments with strongly held views are being asked to decide thorny issues by consensus. Some of the participants have flatly ruled out certain topics for negotiation.

There are now 148 Member governments in the World Trade Organization. Cambodia and Nepal joined just a month ago at the Cancun meeting. China's entry two years ago is something both the Chinese and other WTO members are still digesting, but the signs so far are pointing in the direction of important mutual gain. There are about another 25 countries still negotiating their own accession to the Organization. Included in this group are some large and economically important countries like Russia, Ukraine, Saudi Arabia and Vietnam as well as much smaller states like Cape Verde and Vanuatu.

All 170 + are participants in the Doha Round which makes this a very nearly universal negotiation. That's important to keep in mind because it helps to highlight two things: First, how difficult it might be to get a consensus outcome from so many countries on so many different issues. Second, on the flip-side, how extensive the positive gains will be once a result is achieved.

I first became involved in GATT negotiations in the late 1970's when I was part of a team negotiating for the USA in the Tokyo Round. Life was much simpler then. At that time, negotiations were simpler because few countries were involved. Consequently, few governments made real market opening moves. The process is more difficult now, but the stakes are much higher as well.

Business groups are waking up to what is at stake in this Round. They want governments to stop playing the political blame game on who was to fault in Mexico and are demanding that negotiators get back to business on the basis of what was on the table in Cancun.

Historically, APEC has played a constructive role in the WTO process. Characteristically, last week's agreement among APEC leaders that the WTO negotiations should be reinvigorated from where things left off in Mexico is certain to be a big help in regaining momentum in Geneva.

A successful WTO round is important to developing countries but it is also important to those of us in the developed world. It's important to us in part because we have a stake in the successful development of

less fortunate countries. There is also plenty on offer of direct interest to industries in developed countries.

The World Bank has published estimates that a new round of market opening would raise global output by between \$290 billion and \$520 billion by 2015. Even if these estimates are off by fifty or sixty percent, the gains that remain are far too important to ignore.

The Australian wine industry is to be commended for including these trade issues on the agenda for the Outlook Conference. With the high level of activity on trade in 2003, this is a timely discussion.

There are many ways in which the industry and its competitive position might be affected by the outcome of the negotiations. Some of the effects will be direct – others are more indirect. I've tried to show today how the industry can gain from developments in other seemingly un-related areas of the negotiations and why you should care, not only about the progress of the WTO talks but also why you should care about what happens in agriculture and services.

There's a lot to think about. I hope what I have said has made a constructive contribution to our discussion today.

Thank you for your attention.

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