



AFTINET Ltd
Level 1, 46-48 York Street
Sydney NSW 2000
Phone: 02 9299 7833
Fax: 02 9299 7855
Email: lsouthalan@piac.asn.au
Website: www.aftinet.org.au
ABN 83 659 681 462
ACN 097 603 131

AFTINET Bulletin 101, 31 August 2004

If you would like to contribute to the Bulletin, please contact Louise Southalan via email at lsouthalan@piac.asn.au or on (02) 9299 7833. Our website is <http://www.aftinet.org.au>.

Contents

1. **New AFTINET leaflet and briefing on the WTO,**
2. **Labor must stand firm**
3. **U.S. Is Playing Shell Game With Subsidies**
4. **Oxfam Community Aid Abroad National Conference October 1-3 Sydney**

1. **New AFTINET leaflet and briefing on the WTO**

We have produced a new leaflet giving an update on the WTO negotiations. It covers the key issues in the negotiations, the July framework agreement and what is next, particularly in the area of the GATS negotiations. We will post a copy to all AFTINET members shortly, and will put the leaflet on our website.

The AFTINET AGM will be held this year on 13 October at 5.30pm in Sydney, and will be followed by a short briefing on latest developments in the WTO. DFAT will be calling for submissions on the Australian government's second-round GATS offers by November, so this briefing should be helpful for people interested in making submissions.

We will send details out about the AGM shortly.

2. **Labor must stand firm**

Australian Financial Review

John Quiggin 26/08/2004

If the United States blocks PBS-related changes to the free-trade deal, Labor should seek to renegotiate the whole agreement, writes John Quiggin.

It's looking increasingly possible that the conflict between the pharmaceutical benefits scheme (PBS) and the US-Australia free-trade agreement will become the key issue of the election. It's also apparent that the FTA and the PBS are in mortal conflict. In the long run, only one of the two can survive.

A year ago, those who suggested the PBS was even an issue were denounced as "scaremongers". The government assured us that the PBS was "not on the table" and that the Americans knew better than to interfere in such a central aspect of our health policy.

The first crack in the government's position came with the passage of a Medicare Bill through the US Congress in December. Buried in the bill was a clause requiring the Bush administration to update Congress on "progress in opening Australia's drug pricing system". This is code for the abolition of the PBS.

At about the same time, the government subtly shifted its position, saying that it would stand firm against any terms that would affect "the ability of the Australian government to provide inexpensive medicine to its citizens". This left open the possibility that Australian taxpayers would have to pay more.

When the agreement was finally announced, the clauses about the PBS raised concerns, but the government maintained that it had either stared the Americans down or duded them. The pharmaceutical lobby had wanted a right of appeal against adverse decisions from the Pharmaceutical Benefits Advisory Committee. All they got, we were told, was an essentially meaningless right of review.

Following the announcement, most attention was paid to sugar and beef and to the battle between competing models of the economic impact of the agreement. This battle ended in a draw, with the best estimate being that the net benefit to Australia was about \$50 million a year, close enough to zero for all practical purposes.

Labor's amendments, which initially appeared to be a face-saving way of covering a backdown, have now focused attention on the issue. The government's reluctance to accept the amendments, which turned what would have been a huge political win into a defeat, has become comprehensible in the light of the American reaction.

The US trade representative indicated ominously that the US had chosen not to intervene in Australia "at this point". Last week, US ambassador Thomas Schieffer stated that the US may not certify the Australian legislation as consistent with the FTA.

The government, and pro-government commentators, have also changed their line. The PBS clauses are now seen as integral to the deal as a whole. Several commentators have raised the possibility of an "October surprise" scenario, in which the US announces rejection of the agreement just before election day.

Writing in *The Australian*, Christopher Pearson made some particularly interesting observations regarding other remedies available to the US in relation to Labor's amendments ("Subtle bars to free trade", *The Australian*, August 21). He pointed out two other possible courses of action.

One is based on the fact that trade agreements are negotiated on the basis of "standstill". In other words, once an agreement is reached, the parties are expected not to introduce legislation that would alter their relative positions. The other is that the Americans could argue that the amendments are likely to give rise to a dispute under the "reasonable benefits" clause, in the event that their drug companies are unable to realise benefits that they anticipated would flow from the agreement.

It is critical to observe that these points have nothing to do with the specific content of Labor's amendments. They apply to any legislation concerning the PBS that an Australian

government might seek to introduce in the future and, arguably, to any administrative decisions made by ministers. That is, if Pearson's analysis is correct, the FTA gives the Americans an effective veto power over anything we might attempt to do to improve the functioning of the PBS.

It is critical for Labor to hold its ground on this issue. Even without the threat to the PBS, the agreement was a bad one for Australia. If the Bush administration refuses to certify the amended legislation, Labor should announce its intention to renegotiate the entire deal, this time on more equal terms.

John Quiggin is an ARC federation fellow in economics and political science at the University of Queensland.

3. U.S. Is Playing Shell Game With Subsidies

Los Angeles Times

August 15, 2004

James Flanigan

Once again, farm subsidies have proved harder to kill off than a boll weevil in a cotton patch. Less than a year ago, developing nations accused Washington of hypocrisy because it preached that other countries should open their markets to U.S. agricultural products but subsidized American farmers at home, giving them an unfair advantage.

"It's rhetoric," groused Pedro de Camargo Neto, a Brazilian trade negotiator. "The U.S. says one thing and does another."

In Africa, the consequences were said to be most serious: Impoverished farmers, especially cotton growers, couldn't hope to compete against American rivals who relied upon the munificence of Uncle Sam to stay in business.

Outraged at the situation, a group of developing nations walked out of the World Trade Organization negotiations in Cancun, Mexico, last September, causing the conclave to collapse and threatening the long-term round of talks that are aimed at expanding global trade.

But then in Geneva this month, the picture suddenly seemed to brighten. A framework agreement was reached on agriculture amid widespread praise for the U.S.' willingness to reduce farm subsidy payments by 20%.

So, what exactly changed?

In fact, very little. Despite the hoopla out of Geneva, the U.S. is not poised to lower subsidies much, if at all. Increasingly, American farmers are taking advantage of subsidy programs that would fall outside the scope of the framework agreement and WTO oversight.

In some cases, the U.S. is subsidizing wheat, corn, cotton and rice growers by decoupling the payments from specific crops: a maneuver that experts call putting the money in the "Blue Box."

In other cases, Washington is paying farmers for soil conservation and crop research, another area exempt from WTO rules. This is known as the "Green Box." And in still other cases, subsidies will continue to be available to U.S. farmers under a *de minimus*

arrangement that exempts 5% of a country's total agricultural output.

In other words, it's all a giant shell game, allowing U.S. farmers to reap as much as \$50 billion in federal subsidies of one kind or another, according to several experts. That's a lot of cushion, given that U.S. farmers currently milk the Treasury Department to the tune of about \$19 billion.

Lest you think that the developing nations have been hoodwinked here, it's important to know that they were in on the deal, driven by several different motives. For starters, by letting the U.S. play games with farm subsidies, other nations "got what they wanted elsewhere," says Robert Paarlberg, a professor at Wellesley College and coauthor of "Policy Reform in American Agriculture: Analysis and Prognosis." Among the gains: "permission to continue protecting some of their own 'special' farm goods."

Beyond that, those at the negotiating table were realists, keenly aware of two things: that any larger trade pact must be approved by the U.S. Senate, and that American lawmakers are not about to approve any accord if it risks incurring the wrath of the farm lobby.

As Iowa State University agricultural economist Bruce Babcock notes, with decided understatement, "agricultural interests are very influential" in the corridors of the Capitol. (This helps explain why, after Congress passed the Freedom to Farm Act in 1996, promising to curb subsidies, payments to farmers rose instead: climbing to a record \$23.5 billion in 2000.)

Now that the farm subsidy issue has been put to rest, global trade talks are ready to move forward. Some American farmers – including California growers of fruits, nuts and vegetables -- stand to benefit from an opening of markets in Asia. Meanwhile, other U.S. industries also could prosper if a final trade deal comes together, including insurance, financial services and entertainment.

Trade is not a one-way street, of course. Many of the 147 countries participating in the trade discussions are eyeing greater access to U.S. markets in textiles and other products. As for those pesky farm subsidies, you shouldn't expect much to happen there -- at least beyond the lip service already provided.

A Brazilian lawsuit against U.S. cotton farmers is proceeding at the WTO (separate from the trade talks), and that could eventually push some U.S. producers out of business. But all in all, the handouts from Uncle Sam are sure to keep on rolling, like a tractor across an open field.

4. Oxfam Community Aid Abroad National Conference October 1-3 Sydney

If you are passionate about social justice issues, then make sure you don't miss out on this unique, once in 3 year event. The 2004 National Conference by Oxfam Community Aid Abroad brings together over 30 leading speakers, from Sydney to Cape York, from Sri Lanka to East Timor. Join us to discuss contemporary solutions to overcome poverty and injustice.

When: 1st -3rd October 2004

Where: St Scholasticas, 4 Avenue Road, Glebe, Sydney NSW 2037

Conference includes:

Panels on Trade & Security, Refugees & Asylum Seekers and Global Reconciliation
Over 20 Workshops on human rights, trade, refugees, reconciliation & social justice issues.

Speakers include:

Tammy Williams young barrister and an indigenous leader from Cape York
Andrew Hewett Executive Director, Oxfam Community Aid Abroad
Isabel Guterres Truth and Reconciliation Commissioner East Timor
Howard Glenn National Director from A Just Australia with Eva Cox & Maqsood Alshams
Lisa Garrett International Indigenous Coordinator IYP
B Gowthaman Oxfam program co-ordinator from Sri Lanka
Pat Ranald AFTINET Australian Fair Trade Network

Plus speakers from ChilOut, AFTINET, AidWatch and more

See <http://www.oxfam.org.au/news/conference>

Space is limited to 200 delegates - with registrations starting at \$255 for a weekend (Concessions available). Register at:

<http://www.oxfam.org.au/news/conference/register.html>

e: conference04@sydney.caa.org.au

t: 02 8204 3915 reception: 02 8204 3900