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1. ACTU Congress trade policy, the myth of protectionism and government purchasing policy.

By Dr Patricia t Ranald, AFTINET Co-convener

The ACTU Congress last week adopted a fair trade policy which contains many proposals supported by AFTINET. These include a call for a halt to further bilateral trade agreements, and full parliamentary oversight and assessment of social impacts for all trade agreements. The policy calls for trade policy to be consistent with infrastructure and industry policies designed to deal with the impacts of the economic crisis and support employment. It also condemns trade agreements that directly or indirectly encourage the accumulation of wealth from international trade on the basis of poverty wages, dangerous working conditions, the repression of collective organisation and labour rights, and environmental destruction, and calls for trade agreements that provide for the improved conditions of workers by requiring signatories to adopt international labour, human rights and environmental standards.

The policy argues that trade agreements should retain or enhance the autonomy of government in Australia to design and implement policies in the following areas: the regulation of financial institutions and international financial transactions; climate change; government procurement; import regulation; media content and the cultural industries; public ownership; the provision and regulation of essential services such as health, education, water, electricity, telecoms and postal services; the movement and employment of temporary migrant workers; and the preservation of Australia's Pharmaceutical Benefits Scheme.

The policy is available on the ACTU website under Congress policies, at the end of the document entitled Infrastructure, Industry, Transport and Trade Policy, www.actu.asn.au

The ACTU policy will inform the position taken by unions at the trade policy debate at the ALP Conference at the end of July.

The ACTU policy was criticised by the Minister for Trade on the grounds that it is 'protectionist.' The Minister also released a study on the benefits of trade liberalization (see the article in this bulletin 'Fairytale modelling ignores real world experience').

"Protectionism" is being used as a bogey word by governments in the current recession, with dire warnings of a retreat into the same protectionism that worsened the 1930s Depression. The rationale for this is the memory of the extreme tariff rises initiated by the US in the 1930s, which did contribute to the global depression. But this is a false comparison with today's conditions. In 1929 US tariffs on key traded goods were already very high by today's standards, around 40%. They were raised by an average of 8%, and provoked equally high tariffs in retaliation by US trading partners. By contrast, the general level of tariffs in Australia is 3.5%, and no-one is proposing tariff increases.

There was a particular attack on the ACTU government purchasing or procurement policy.

The Government is currently spending some tens of billions of dollars on public infrastructure intended to address real economic and social needs and to create demand and employment in the local economy. But there is currently no clear government policy which ensures that, while tendering processes must be transparent and deliver value for money, there is some preference given to local suppliers in the process of tendering for these projects. This means that contracts can go to overseas suppliers with no local employment benefits. This is simply absurd.

The Trade Minister has claimed that the Australian government cannot give any preference to local suppliers because of Australia's obligations to treat foreign suppliers as if they were local suppliers under World Trade Organization (WTO) agreements and other trade agreements. He claims that local preference policies are "protectionist."

This is misleading because Australia has not signed the WTO voluntary Plurilateral Government Procurement Agreement, and therefore has no legal obligations under WTO rules not to give preference to local suppliers.

Most governments have not signed the WTO voluntary procurement agreement precisely because they want to reserve the right to have reasonable preference arrangements for local suppliers. Developing countries in 2003 refused to agree to negotiate a legally binding WTO procurement agreement, and it is not part of the current WTO round of negotiations.

The US government, which is a signatory to the WTO voluntary procurement agreement, has a long list of exceptions to the agreement which means it can still give local preference in specific departments and levels of government, and for specific products.

Apart from New Zealand, which has a unique relationship with Australia, the only trade agreement that Australia has signed which includes government procurement is the US-Australia Free Trade Agreement (AUSFTA).

The AUSFTA procurement chapter contains a very long list of exceptions. Half of US state governments are excluded, as are many US Federal departments and specific products like steel. The Australian list of exceptions, negotiated by the Howard government, is much shorter. However it includes small and medium enterprises with 200 employees or less, all Defence procurement, specific exceptions for particular state and federal departments, and for products like motor vehicles. The procurement chapter applies only to US companies, not to other foreign suppliers.

It is therefore simply not accurate to say that Australia's trade agreements prevent any preference arrangements in government procurement, nor should they.

The Trade Minister has criticized the US government for “protectionism” because its government procurement stimulus package gave some preference to local firms. As we have seen, US governments past and present, have been careful to leave themselves room to give local preference in key areas. At a time when government infrastructure spending is being expanded, the Australian government should exercise its rights to ensure that such spending generates local employment.

Fairytale economic modelling ignores real world experience

By Dr Patricia t Ranald, AFTINET Co-convenor

The Minister for Trade this week released a study by the Centre for International Economics which claims to show, through economic modelling, that the Australian economy, measured as Gross Domestic Product, has grown faster than it otherwise would have over the last 20 years because of reductions in tariffs (taxes on imports).

He then used the study to attack those whom he claimed were seeking to retreat into protectionism by raising tariffs in a time of recession.

“Protectionism” is being used as a bogey word by governments in the current recession, with dire warnings of a retreat into the same protectionism that worsened the 1930s Depression. The rationale for this is the memory of the extreme tariff rises initiated by the US in the 1930s, which did contribute to the global depression. But this is a false comparison with today’s conditions. In 1929 US tariffs on key traded goods were already very high by today’s standards, around 40%. They were raised by an average of 8%, and provoked equally high tariffs in retaliation by US trading partners. By contrast, the general level of tariffs in Australia is 3.5%, and no-one is proposing tariff increases.

Apart from addressing a phantom problem, the study itself has major defects when examined more closely. The study claims that the Australian economy grew by an additional 2.5-3.5 percent over the last 20 years because of tariff reductions. The media release then claims that “this translates to an extra \$2700 to \$3900 in real income each year for the average Australian family.” Of course this made a good headline, with stories written as if this money had actually been delivered to every household.

This is misleading because the “average” family exists only in theory, and benefits from growth in the economy are not evenly distributed amongst families. As John Quiggin remarked years ago about a similar claim for household benefits from competition policy, “Don’t book your holiday yet!”

The study is misleading in yet more ways. Like all such studies, the figures are the result of a mathematical “model” of the economy based on totally unrealistic assumptions which are hidden in the appendices. These assumptions exaggerate the benefits of trade liberalization for consumers and minimize costs like unemployment. In this case, the assumptions of the ORANI model, outlined in appendix B, include :

“In the long run the labour market is assumed to attain equilibrium, so that an economic shock has no lasting effect on total employment. This assumption is implemented by fixing the level total employment” (p. 39)

In other words, the model assumes that total employment in the economy did not change over the last 20 years. This assumes away one of the possible major negative effects of tariff reductions. In fact we know from unemployment statistics that the average levels of unemployment did rise steeply over the late 1980s and early 1990s, partly because of recessions, and partly because of structural changes caused amongst other things by changes in tariff policy.

But wait, there is another assumption about the trade balance (the difference in value between exports and imports). This assumption is

“In the long run, external balance is assumed to be achieved, so that trade shocks have no lasting effects on the trade balance.”

In fact, the trade figures over the last 20 years show us that Australia’s trade deficit has steadily increased, which means we are importing goods of far greater value than we export. Again the study has just assumed away a possible negative effect of trade liberalisation.

As John Maynard Keynes said in the 1930s about these absurd assumptions of neoclassical economics, “In the long run, we are all dead.”

But wait, there is still more! In the conclusions of the study, there is the following disarming admission about the impossibility of separating the impact of trade liberalisation from other economic changes over the same period:

“Trade liberalisation, and the accompanying capital account liberalisation and the floating of the exchange rate were complementary parts of a wider set of economic reforms that occurred during the 1980s and 1990s. These reforms allowed a far more rapid expansion of the economy than would otherwise have occurred.

“While it is impossible to put precise figures on the benefits of any one part of the inter-related reforms, the transformation of the economy in terms of lower unemployment, low inflation, rising incomes, higher levels of wealth and greater stability, must be obvious to all” (p.32).

In other words, the study admits that it does not establish any direct link between the claimed economic benefits and tariff reductions, because these cannot be separated from other changes!

Apart from the determination to ignore the actual experience of the recessions and high unemployment of 1987 and 1991, the real sting in the tail of the second paragraph quoted above is the phrase “greater stability”. It would be a kindness to the authors to assume that they completed the study before the onset of the greatest global recession since the 1930s, but this is not the case, since the study contains a chapter on the global financial crisis.

As the global meeting of 20 key governments (G20) convened to address this crisis has admitted, a major cause of the crisis was the deregulation of financial markets, and lack of regulation in areas like derivatives trading. The Prime Minister emphasised these points in his critique of neoliberalism in the Monthly magazine. Most industrialized country governments are now re-regulating their financial sectors, despite the rhetoric of free trade agreements and neoclassical economic models.

The authors of this study and of Australia’s trade policy seem unaware of the contradictions between continued promotion of theoretical models of free trade agreements and financial deregulation, and the realities of addressing what is now a global economic crisis.

3. Stop the violent repression against indigenous peruvians

Call on the Peruvian government to stop the violence against peaceful protesters and to respect indigenous peoples' territorial rights. Peru's Amazon Indigenous Peoples need you to TAKE ACTION now!

Since April 9th communities throughout the Peruvian Amazon have been protesting new laws that usher in an unprecedented wave of extractive industries into the Amazon Rainforest. President Alan Garcia's government passed these laws under "fast track" authority he had received from the Peruvian congress to make laws to facilitate the Free Trade Agreement with the United States and to make Peru more economically "competitive".

Over 30,000 indigenous people have taken to blockading roads, rivers, and railways to demand the repeal of these new laws that allow oil, mining and logging companies to enter indigenous territories without seeking prior consultation or consent. The protests have led to disruptions of transport as well as the interruption of oil production.

In the early morning of June 5, Peruvian military police staged a violent raid on a group of indigenous people at a peaceful blockade on a road outside of Bagua, in a remote area of northern Peruvian Amazon. Several thousand indigenous peoples were forcibly dispersed by tear gas and real bullets. Initial reports of fatalities include at least eleven indigenous people, along with nine police officers.

We need you to immediately TAKE ACTION adding your voice in solidarity with thousands of indigenous people. Send a letter today to the Garcia Administration demanding an end to the violent repression and respect for the constitutionally guaranteed rights of indigenous peoples.

As one of the Earth's largest tropical rainforests, the Amazon plays a critical role in safeguarding the global climate. Its destruction releases massive amounts of global warming gases into the atmosphere, worsening climate change. Indigenous peoples are the guardians of the Amazon rainforest. They need your support.

Tell the Peruvian Government:

1. Immediately suspend violent repression of indigenous protests and the State of Emergency
2. Repeal the Free Trade Laws that allow oil, logging, and agricultural corporations easy entry into indigenous territories
3. Respect indigenous peoples' constitutionally guaranteed rights to self-determination, to their ancestral territories, and to prior consultation
4. Enter into good faith process of dialogue with indigenous peoples to resolve this conflict

Visit www.amazonwatch.org to take action.

NOTE:Australia is currently in negotiations with Peru for a Free Trade Agreement under the "Trans Pacific Partnership Agreement" which also include the USA, New Zealand, Chile, Singapore and Brunei. The policies that have been changed to undermine Indigenous control over their resources will most likely be reinforced under an new FTA that includes Australia

4. Take Action: Tell Crean Not to Push PACER

Next week, Australia's Trade Minister Simon Crean will attend the Pacific Island Forum Trade Ministers Meeting in Apia, Samoa. At this meeting trade ministers will make recommendations regarding the timing for potential negotiations for a trade agreement as well as what support will be available for the Pacific Island Countries. Australia must not use this meeting to pressure Pacific Island nations into accepting a timeframe that undercuts the development future of the Pacific.

The Pacific Agreement on Closer Economic Relations (PACER-Plus) will have enormous impacts on the Pacific as they open up their markets to more Australian and New Zealand

goods, services and investment. Current modelling predicts that Pacific governments stand to lose up to 17 per cent of their revenue as tariffs are reduced, jeopardising the provision of essential services.

As yet, there is yet to be any widespread research, consultation and analysis of the impacts of PACER. With one academic predicting that 80 per cent of Pacific manufacturing will close down under PACER, forcing thousands out of work, governments need time to assess the environmental, social, regulatory, and cultural impacts of any PACER-Plus agreement before deciding whether or not to enter into negotiations.

Tell Simon Crean that if Australia is serious about supporting the Pacific Island Countries it won't push for a rushed PACER.

Visit www.aftinet.org.au to send Simon Crean a letter.

5. WTO Update

The WTO Ministerial for the end of the year has been confirmed with the dates set for November 30 – 2 December. This is exactly 10 years to the day since the closure of the Ministerial in Seattle! Whilst this Ministerial is said to be focussing on some of the more general aspects of the WTO and not on the Doha Round of negotiations it would be naive to think that with all the Ministers present the conversation wouldn't turn to the Doha Round. Already groups like Our World Is Not For Sale are planning some form of presence at the meeting both in a lobbying role and a outside protest role.

In other WTO news the Indian Commerce Minister, Kamal Nath, has been replaced by Anand Sharma. Kamal Nath was one of key players in the WTO Doha Round, standing strong on the issues regarding food supplies and the protection of important sectors for food security that lead to the collapse of the mini-ministerial in July last year. Whilst Anand Sharma has a positive track-record the real test will be to ensure that social movements keep the pressure on to ensure that no bad deals get signed.

From June 7 – 9 there was a Ministerial Meeting of the Cairns Group, a WTO group of agriculture exporters of which Australia is the chair. The Cairns Group has a diverse membership of both developed and developing countries but its usual focus on agriculture export is taking a back seat to the issues arising from many developing countries relating to food sovereignty. The meeting was also attended by the US, India and the Director General of the WTO, Pascal Lamy. The Cairns Group reiterated their desire to see the Doha Round concluded with Mr Lamy stating that it could be concluded by the end of the year.

6. FTA Update

PACER

The next two weeks are shaping up to be critical in the campaign on PACER. Trade officials and Ministers from the Pacific, Australia and New Zealand will be meeting in Samoa to discuss a possible undertaking of negotiations on PACER Plus. Whilst there has been a strong stand by Pacific governments in regards to the timelines that any negotiations would work with it is feared that Australia and New Zealand might pressure them to abandon such a position.

The core issues relate to the timing of negotiations as well as ensuring that Pacific Island Countries have the capacity to enter into them. The Pacific have been calling for a period of national consultation and research into the impacts of PACER prior to entering into negotiations, yet Australia has been calling for negotiations to be announced in two months time at the Pacific Islands Forum Leaders Meeting in Cairns. Pacific governments are also worried about not being able to adequately engage in the negotiations due to resource constraints. They're calling for an Office of Chief Trade Advisor to be adequately funded for

A\$11 million to ensure that they can coordinate negotiations and draw on its expertise. Australia has only offered A\$3 million and opposed movements to obtain funds elsewhere.

AFTINET will be have a presence in Samoa to work with other groups from the region to pressure any outcomes from the Trade Ministers meeting respect the development futures of the Pacific.

Republic of Korea

Trade negotiations with South Korea started on May 18 in Melbourne. Whilst loud noises have been made from the beef farmers over securing access in the wake of the Korea/US FTA other areas like education and professional services will also be a major focus of any agreement.

7. National Climate Emergency Rally 13 June 2009

For more details about the rally in your major city see: www.climaterally.org.au

The National Climate Emergency Rally is an initiative of Australia's Climate Action Summit when over 140 community climate groups came together in Canberra in February 2009 to plan community action on climate change. There will be rallies in Melbourne, Adelaide, Perth, Brisbane, Canberra and Hobart on the same day.

Why rally?

Countdown to Copenhagen

In December 2009, governments of the world will meet in Copenhagen to forge a critical new global climate change agreement. This is our chance to secure strong global action to cut emissions in time to avoid catastrophic climate change. The global financial crisis presents a golden opportunity to change direction and embrace a 'green new deal' to save the planet and the economy.

Join thousands of Australians to stand up for real and urgent action!

We need:

1. 100% renewable energy by 2020

Australia must shift to 100% renewable energy from wind, solar and other existing technologies within a decade.

2. Green collar jobs with a just transition for workers

We can renew our economy by creating hundreds of thousands of 'green jobs' and supporting workers to make the shift to sustainable industries.

3. A strong international agreement with climate justice for all

Australia must take the lead in global climate talks, not undermine them with an ineffective 5%-15% target. We must support our Pacific neighbours and other developing countries, who are least responsible for climate change.

4. A climate policy that makes big polluters pay

The Government's draft Carbon Pollution Reduction Scheme must not become law in its current form. It would allow big companies to go on polluting and won't reduce Australia's greenhouse pollution

Get involved

Help promote the event: visit www.climaterally.org.au and find the contact point for your nearest rally.

8. "Our Futures, Our Land": a photographic exhibition highlighting the importance of land to the Melanesian peoples of Papua New Guinea and Vanuatu.

Thursday 18th June 6:30pm
Chrissie Cotter Gallery, Pidcock Street, Camperdown
Entry by donation.

Speaker: Mark Davis – Award Winning Video Journalist (TBC), Photographic Auction, Drinks 'n' Nibbles.

"Our Futures, Our Land" is a fundraiser to support AID/WATCH's collaborations with Melanesian groups fighting for control over the future of their land.

Contact: AID/WATCH 02 9557 8944 or lara@aidwatch.org.au