A Paradigm Shift: The Effect of the 2002 Farm Bill on a US-Australia Free Trade Agreement

Michael T. Harmon

Discussion Paper No.97

ISBN No: 0 7315 3440 9

ISSN No: 10302190

This discussion paper is a revised version of a Policy Analysis Report written as part of the requirements for the Masters in Public Policy, Australian National University

Acknowledgements

First of all, I would like to thank Dr. Robert Campbell for his effort as advisor during this project. His time and energy are greatly appreciated, and his advice and help in contacting others was essential to the completion of this work.

I would like to thank Professors Glenn Withers and Richard Mulgan for their efforts in the planning sessions regarding this work. Their thoughts and insights were helpful in the organization of this work. Both contributed greatly to the success of this project.

I would like to extend my thanks to Greg Wood for his time and efforts in helping to discover the core concerns of the FTA.

I would also like to thank Greg Cutbush for his time and efforts in helping me examine the key agricultural issues in the potential FTA.

And, thanks to Brent Davis for helping examine the political issues surrounding the FTA.

Executive Summary

The passage of the 2002 Farm Bill greatly reduced the likelihood of the US and Australia reaching a Free Trade Agreement (FTA) in the near future. Major issues, such as potential effects on third parties and agriculture, existed before the 2002 Farm Bill, but the passage of the 2002 Farm Bill saw new issues arise and further complicated the issue of agriculture. It created policies, such as large subsidies, that would be difficult to resolve in bilateral trade negotiations between the two countries.

The 2002 Farm Bill also symbolized that the US was unwilling to liberalize its agriculture markets, making it difficult for the US to lead any agriculture liberalization talks. It highlighted the difficulties of aligning domestic policy with international policy, and brought to light the difficulty of dealing with structural problems in the US as well as the competing US power structures. The 2002 Farm Bill also showed that interest groups would play a major role in US-Australia FTA discussions.

The 2002 Farm Bill not only created and highlighted issues that must be addressed in a US-Australia FTA discussion, but it also changed the manner in which possible US-Australia FTA discussions must be viewed.

Introduction

A Free Trade Agreement (FTA) between the US and Australia is not a new idea. The subject was first broached in 1985 when the United States Special Trade Representative Mike Smith sent a message to the Australian Department of Trade testing Australia's interest in seeking a preferential trade arrangement.[1] After looking into the matter, the Hawke government decided against seeking an FTA with the US. The issue was again brought up in the 1992 US Presidential Election when George Bush Sr. stated in a campaign speech that, if re-elected, he would purse the possibilities of bilateral trade agreements with many countries including Australia. Australian Prime Minister Keating, concerned about alienating trading partners in Southeast Asia, assured Japan that Australia would never enter into a trade agreement that discriminated against Japan.[2]

Australia's negative stance toward an FTA with the United States shifted significantly with the election of the Howard Government. The Howard Government was much more inclined to focus on trade relations and the general relationship with the US. While the Howard Government did not push strongly for a US-Australia FTA in the early days of its government, it has to warmed to the idea in recent times.

The US saw a general push towards developing bilateral trade agreements with the election of George W. Bush as President in 2000. President Bush began to push for FTA's with many countries such as Singapore and Morocco, and he has recently suggested that he would like to explore the possibility of an FTA with countries such as Australia.

With the Australian and US leadership both open to the possibility of an FTA, a US-Australia FTA began to seem like a definite possibility. Certain major issues preventing the FTA had to be addressed. First, the countries had to determine if an FTA would actually benefit their respective countries. Second, the possibility of an affect on third party trading partners had to be addressed. Third, the US President did not have "trade promotion authority.[3]" And lastly, the issue of agriculture had to be addressed. While there were other issues facing a possible US-Australia FTA, these were the four key issues that were preventing a US-Australia FTA.

The passage of the Farm Security and Rural Investment Act of 2002, commonly referred to as the 2002 Farm Bill, brought about a significant change in the discussions concerning a US-Australia FTA. The 2002 Farm Bill complicated the issue of agriculture, and it also brought to light some new issues as well as systemic problems that had to be addressed before an FTA can be reached.

[1] Garnaut, Ross. 2002. 'An Australia-United States free trade agreement.' *Australian Journal of International Affairs* 56(1): 123-141, p. 123.
[2] Ibid.
[3] This was an issue that was resolved after the passage of the 2002 Farm Bill.

With the changed environment brought about by the 2002 Farm Bill, the possible US-Australia FTA stands on shaky ground. The chances of significant discussions taking off are now slim, and the likelihood of an FTA with any substantial benefit in the future is unlikely. In the end, the 2002 Farm Bill might have killed the possibility of a US-Australia FTA altogether.

US-Australia Free Trade Agreement

Free Trade Agreements in general

The term Free Trade Agreement is slightly misleading. It is not actually an agreement that creates total free trade between two or more countries. It instead creates a situation where the countries involved have freer trade between them (i.e. reduction or elimination of tariffs). For instance, if the US and Australia reached an FTA, Australia might gain more access to the US sugar market, and the US might gain more access to the Australian media market. But, the two countries would not necessarily drop all trade barriers.

From a general perspective, gains from an FTA are manifested in one of two ways. First, producers from one country might gain by more open trade with the other. For example, Australia sugar producers might gain greater market share in the US sweetener market. Or second, consumers of one country might gain by more open trade with the other. For example, US sweetener consumers might pay lower prices for sugar because Australian sugar is cheaper. However, if Australian sugar producers and US sugar consumers benefit from an FTA, then US sugar producers would probably lose. Thus, while the benefits of an FTA might outweigh the loses, it is important to note that some might be worse off under an FTA.[4]

An FTA is only one avenue through which a country can eliminate trade barriers and open up free trade in the international arena. Countries can eliminate barriers unilaterally. For instance, the United States could eliminate steel tariffs unilaterally and allow any country open access to the US steel market. Countries can also eliminate barriers bilaterally. The US could sign an FTA with Australia in which steel tariffs would be eliminated only with Australia. Or lastly, a country could eliminate trade barriers multilaterally. The US could sign an FTA with multiple countries, such as the proposed Free Trade Americas Agreement, and eliminate steel tariffs only among those countries involved. The most popular multilateral trade barrier reduction is through the World Trade Organization (WTO). The US-Australia FTA would be a bilateral reduction in trade barriers. It is important to note that discussions of an US-Australia FTA would take place simultaneously with WTO discussions as well as other bilateral and multilateral discussions.

Why seek a US-Australia FTA?

For extensive discussion on a US-Australian FTA to begin, both sides must believe that they would benefit from an FTA. In other words, both the US and Australia must believe that their respective countries would be better off with an FTA than without an FTA. There are three main arguments put forth by the Australian government as to why Australia would benefit from an FTA with the US.

---

[4] This is an important note as it leads to certain very strong interest groups opposing any FTA. Please see section on interest groups.

First, according to the Centre for International Economics (CIE), Australia could benefit economically from an FTA.[5] The CIE estimates that after full implementation, the benefit to Australia would be US$2 Billion per year.[6] The net present value benefits over the next 20 years would be US$9.9 billion to Australia and US$10.3 billion.[7] The second argument is again an economic argument but one from a negative perspective. With the US negotiating FTA's with other countries throughout the world and exploring the possibility of a Free Trade of America's Agreement, Australia believes that if it does not have an FTA with the US, the world's largest economy, then it will be at a disadvantage in the long run.[8] Lastly, according to Foreign Minister Alexander Downer, Australia needs an FTA to create an even stronger relationship with the US, which Downer believes should remain one of Australia's closest allies well into the future.[9] The current Australian Liberal government has made an FTA with the US one of its top priorities in terms of international trade.

The Australian Liberal government has found many allies in Australian industries and business groups in support of an FTA with the US. AUSTA, the Australia United States Free Trade Agreement Business Group, has lobbied hard in recent time to initiate negotiations between the two countries.[10] They continually lobby the Australian government to pursue an FTA, and they also publish articles in an attempt to persuade public opinion to support an FTA. A similar organization exists in the US, the American Australian Free Trade Agreement Coalition (AAFTAC).[11]

Support in the United States for an US-Australia FTA is found in different areas than in Australia. Much of the support is found in the academic environment or in right wing think tanks such as the Heritage Foundation.[12] The Heritage Foundation puts forth arguments similar to the Australian arguments as to why an FTA with Australia would benefit the US. They espouse that US would benefit economically from an FTA, and they believe that closer relations with Australia are important into the future. However, support for a US-Australia FTA from organizations such as the Heritage Foundation is a small part of a much larger push for the US to develop freer trade.[13]

---

[5] Berkelmans, Leon, Lee Davis, Warwick McKibblin and Andrew Stoeckel, *Economic Impacts of an Australia-United States Free Trade Area*, Canberra ACT: Centre for International Economics, 2001, p. vii.
[6] Ibid; full implementation, according to CIE, would occur in 2010.
[7] Ibid; this would be a GDP increase of .4 percent for Australia and .016.
[8] Downer, Alexander, MP, "The Strategic Importance of a Free Trade Agreement to Australia-United States Relations. Speech 29 August 2002. Online. Australia Foreign Minister's Office. www.foreignminister.gov.au/speeches/2002/020829.
[9] Ibid.
[10] For more information on AUSTA, please see www.austa.net.
[11] For more information on AAFTAC, please see www.aaftac.com.
[12] Fitzgerald, Sara, 'Now is the right time to sign a Free Trade Agreement with Australia.' Heritage Foundation, Washington DC, Online. 15 March 2002. www.heritage.org/Research/TradeandForeignAid/EM805.cfm.
[13] The Heritage Foundation continually publishes articles supporting unilateral, bilateral and multilateral trade negotiations between the US and numerous countries.

Support for a US-Australia FTA is weak in both government and business circles in the US. While the US government has publicly stated it intends to explore an FTA with Australia, its priorities seem to lie elsewhere at the present time. Some business communities and business organizations, such as AAFTAC, support an FTA, but their presence in the US is relatively weak.

What would be in a US-Australia FTA?[14]

While it is not certain exactly what a US-Australia FTA would look like, there is general agreement about what would probably be included if an FTA were agreed upon in the near future.[15] Australia would probably lower textile and automotive tariffs, relax media ownership restrictions and open up some government procurements to US companies. Australia would probably also concede on some agriculture issues, including quarantine. The US would likely concede on some agriculture issues, especially dairy and sugar import tariffs, textiles tariffs and shipbuilding tariffs and restrictions. The US would probably open up some government procurements to Australian companies.

[14] The breadth and scope of this project will not allow an extensive examination of everything that might be included in the FTA. It is nonetheless important to state some of the major components that would be included, as they bring about some of the major issues that must be faced. For a more in-depth look into the FTA, see the Centre for International Economics report, "Economic impacts of an Australia-United States Free Trade Area."

[15] Berkelmans et all. op cit.

Pre-2002 Farm Bill Issues facing a US-Australia FTA

According to the Centre for International Economics' report "Economic Impacts of an Australia-United States Free Trade Agreement," an FTA between the US and Australia would economically benefit both countries. With the US and Australia enjoying a very close diplomatic relationship, at the time of the CIE's report, it seemed intuitively that the two countries should reach an FTA. However, four major issues prohibited the development of an FTA. These issues included: the actual affect of the FTA, the implications to third party trading partners, lack of "trade promotion authority" [16] and agriculture. While other smaller issues were present, these were the three major visible issues preventing an FTA at that time.

Actual Affect and Implications to Third Parties

The Howard government in Australia supports the finding of the CIE.[17] It believes that Australia would benefit significantly both economically and politically. This has been spelled out on numerous occasions, including during Prime Minister Howard's trip to the United States.[18] The Howard Government continues to pursue an US-Australian FTA.

Some in Australia, such as the Australian National University's Ross Garnaut, have taken a very negative stance on a possible FTA with the US. Garnaut believes that an FTA with the US would actually leave Australia worse off.[19] He asserts that by focusing so much on trade with the US, Australia will alienate its largest trading partner, Southeast Asia. Garnaut also points out the fact that an FTA with the US is essentially a preferential trade agreement between the US and Australia. The FTA would give the US access to portions of the Australian market that Southeast Asia would not have. Such an agreement could significantly alienate some trading partners, such as Japan. Garnaut's argument is not a new one. Prime Minister Keating used a similar argument in turning away the US's interest in the early 1990's.[20]

In his argument regarding trade diversion, Garnaut questions the findings of the CIE. He believes that the economic benefits asserted by CIE's reports are actually incorrect, asserting that the trade diversion element was not adequately addressed. Other scholars, such as Monash University's Ann Capling, share some of Garnaut's views.

---

[16] The absence of "trade promotion authority" was a major issue in terms of negotiation. This issue was somewhat resolved after the passage of the 2002 Farm Bill, and it is best understood from a post-2002 Farm Bill perspective.

[17] The CIE report was commissioned by the Australian Department of Foreign Affairs and Trade (DFAT). The government cites the figures of the CIE in official documents and speeches. See www.trademinister.gov.au for the Minister of Trades speeches. Minister Vaile often cites US$2 billion per year as the Australian benefit from an FTA.

[18] Howard, John PM, Doorstop Interview, Willard Hotel. Washington DC. Online. 8 June 2002. www.pm.gov.au/news/interviews/2002/interview1289.htm.

[19] Garnaut, op cit, 135

[20] Garnaut, op cit, p. 123

In a speech entitled, "September 11 and the Global Trade System," Capling spoke briefly regarding what she believed to be the possible effects on Australia of an FTA with the US. "Finally, it is worth noting that in seeking to attach Australia to the world's economic superpower via a preferential agreement that would discriminate against our other trade partners including Japan, China, South Korea and Taiwan, the government is subjecting us to the very asymmetries of power that we have so long sought to mitigate through the global trade system. In purely symbolic terms, it is reminiscent of an earlier, more deferential and patrimonial approach to foreign policy where Australia sought security by clutching for apron strings."[21]

If Garnaut and Capling are correct, then CIE's estimates of great gains by Australia are wrong, and an FTA with the US would actually harm Australia economically. Such views are damaging to the prospect of launching FTA negotiations, but at present time, the Australian government and the US government operate assuming that an FTA would benefit both economically.

The United States stands to gain economically through an FTA with Australia. The major concern in the US is not about affecting third party countries with which it trades but about appeasing some of the industries that would lose out financially under an FTA with Australia. Some US business entities, such as media corporations, automotive manufacturers and textile manufacturers, would show noticed gains. But some other industries, such as the dairy and sugar industries, would see a significant adverse economic affect from an FTA with Australia. Most of these business entities are in the agriculture industries, making agriculture a key issue in a US-Australia FTA discussion.

Agriculture

Agriculture is arguably the central issue in US-Australia FTA negotiations. No FTA could be sold politically in Australia without significant gains in agriculture producer gains or in the US with significant agriculture producer loses. The gains made to Australia without agriculture would also be small that it might not be worth the manpower involved to negotiate a deal. One estimate shows that 60% of direct benefit to Australia will come in additional exports of dairy and sugar.[22] Thus, it is an issue that must be resolved in some form before an FTA agreement can be reached.

[21] Capling, Ann, 'September 11 and the Global Trade System.' Speech for the Brisbane Institute, 10 September 2002, p. 11.
[22] Gallagher, Peter. ''Managing' Agriculture in the US-Australia FTA.' Inquit Pty Ltd. APEC Center-AUSTA Conference, Canberra, 29-30 August 2002. Online. http://www.apec.org.au/docs/fta2gal.pdf.

The US issues with Australian agriculture are fairly straightforward. Australia has relatively low tariffs in almost all agriculture and virtually no agriculture subsidies. The main issue is that of quarantine.[23] Australia has very strict quarantine and safety laws concerning agriculture products. For many US agriculture industries, such as beef and feed grain, to see any real gains in the Australian markets would require the quarantine and safety measures to be significantly altered or eliminated.

Australia currently uses a quarantine regime that effectively prohibits the import of poultry meat (except when cooked at very high temperatures for a very long time)[24]. It also bans the import of any cooked pork meat that is not canned. Australia has safety provisions that require all feed grains to be steam sterilized at the port of entry. This is so costly to US companies that it affectively eliminates feed grain exports to Australia. Fresh fruit and vegetables are also prohibited, or at least severely limited, by Australian safety measures.

Australia defends its quarantine and safety policies by asserting that as an island nation with very little disease, these policies are required to protect its agriculture industry. These claims, however, are hard to justify as very little evidence can be found supporting them. In reality, the quarantine and safety policies are protectionist policies designed to shelter certain agriculture industries.

Due to the quarantine and safety policies, the largest current agriculture export to Australia is pet food, which ranks as the 27th largest export to Australia.[25] Conversely, more than one-quarter of Australian exports to the US are agriculture products. Australia's quarantine and safety policies are viewed as such a negative practice by the US farm industries that the American Farm Bureau Federation has come out against even negotiating an FTA with Australia.[26] Some might argue that the Farm Bureau's stance was political posturing, but its stance is nonetheless very strong. Without the support of the Farm Bureau, a mostly liberal, free trade oriented organization, an FTA cannot be sold politically in the US.

There are also the obvious farming lobbies in the US, specifically the sweetener and dairy lobbies, that would never support the elimination of their subsidies and import tariffs without significant concessions. These lobbies have come out in strong opposition to any negotiations with the Australian government. These industries opposition, coupled with the Farm Bureau's opposition to an FTA, makes it highly unlikely that an FTA can be reached in the near future.

---

[23] Gallagher, Peter. 'US Australia Free Trade Agreement; Agriculture: the strategic issues.' Inquit Pty Ltd. 27 June 2001. p. 7-8.
[24] Ibid. p. 8.
[25] Ibid. p. 5.
[26] 'AFBF Opposes Free Trade Negotiations with Australia.' American Farm Bureau Federation. Online. Washington DC. 20 August 2001. www.fb.org/news/nr/nr2001/nr0830.html.

The Australian agriculture issues toward the US are much more complex, and much harder to deal with. They include issues with US import tariffs on certain commodities such as sugar and dairy.[27] They also include US price altering subsidies. These issues cannot be fully understood without an examination of the 2002 US Farm Bill. It was in this recently passed bill that new US farming policy was created.

[27] Gallagher, 'US Australia Free Trade Agreement.' op cit, p. 5.

2002 US Farm Bill

When President Bush signed the Farm Security and Rural Investment Act of 2002[28], a collective outcry could be heard throughout the world. The 2002 US Farm Bill established US Farm policy for the next ten years. It created policy regarding conservationism, land stewardship, and other farming provisions. Most importantly for the international community, the 2002 Farm Bill also created subsidies for US farmers that could potentially affect global commodity prices for the next ten years.

US farm policy is not established by a central body on a yearly basis, it is instead determined by concurrent legislation. Thus, Congress is required to pass legislation creating new farm policy before the previous legislation expires. If legislation is not passed and signed by the President, then farm policy reverts back to policies created in the 1930's. Thus, as the 1996 Farm Bill was set to expire, Congress was required to pass farming legislation, and the 2002 Farm Bill was created.

The 2002 Farm Bill is "far-reaching in its scope, highly complex in its structure.[29]" It covers issues ranging from food stamps and school lunches to rural development. In short, the 2002 Farm Bill addresses virtually every policy relating to agriculture.

The 2002 Farm Bill has garnered a great deal of attention internationally, specifically due to the extension of subsidies for the next ten years. According to the US Department of Agriculture, the 2002 Farm Bill extends an estimated $170 billion dollars to US farmers over that ten-year period.[30] Most economists, however, contend the subsidies will costs around $190 billion over the ten-year period.[31]

These subsidies are not tied to production. If global commodity prices fall, farmers should be inclined to reduce production. US farmers, however, have a safety net in the subsidies and will not be inclined to reduce production. Thus, US farmers will overproduce, further driving down prices. Additionally, the US farmers will not be subject to market conditions whereas farmers in countries such as Brazil and Australia will.

---

[28] Herein to be referred to as the "2002 Farm Bill."
[29] Penn, Dr. J.B. 'The 2002 Farm Bill: Implications for International Trade.' US Department of State. 22 May 2002. Online. Washington DC. Fpc.state/gov/10408.htm.
[30] ibid.
[31] 'Purdue expert: Farm bill likely to grow in cost, curb free trade.' Purdue University. 4 June 2002. Online. West Lafayette, IN. news.uns.purdue.edu/UNS/html4ever/020604.Gray.consequences.html.

The implication of the 2002 Farm Bill subsidies provisions for agriculture trade discussions are quite serious. The US was seen as a leader in the move to liberalize agricultural markets throughout the world. The 1996 Farm Bill was passed with the intention of weaning farmers off of agriculture subsidies[32]. However, due to natural disasters, the government decided to step in and continued to extend subsidy payments to farmers through the life of the 1996 Farm Bill. With the 2002 Farm Bill, instead of revisiting the intentions of the 1996 Farm Bill, Congress decided to continue to extend the subsides, but at a higher level.

Many academics and even some politicians, such as Senator Richard Lugar (R-IN) contend that 2002 Farm Bill encourages overproduction and depresses prices. Lugar further asserts that farm subsidies "flow to the wealthiest farmers in a few Midwestern and southern states.[33]" Other's such as Senator Kent Conrad (D-ND) argues the US farmers need subsidies in order to compete with EU and Japanese farmers who are much more heavily subsidized. Conrad's argument holds some validity, but not much. If the US were interested in seeing more competitive agriculture trade in the world, it would not increase subsidies and then try to negotiate them back down in a WTO round.[34]

The real reasons the 2002 Farm Bill passed in the form that it did lay in the domestic political realm. The 107th Congress saw the slightest of party margins in both the House of Representatives and Senate. The Republicans who held 221 seats out of a possible 435 controlled the House. The Democrats, who held 50 members, controlled the Senate. The Republicans held 49 members with one independent member who caucused with the Democrats. Neither party held a sizable majority in either house, and both desperately needed to win Congressional seats in states that greatly depended upon agriculture. Thus, members from both parties needed to appear friendly to agriculture to do well in these states. It was in this environment that the 2002 Farm Bill was crafted.

One way to appear friendly to agriculture was to throw a great deal of money at the industry. The easiest way to do so was through the extension of subsidies, and many Senators and Representatives drove hard to push the subsidies as high as possible. Thus, a system was created that could take the US right up to the $19.1 billion threshold established by the WTO. By doing so, the politicians from agriculture states could go back to their constituency and speak of how they fought hard to assist agriculture as much as possible.

---

[32] Fitzgerald, Sara J. 'Crumbling Credibility: Why the Farm Bill Endangers U.S. Agricultural Exports.' Heritage Foundation. Washington DC. Online. 7 December 2001. www.heritage.org/Research/TradeandForeignAid/BG1509.cfm.
[33] Ibid.
[34] Bluestein, Paul. 'US Proposes Global Cut in Farm Subsidies, Tariffs.' Washington Post. Washington DC. Online. 26 July 2002. www.washingtonpost.com/wp-dyn/articles/A2494-3003Jul25.html.

Some, such as Richard Lugar, did in fact object.[35] But his party, the Republicans, could not afford to back Lugar's objections to subsidies, for doing so could potentially alienate constituencies in key areas. Opposing such legislation could lose the Republicans the House and allow the Democrats to retain control of the Senate. The Democrats who opposed subsidies found themselves in the same situation as the Republicans. It was simply too risky to oppose subsidies as it may appear unfriendly to agriculture.

While few were surprised that Congress extended agriculture subsides, many were shocked that they did so for a ten year time period. President Bush desired to see a Farm Bill with subsidies for five year, but the legislation that passed the Senate called for ten.[36] The Senate provision for ten years eventually won out in the conference committee. President Bush was unable to veto the bill. Doing so would have appeared unfriendly to agriculture and damaged both the Republicans in the upcoming election and himself in the 2004 Presidential election.[37] So, the President signed the Farm Security and Rural reinvestment act of 2002.

International reaction

The 2002 Farm Bill, according to US House of Representative's Agriculture committee Chair Larry Combest, is a domestic bill targeted to "help" US farmers. "This bill is not for rural Mexico; it's not for rural Canada; it's not for rural Europe—it's for rural America.[38]". Combest could have easily added, "it's not for rural Australia." While the 2002 Farm Bill is targeted toward US farmers, it could potentially, and probably will, affect other farmers throughout the world, including Australian farmers. It will also affect the hue of almost any agricultural trade discussions throughout the world. This includes the possible discussion of agriculture in an US-Australia FTA discussion.

Many around the world, including Australia, reacted very strongly to the passage of the 2002 Farm Bill. The subsidies can possibly affect global commodity prices. They can also potentially be "trade altering subsidies." However, US agriculture has relied on subsidies for many years, and in truth, while the 2002 Farm Bill does increase subsidies, it does not do so to the extreme that many around the world proclaim.

---

[35] Fitzgerald, 'Crumbling Credibility.' op cit.

[36] Bluestien, Paul, and Dan Morgan. 'Showdown on Subsidies.' Washington Post. Washington DC. Online. 2 May 2002. www.washiongtonpost.com/ac2/wp-dyn?pagename=article&node=&contentId=A18.htm.

[37] ibid.

[38] 'International trade competitors severely criticize 2002 Farm Bill.' APAC. Online. http://apacweb.ag.utk.edu/weekcol/099.html.

The real anger in the international community derives from a change in the direction of US farm policy. The 1996 Farm Bill set the US agriculture industry upon a path to gradually eliminate agriculture subsidies, and the international community reacted very favorably to it. In contrast to the 1996 Farm Bill, the 2002 Farm Bill pushed US subsidies to the highest levels accepted under WTO statutes. The 2002 Farm Bill is a retreat to old protectionist agriculture policy.

The US had also attempted to lead discussions in WTO rounds to liberalize agriculture throughout the world. Many will now find it difficult to accept that the US truly desires agriculture liberalization after passing the 2002 Farm Bill. While the most recent US proposal to the Doha Round is quite good, in nonetheless seems disingenuous after the 2002 Farm Bill.

The Affect of the 2002 Farm Bill on a US-Australia FTA

The affect of the 2002 Farm Bill on the chance of a US-Australia FTA is substantial. The 2002 Farm Bill served as a symbol that the US is not serious about liberalizing agricultural markets, which makes it difficult to actually carry out negotiations. The actual agricultural policies are now policies that have seriously complicated the issue of agriculture. And lastly, it brought to the forefront some underlying and systemic issues that will be hard to overcome.

The 2002 Farm Bill as a symbol

The ramifications of the 2002 Farm Bill extend beyond what policies must be addressed in the FTA process. It also serves a symbol that the US is not willing to handle the political pain of undergoing significant agricultural liberalization. For many years, the US has attempted to lead global efforts to liberalize agricultural markets around the world. It consistently argued that global agricultural liberalization would benefit the whole world. In fact, many around the world underwent liberalization. Australia cut off subsidies, as did other countries such as New Zealand. The European Union and Japan, however, maintained high barriers.[39]

In 1996, with the Freedom to Farm Act, the US appeared poised to eliminate most subsidies over the next six years. Due to natural disasters, however, the US decided to continue to extend subsidies to farmers through the duration of the bill. The 2002 Farm Bill did not revert to the intentions of the 1996 Farm Bill but instead reverted to older more protectionist subsidies policy.

This profoundly affects a possible US-Australia FTA, as the US will probably not desire to liberalize bilaterally with Australia.[40] Any significant agricultural liberalization will likely take place in connection with liberalization in the EU and Japan. Thus, an FTA with will probably not be the vehicle the US chooses to liberalize its agriculture market, making negotiations on agriculture between the US and Australia very difficult or possibly non-existent.

Agriculture Policy Issues

Australia would see the greatest benefit from an FTA through increased access to the US agriculture markets. But, the issues Australia has with US agriculture are rather complex and very difficult to address. First, Australia would like to see a reduction in import tariffs in many agriculture industries, especially sweetener and dairy. Second, Australia would like to see a reduction in US subsidies.

---

[39] Blustein, 'US proposes Global Cut in Farm Subsidies, Tariffs.' op cit.
[40] Edwards, Chris, and Tad DeHaven. 'The Stubborn Seeds of US Farm Subsidies.' Cato Institute. Washington DC. Online. 5 September 2002. www.cato.org/research/articles/ce082301.html.

The reduction of tariffs is the most important issue to Australian farmers as it gives increased access to the US market. If 2002 Farm Bill subsidies were left in place, Australia could still benefit from increased access to US agriculture markets; however, it is unlikely that the Congress would be willing to allow a significant reduction in tariffs in a bilateral agreement with Australia. Such a reduction would take away some of the protection measures put in the 2002 Farm Bill and counteract the intent of the 2002 Farm Bill.

Domestic Politics verses International Politics

Domestic issues will almost always trump international issues. This was shown with the 2002 Farm Bill. When President Bush signed the bill into law, he knew the political ramifications the bill would have in the international community. However, he also knew the negative affect vetoing the bill would have on both the upcoming mid-term election as well as the 2004 Presidential election. So he did the politically pragmatic thing and signed the bill. The Farm Bill will make any significant agricultural trade negotiations problematic for the US.

US Domestic Political Difficulties

For an FTA to be affective, certain tariffs and subsidies must be eliminated. This would obviously affect the bottom line of some industries. While these gains are easy to sell to economists and academics, they would be difficult to sell politically. First, the industries that would be most affected, sugar and dairy, have very strong organizations in Washington D.C. as well as strong organizations in many state governments. Consumers do not have organizations that are substantially powerful enough to even compete in the political arena.[41]

The political pain of liberalizing agriculture bilaterally with Australia would be seen through potential electoral difficulties. With privately funded elections[42], certain industries and industry supporters could withhold campaign funding. This would be especially pronounced in smaller populations, agriculture-dependant states where elections are not as expensive to endure. With a large number of potential seats in the House of Representatives and Senate at stake in these states, the funding and support from farming industries is vital to electoral success.

---

[41] See section *Interest Groups*

[42] Elections are not solely funded privately, but the majority of election funding for candidates comes from the private sector, especially in Congressional elections. Recent legislation, such as the McCain-Feingold-Shays-Mehan Campaign Finance Reform Bill, is attempting to mitigate what is perceived to be an unfair influence of the private sector over legislation because of campaign contributions.

Because these states depend on farming, any legislation or agreement that appears to hurt the farming community could be devastating to the political image of a party or a politician in a state. For instance, if a Senator from Wisconsin, a large dairy producing state, is perceived to support legislation hurting the farming community, it could be damaging to the Senator in the next election. This is also true for President Bush as well. If President Bush is perceived not to be a friend to farmers, the political impacts could be severe in the next Presidential election because of the Electoral College system.[43] Furthermore, since the President must work closely with Congress to pass any legislation, the President has a stake in the elections of every Representative and Senator. Thus, if President Bush does not support farming, his party could suffer in an election, making it much more difficult for a President to influence legislation.

Structural Political Problems and Trade Promotion Authority

The US political structure makes passing any FTA difficult. The President and his administration would be the main negotiators in any FTA discussions, but Congress must approve all major foreign agreements. This obviously creates some major problems especially when one house of Congress is of the opposite party of the President. Thus, the Bush administration could reach an agreement on an FTA with Australia, but Congress could refuse to ratify the agreement.

The stress over the potential refusal by Congress was alleviated significantly by the recent passage of Trade Promotion Authority (TPA).[44] Before TPA was passed, Congress could dissect an agreement and only approve the provisions it desired. TPA allows the President's administration to negotiate an agreement with a foreign country and only allow Congress to summarily approve or reject the agreement. In the passage of TPA, Congress did, however, leave significant loopholes that could affect FTA discussions with Australia.

If the President's administration desires to engage in any discussion regarding "import sensitive agricultural products," such as beef, sugar, cotton, or dairy products, then the administration must first consult Congress.[45] Congress would then have the option of sending along a representative to any talks regarding agriculture. TPA was specifically designed to allow major discussion at WTO rounds run smoother while guarding against agriculture provisions in FTA's. With agriculture such a vital part of a US-Australia FTA, this is an obvious worry for possible US-Australia FTA negotiations.

---

[43] The Electoral College system is a system established constitutionally where the President is elected by electoral votes received through each state, not by popular vote. Thus, Presidential candidates must seek to win states, not the popular vote throughout the country.
[44] For extensive information on TPA, please see www.tpa.gov.
[45] 'Has Congress given a green light to negotiating a US-Australia Free Trade Agreement?' Australian Labor Party. Canberra. Online. 2 August 2002. www.alp.org.au/print.html?link=/media/0802/20001998.html.

While Australia does not hold the same political structure problems, it does have a difficult job balancing domestic political conditions with foreign trade. This affects the possible FTA in two major ways. First, Australian political parties must seek the rural vote, as it plays a key role in determining which party will serve as the majority party in government. Any FTA reached with the US that did not carry the support of rural voters would be hard to sell politically. Thus, the rural farming communities must support any FTA with the US for it to be politically feasible. That makes agriculture all the more important in the FTA.

Second, if the Australian government-of-the-day is to reach an agreement on an FTA with the US, it must do so in a manner that appears equal to both parties. There is a growing perception among Australian voters that the Australia gives in too much to the US in terms of foreign policy. This is mainly due to Australia's significant involvement in the "War on Terrorism," as well as Australia's comments on the International Criminal Court and possible involvement in Iraq. If an FTA is passed that appears to benefit the US at the expense of Australia, then that would be very damaging politically to the government-of-the-day and potentially damaging to the relationship between the two countries.

Competing US Power Structure

The difficulty for Australia to deal with competing power structures in the US political system was made quite evident by both the 2002 Farm Bill and the Trade Promotion Authority passage. Because of the competing power structures in the Democratically controlled Senate and the Republican controlled White House coupled with an upcoming election, the 2002 Farm Bill came out in a shape that was quite damaging in the international community. The passage of TPA and the restrictions placed on agriculture are also an indication that Congress might attempt to control any discussion of agriculture in FTA between the US and Australia. Both these issues brought to light the true difficulty Australian negotiators face when addressing an FTA.

The 2002 Farm Bill also showed how Australia and the United States view the interaction between foreign policy and trade policy. According to Greg Wood, former Australian High Commissioner to Canada, it appears that Australia has tied its foreign policy closely to trade policy.[46] The Howard Government is undertaking action in foreign policy in hopes that the US will develop closer ties economically to Australia. The Bush Administration, at least in its relationship with Australia, is not tying its trade policy to its foreign policy. The 2002 Farm Bill, coupled with the US's lack of desire to initiate trade talks highlights this problem.

[46] Wood, Greg. 'An Australia-US Free Trade Agreement: Balancing of Regional and Multilateral Interests.' Online. http://www.apec.org.au/docs/fta2woo.pdf.

The Role of Interest Groups

The role of interest groups in the shaping of domestic policy and the shaping of international policy is seen with the Farming lobbies in both countries. The US farming lobbies pushed Congress to create a regressive subsidy structure that could potentially cost US taxpayers over $19 Billion a year. They also helped create a subsidies policy that would no doubt cause the US considerable difficulties in negotiating any agricultural trade deals.

Agricultural interest groups have also prevented FTA negotiations from even taking off. When the American Farm Bureau Federation came out against negotiations of an FTA with Australia, it basically killed the possibility of negotiation in the near future unless Australia is willing to meet their demands.

Whereas many interest groups that would be negatively affected have been quite vocal, the groups that would benefit most in the US, US consumers, have been very quite regarding the FTA. This should not be surprising as consumers are relatively uninformed and the benefits the individual sees from an FTA are small relative to the loss an individual or company would incur. The 2002 Farm Bill has accentuated a classic example of how smaller but more powerful interest groups can affect policy that would be beneficial to many parties.[47]

Short-term Implications

The long-term implications of the 2002 Farm Bill on a possible FTA between the US and Australia have yet to be seen. The short-term implications, however, are quite apparent. The key substantive issue, agriculture, has been complicated to the point of unworkability. The 2002 Farm Bill subsidies levels are in place for ten years, and those subsidies essentially untouchable in negotiations between the US and Australia. Australia will find it difficult to negotiate an end to or significant change in the quarantine regime with those subsidies levels in place. With those being the two of the major issues facing agriculture and with those being unworkable in the near future, it appears that the US and Australia will not conclude substantial negotiations in the near future.

If the countries do decide to undertake negotiations with these issues remaining, it is highly unlikely that the negotiations will end fruitfully. Such a scenario could be highly damaging to the Liberal Party in Australia, and it could potentially damage the relationship between the two countries.

[47] This is a phenomenon that has been spelled out for many years. For a through examination of the phenomenon, please see: Olson, Mancur. The Rise and Decline of Nations. New Haven and London: Yale UP, 1982.

In the end, the 2002 Farm Bill created significant policy hurdles that must be cleared before negotiations can even start, and it also accentuated and brought to life new issues and problems with which the US and Australia will be forced to address.

Where does a US-Australia FTA Go Now?

A US-Australian FTA does not appear to be workable in the near future, but when taken in the broader context of US global trade relations and WTO relations, a US-Australia FTA might be workable at a later date. The problem with that scenario is that the FTA might be quite weak and of little economic value to either side.

Agriculture issues will probably not be resolved in bilateral negotiations between the US and Australia. They might, however, be resolved in multilateral WTO discussions. The current Doha Round of the WTO could potentially serve as a forum to eliminate many of the issues facing the FTA negotiations. After the passage of the 2002 Farm Bill, many around the world, including many EU countries, became outraged over the high levels of subsidies the US was employing. The US, in answer to much of the criticism, put forth an offer to the WTO to significantly reduce subsidies around the world, especially in the US, EU and Japan.[48]

In that proposal, "trade distorting" subsidies, or subsidies not tied to production like most of the subsidies in the 2002 Farm Bill, would be capped at 5 percent of a country's farming output. This would lower the ceiling of US subsidies payments from $19 billion to $10 billion, and would lower the EU's from $60 billion to $12 billion. Japan's would fall much greater from $33 billion to $4 billion.

While many view the proposal as good policy, it is highly unlikely that the EU would ever agree to such a drastic cut. It is unthinkable that Japan would agree to even consider such a drastic cut, especially after the recent Singapore goldfish scenario. The elimination of tariffs on Singaporean goldfish was left out of the Japan-Singapore FTA, because Japan viewed goldfish as livestock and thus agriculture.[49] It was apparent that Singapore would not flood the Japanese goldfish market, but it was a Japanese principle to never discuss any agricultural provisions in an FTA. This protectionist attitude makes Japan unlikely to undertake such serious agricultural reform that the US proposed.

Some also believe that the US is not serious about agricultural reform and believe the US is quite hypocritical for attempting to lead in reform after signing the 2002 Farm Bill. Pedro de Camargo Neto, secretary of production and trade for Brazil's Agriculture Ministry stated, "What credibility does the US have to present such a proposal? The enormous subsidies approved have not even started to be paid…How serious is this?"[50] While many sympathize with Neto's views, he is partially incorrect.

---

[48] Blustein, 'US Proposes Global Cut in Farm Subsidies, Tariffs.' op cit.
[49] 'Japan, Singapore open 3rd round of negotiations.' Online. http://www.sfdonline.org/Link%20Pages/Link%20Folders/01Pf/kyodo030901.html.
[50] Blustein, 'US proposes Global Cut in Farm Subsidies, Tariffs.' op cit.

The Bush Administration would sincerely like to see significant global agriculture reform. In fact, President Bush desired to see a much more toned down Farm Bill, but lost the political battle with the Senate. The Bush Administration could probably sell the reduction of subsides domestically if they were accompanied by significant reductions in the EU and Japan. Additionally, while the Trade Promotion Authority severely restricts the President's ability to negotiation bi-lateral agreements on agriculture, it gives broad powers in multi-lateral WTO discussions. Congress is also very likely to support WTO agricultural reform, smoothing the way for passage in the US.

The benefit to US-Australian FTA negotiations is obvious. If Australia was involved with the WTO discussion, which it would be, and the negotiations created a situation that was suitable for both the US and Australia, it would free the way for bi-lateral negotiations between the two countries. With agriculture already addressed, FTA negotiations should be much easier.

While it seems unlikely in the near future, global agriculture reform will remain on the WTO agenda and might see movement in the future. However, if agriculture is addressed multilaterally and taken out of a US-Australia FTA, then Australia's gains from the FTA would be far less than the $2 billion US that the CIE estimated. In fact, the gains would probably be so small that diplomatic efforts might be better utilized elsewhere. Ross Garnaut's assertions regarding trade diversion would gain credence with agriculture already addressed. Because the gains would be so small, Australia might believe that the rewards from an FTA negotiation with the US are not worth the risk of alienating Southeast Asia.

One of the main arguments put forth by the Howard Government is that an FTA with the US is vital in shoring up a long-term economic and political relationship with the US. If the Howard government's assertion is correct, then Australia could be faced with a dilemma. It needs to maintain a strong relationship with the US and feels an FTA is the best way of doing that, but the FTA with US would not be very beneficial economically and could potentially hurt trade relations with East Asia. Howard's concern of deterioration in US-Australia relations does hold some validity as well. According to Greg Wood, Australia has closely tied its actions in the international community with the actions of the US in hopes that the US would concede on trade issues. This has not been the case to date. If the Howard Government remains entrenched in a pro-US stance and Australia does not reach an FTA with the US, then it could potentially damage the relationship. This damage might be further accentuated if the US reaches orchestrates a Free Trade Americas Agreement. Ironically, if an FTAA is reached but a US-Australia FTA is not, the US might alienate Australia as a third party trading partner.

Conclusion

A US-Australia FTA had major issues, such a agriculture and potential affect on third party trading partners, before the passage of the 2002 Farm Bill. The 2002 Farm Bill accentuated the issue of agriculture and brought to the forefront other issues and systemic problems such as: US domestic political difficulties, domestic politics verses international politics, US structural problems, the role of interest groups in the FTA and the difficulty of dealing with competing US power structures. The 2002 Farm Bill also served as a symbol that the US was unwilling to endure the political pain of liberalizing agriculture markets.

When the affects of the 2002 Farm Bill are coupled with the apparent unwillingness of Congress to discuss agriculture issues,[51] it appears that the possibility of a US-Australia FTA occurring in the near future is very slim. And, if an US-Australia FTA is not reached in the near future, it could adversely affect the relationship between the two countries. In the end, the 2002 Farm Bill significantly reduced the chances of a US-Australia FTA being reached in the near future and possibly harmed US-Australian relations.

[51] See section on Trade Promotion Authority.

Works Cited

'AFBF Opposes Free Trade Negotiations with Australia.' American Farm Bureau Federation. Online. Washington DC. 20 August 2001. www.fb.org/news/nr/nr2001/nr0830.html.

Berkelmans, Leon, Lee Davis, Warwick McKibblin and Andrew Stoeckel, *Economic Impacts of an Australia-United States Free Trade Area*, Canberra ACT: Centre for International Economics, 2001.

Blustien, Paul, and Dan Morgan. 'Showdown on Subsidies.' Washington Post. Washington DC. Online. 2 May 2002. www.washiongtonpost.com/ac2/wp-dyn?pagename=article&node=&contentId=A18.htm.

Blustein, Paul. 'US Proposes Global Cut in Farm Subsidies, Tariffs.' Washington Post. Washington DC. Online. 26 July 2002. www.washingtonpost.com/wp-dyn/articles/A2494-3003Jul25.html.

Capling, Ann, 'September 11 and the Global Trade System.' Speech for the Brisbane Institute, 10 September 2002, p. 11.

Downer, Alexander, MP, 'The Strategic Importance of a Free Trade Agreement to Australia-United States Relations.' Speech 29 August 2002. Online. Australia Foreign Minister's Office. www.foreignminister.gov.au/speeches/2002/020829.

Edwards, Chris, and Tad DeHaven. 'The Stubborn Seeds of US Farm Subsidies.' Cato Institute. Washington DC. Online. 5 September 2002. www.cato.org/research/articles/ce082301.html.

Fitzgerald, Sara J. 'Crumbling Credibility: Why the Farm Bill Endangers U.S. Agricultural Exports.' Heritage Foundation. Washington DC. Online. 7 December 2001. www.heritage.org/Research/TradeandForeignAid/BG1509.cfm.

Fitzgerald, Sara, 'Now is the right time to sign a Free Trade Agreement with Australia.' Heritage Foundation, Washington DC, Online. 15 March 2002. www.heritage.org/Research/TradeandForeignAid/EM805.cfm.

Gallagher, Peter. 'Managing' Agriculture in the US-Australia FTA. Inquit Pty Ltd. APEC Center-AUSTA Conference, Canberra, 29-30 August 2002. Online. http://www.apec.org.au/docs/fta2gal.pdf.

Gallagher, Peter. 'US Australia Free Trade Agreement; Agriculture: the strategic issues.' Inquit Pty Ltd. 27 June 2001.

Garnaut, Ross. 2002, 'An Australia-United States free trade agreement.' *Australian Journal of International Affairs* 56(1): 123-141.

'Has Congress given a green light to negotiating a US-Australia Free Trade Agreement?' Australian Labor Party. Canberra. Online. 2 August 2002. www.alp.org.au/print.html?link=/media/0802/20001998.html.

Howard, John PM, Doorstop Interview, Willard Hotel. Washington DC. Online. 8 June 2002. www.pm.gov.au/news/interviews/2002/interview1289.htm.

International trade competitors severely criticize 2002 Farm Bill.' APAC. Online. http://apacweb.ag.utk.edu/weekcol/099.html.

'Japan, Singapore open 3rd round of negotiations.' Online. http://www.sfdonline.org/Link%20Pages/Link%20Folders/01Pf/kyodo030901.html.

Penn, Dr. J.B. 'The 2002 Farm Bill: Implications for International Trade.' US Department of State. 22 May 2002. Online. Washington DC. Fpc.state/gov/10408.htm.

'Purdue expert: Farm bill likely to grow in cost, curb free trade.' Purdue University. 4 June 2002. Online. West Lafayette, IN. news.uns.purdue.edu/UNS/html4ever/020604.Gray.consequences.html.

Wood, Greg. 'An Australia-US Free Trade Agreement: Balancing of Regional and Multilateral Interests.' Online. http://www.apec.org.au/docs/fta2woo.pdf