

# **Australian Sugar Industry Alliance**

## **Submission to Productivity Commission Review of Bilateral and Regional Trade Agreements**

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## Introduction

The Australian sugar industry works closely with both the Department of Foreign Affairs and Trade and the Department of Agriculture and Forestry and Fisheries and is devoting significant resources to the goal of securing an improved trade environment for sugar as a means of improving the long-term sustainability of the industry.

With a relatively small domestic market, the export market is critically important to the industry's operating environment and policies affecting trade impact significantly on the industry's export revenues.

The focal points of our work are:

1. Multilateral – the WTO
  - a. Doha Round negotiations and leadership of the Global Sugar Alliance
  - b. Disputes settlement
2. Bilateral – Free Trade Agreements

## Sugar Industry Trade Policy Position at a Glance

### Multilateral Trade Negotiations (WTO)

The WTO process and the successful conclusion of the Doha round must remain the primary focus for Australia. The Doha Round should deliver a “substantial improvement in market access” as promised in the July 2004 Framework Agreement; this includes narrowing the scope for exclusions and tightening the time frames under which the agreements are implemented. The world's richest economies are seeking real increases in access to developing country markets for non-agricultural products. They must deliver worthwhile increases in commercial access to their agricultural markets. For Developed Countries, this will require meaningful tariff reductions, reductions exceeding 75 per cent in the highest tariffs and, for the so-called ‘sensitive’ products, substantial increases in TRQ access by 10.5 per cent of domestic consumption for products that would otherwise face the highest tariff cuts. A number of other specific key reforms we seek from the Doha round include:

- **eliminate the in-quota tariff**
- require **administration of TRQs** in a fashion that provides opportunities for imports to occur, including the timely reallocation of quota
- the “**Special Safeguard Mechanism**” should be supported for only a limited number of products and only by developing nations. The abuse of this mechanism by developed nations to restrict real market access for some of their sensitive agricultural products needs to be abolished
- **elimination of export subsidies**
- **reductions in domestic support** including the capping of indirectly trade distorting ‘blue box’ and ‘green box’ payments

### Regional and Bilateral Trade Negotiation

Although both regional and bilateral trade agreements are recognised generally as being a poor alternative to multilateral trade liberalisation, pragmatically it must be recognized that Australia is undertaking further FTA negotiations, including with our major raw sugar trading

partners. A risk of bilateral trade agreements is their exclusive nature. Australia is aggressively pursuing bilateral FTAs and regional trade agreements to avoid the risk of being left behind in negotiations and the subsequent trade disadvantages created when a trading partner enters into such an agreement with a third party nation, such as occurred with the recent ASEAN-Korea FTA that delivered duty free access for Thai raw sugar to Korea. Given the competitive nature of these agreements and the slow pace of WTO negotiations, it is important that Australia actively pursues trade agreements with key trading partners, current and potential.

Regional FTAs have an advantage in offering a level playing field to all countries involved in the FTA and is, as a rule, supported by the industry over bilateral FTAs. Rhetoric aside, bilateral FTAs ensure that Australia maintains current favourable trading relationships with our trade partners. The industry supports FTAs where:

- they are **comprehensive**
- the term 'substantially all trade' is taken to **encompass all products** and not just all products currently traded
- there is **increased market access for 'sensitive' products**, specifically agriculture, is a key element in the **final FTA**
- the FTA **reinforces Australia's commitment to the WTO process**
  - the FTA is WTO compliant
  - a bilateral agreement has scope to easily include third parties, thereby setting it up as a preliminary to a regional trade agreement
  - the FTA does not detract or distract from Australia's focus on a positive outcome in the WTO process
- **pragmatic outcomes** are genuinely pursued which allow real gains in market access, even when they fall short of genuine 'free trade' (where raw sugar market access does not deteriorate and where "a least bad" policy must be adopted).
  - including new TRQs where little or no market access existed previously
  - increased access under existing TRQs
  - preferred supplier arrangements which offset some of Australia's freight disadvantages and maintain or increase market share

### The Doha Round and Global Sugar Alliance

Successful conclusion of the Doha Round negotiations is a key to improving Australia's agricultural trading environment, especially sugar. Nonetheless, it is clear that the round is stagnating, facing the threat of failure. Few WTO members share Australia's vision of trade reform as a catalyst for driving domestic economic growth. As a consequence, the Doha Round is suffering a lack of leadership and the political will to produce a worthwhile agreement.

With WTO membership now exceeding 150 countries, and several important economies such as Russia seeking accession, the negotiation is proving to be complicated and difficult. In this environment, without the support of strong leadership and the political determination to succeed, negotiators have developed a range of flexibilities in an attempt to reach agreement by a path of least resistance. This is slowly but surely taking ambition from the Doha mandate and risks taking the world sugar trading environment backwards, making market access more difficult not more open.

If the Round is to remain true to its Doha mandate it must deliver new, improved, commercially significant and usable market access as well as substantial reductions in trade distorting domestic support. For many, the round will be judged by the new market access opportunities it creates. However, with the Modalities taking shape, the flexibilities appear to be escape clauses. Already, the draft text contemplates “exceptions”, “sensitive” and “special” product categories, expanded “special safeguards (SSG)” and new “special safeguard mechanisms”. For so called sensitive products such as sugar, the Round is likely to deliver little. If the Round remains on its present path, there is a very real possibility of deterioration in market access. Securing the elimination of the SSG and the in-quota tariff and tighter tariff rate quota (TRQ) administration is essential if the potential benefits of Doha are to be secured for the sugar industry and Australian agriculture more generally.

In support of our efforts to raise the profile of sugar in these negotiations, the Australian sugar industry chairs and manages the Global Sugar Alliance. With members including Brazil, India, Thailand, South Africa, Guatemala, Colombia, Canada, Chile and Australia, the Global Sugar Alliance brings together all of the world's major raw sugar exporters and, in Canada, a significant raw sugar importer. We work closely with the Cairns Group and also with the G20.

The Cairns Group is the only formal grouping in the negotiation, with an unambiguous focus on securing a good outcome from agriculture balancing the imperative for securing new market access with the need to achieve real reductions in domestic support. Unfortunately, this commitment is not enough. There is an opportunity for Australia, through the Cairns Group, to work more closely with the G20, the USA and others to build support for an improved trading environment through the WTO

At a technical level we recognise and appreciate the efforts of Australia's negotiators, senior officials and the DFAT and DAFF teams, both Canberra based and those in Geneva. Unfortunately, in the present environment, their efforts alone will be insufficient. By engaging at the political level there is an opportunity for the Cairns Group to be reinvigorated new relationships with the G20 and others that may breathe new life into the Doha Round be established.

### **Dispute Settlement**

Australia, Brazil and Thailand's successful WTO challenge against EU export subsidies demonstrates WTO rules do work and that they provide a powerful force for change.

Unfortunately as the EU began the withdrawal of its subsidised exports from the world market, India, with a significant domestic surplus (11 million tonnes in 2006/07 and an expected 12 million tonnes in 2007/08), began exporting sugar with subsidies. The Indian export subsidies had an immediate and a very significant deleterious effect on the world sugar market, offsetting the market benefit associated with the successful challenge taken in the WTO against EU export subsidies.

Taking opportunistic advantage of short term market conditions, on 27 January 2010 the European Commission announced it would issue licences to enable the export of a further 500 kt of subsidised white sugar. The market impact was immediate. World prices for both raw and white sugar fell by USD22 per tonne on the announcement,

Australia, in conjunction with Brazil and Thailand, actively engaged India to change its policy. India's unresponsiveness to these bilateral representations illustrates the importance of

stronger WTO disciplines limiting the use of export subsidies. Similarly, the three governments are working together and through the WTO in an effort to ensure the EU does not further increase its sugar exports.

Australia's experience with the WTO sugar case against the EU demonstrates the importance of WTO rules enforcement as both a means of protecting Australia's export trade opportunities and a driver of change in international markets. It also shows the importance of vigilance during the implementation of WTO dispute body findings. ASA fully supports the government's participation in the WTO disputes resolution process and encourages the government to ensure sufficient resources are available for the timely pursuit of action and active monitoring of implementation.

### **Bi-lateral FTAs**

With the prospect of the Doha Round negotiations lingering on, the sugar industry supports the negotiation of comprehensive bilateral FTAs that include worthwhile improvements in market access.

In each of the FTAs Australia is negotiating the agricultural aspects, especially for sensitive products such as sugar, are proving to be difficult. Almost without exception our counterparts, perceiving a threat from unrestrained Australian imports, are strongly supporting the exclusion of sugar from any agreement. As you would appreciate, the commercial reality is different. Australia does not have unrestrained supply capacity. We believe that the emerging market environment for sugar and the reality of the Australian industry's modest ambitions provide an opportunity to change perceptions and secure preferential access for Australian sugar in each of the FTAs.

We see the China, and Japan FTAs as particularly important opportunities to ensure market access by offsetting emerging market threats to Australian supply. The FTAs present an opportunity for our counterparts to establish a framework that will enable their ongoing access to Australian raw and white sugar. This reality is very different to the current perception held by some that they face a threat of Australian sugar "flooding" into their country.

We support Australia's FTA agenda as a means of underpinning longstanding bilateral trade relationships with important partners in the Asia-Pacific. The China and Japan FTAs are of particular importance for the industry's ongoing trade relationships with those countries.

Other FTA negotiations are also important. The ASEAN FTA provides opportunity to engage a broad group of our trading partners. The Korea FTA provides opportunity to consolidate our relationship with our largest raw sugar export trading partner. We look to the India FTA with the hope that the negotiations will herald closer relations between the two countries and thereby provide an opportunity to address trade disputes outside of more formal WTO processes.

Although the US-FTA has been concluded, the regular Ministerial meetings provide an opportunity to keep a focus on unresolved access issues for sugar, both raw and white. Australia's participation in the Trans-Pacific Partnership Agreement (TPP) negotiations scheduled to commence in March brings an opportunity for Australia to re-engage with the US and to rectify the omission of sugar from the Australia-US FTA, which remains the only free trade agreement either party has entered that totally excludes sugar.

**Summary**

The sugar industry is a strong and consistent supporter of Australia's trade agenda multilateral, regional and bilateral. There is no question that opening markets for agricultural products like sugar will deliver food security and improve environmental outcomes. To this end The Cairns Group continues to have a very important role.

Nonetheless, in a changing world economy featuring the rise of China and India and East Asian markets more generally as very significant consumers of Australian agricultural products and Brazil as a very significant export competitor, there is a clear need and it is appropriate for Australia to focus of its trade activities bilaterally and regionally as well as through WTO processes. At an industry level we have been working to secure these ties, commercially with our trading partners and through the Global Sugar Alliance with other major producers – India, Brazil and others.

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