

American–Australian Free Trade  
Agreement Coalition



PARTNERSHIP FOR A STRONGER FUTURE:  
U.S. – AUSTRALIA FREE TRADE AGREEMENT

*Friends When It Counts*

Prepared by  
The Trade Partnership  
Washington, DC

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## Acknowledgements

The American-Australian Free Trade Agreement Coalition (AAFTAC) membership consists of a diverse group of organizations and businesses that represent a broad range of industries and economic interests in the United States — from major corporations to small businesses; chambers of commerce and port authorities; agriculture groups and high-tech companies. A full list of our members can be found at [www.aaftac.com](http://www.aaftac.com).

Members of AAFTAC are dedicated to promoting a Free Trade Agreement (FTA) between the United States and Australia and are working to educate the general public and policy makers about the many and varied benefits of engaging in an FTA with Australia. Such an agreement will benefit U.S. business and the U.S. economy. An American-Australian FTA represents good policy and makes good sense.

We are pleased to release this report to assist decision makers and others interested in learning more about trade between the United States and Australia and the benefits of a free trade agreement.

It is with special appreciation that we acknowledge the generous financial support of the companies and organizations who made this report possible.

 AOL Time Warner



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# EXECUTIVE SUMMARY

The United States and Australia are engaged in the negotiation of a free trade agreement (FTA). This FTA represents an agreement between two developed, industrialized economies sharing a common language, similar business culture and comparable legal and political systems.

- ❖ An FTA with Australia would join over 304 million consumers in a combined market worth \$10.8 trillion annually. Workers in both countries earn similar wages and both countries have the same strong commitment to human and worker rights and environmental protection.
- ❖ The United States and Australia share many of the same goals for the current round of multilateral trade negotiations. Both countries already work jointly to lead trading partners in the right directions on trade liberalization for agricultural goods, merchandise goods and services. The successful conclusion of an FTA that liberalizes bilateral trade across a host of difficult sectors can illustrate to the rest of the world mutually-beneficial ways to liberalize trade under the auspices of the World Trade Organization (WTO). By exploiting the positive impact of sometimes-difficult cuts in trade barriers, the United States and Australia together can provide a powerful example to other WTO members.
- ❖ For over 50 years, the United States and Australia have enjoyed a close strategic relationship. Indeed, since World War I the United States and Australia have been allies in every armed conflict of the 20th Century. Australia was an early and strong supporter of the U.S. war on terrorism, as well as U.S. efforts to disarm Iraq of weapons of mass destruction. While there is no quid pro quo, by drawing our two economies closer together, an FTA would help to further strengthen the already strong security ties between the United States and Australia.
- ❖ In 2002, two-way trade between the United States and Australia totaled \$28 billion. Of this, \$19 billion reflects trade in agricultural and industrial products, and \$9 billion, trade in services. The United States enjoys a trade surplus with Australia, a surplus that reached nearly \$6 billion in 2002. U.S. producers of transportation equipment, non-electrical machinery, computer and electronic products and chemicals are the strongest exporters to Australia. Australia's strength as a producer of agricultural crops has made it a magnet for U.S. exports of related products, including machinery, fertilizers and chemicals.

- ❖ U.S. consumers, including manufacturers of products in the United States, import a wide variety of goods from Australia. U.S. imports from Australia totaled \$6 billion in 2002. Manufactured food products, including meat products, and transportation equipment are America's largest imports from Australia. Other key imports from Australia include primary metal manufacturing products, beverages including wine and chemicals. More than half of U.S. imports from Australia are inputs or capital goods used to manufacture products in the United States.
- ❖ Each of the 50 U.S. states exported goods to Australia in 2002. In fact, Australia ranked among the top 25 export destinations for 48 of the 50 states. By volume, the top ten state exporters to Australia in 2002 were Washington (\$2.6 billion), California (\$1.9 billion), Illinois (\$910 million), Texas (\$713 million), Michigan (\$553 million), New York (\$366 million), Ohio (\$339 million), Pennsylvania (\$291 million), Florida (\$285 million) and New Jersey (\$274 million). In terms of its rank as an export market for the state, Australia is a particularly important market for Illinois (6th), Iowa (7th), Michigan (7th), Nebraska (9th), Nevada (6th), North Dakota (3rd) and Washington (4th).
- ❖ Two-way direct investment reached \$57.5 billion in 2001. The United States is the largest investor in Australia, with \$34 billion in direct investment. For their part, Australian companies' direct investments in the United States totaled \$23 billion in 2001 and Australian assets in the United States employ more than 83,000 workers.
- ❖ An FTA between the United States and Australia would provide measurable economic gains to both parties. One study found that an FTA would increase real U.S. household consumption, and boost U.S. Gross Domestic Product by \$2.1 billion. Exports would increase more than imports. U.S. exports to Australia would increase by \$1.9 billion, compared to an increase in imports from Australia of \$1.2 billion.

# Partnership for a Stronger Future: U.S.-Australia Free Trade Agreement

## I. Introduction

A free trade agreement (FTA) between the United States and Australia offers much to both countries. Not only would it open new market opportunities for companies and workers in both countries, it would solidify our relationship on many fronts. There is no better time to be embarking on this important initiative.

This FTA opportunity differs in several significant ways from FTAs the United States already has with Israel, Mexico and Jordan, and will soon have, if Congress agrees, with Chile and Singapore. It also will differ from FTAs the United States may reach with Morocco and the five countries of Central America. Indeed, this FTA opportunity is most like that the United States enjoys with Canada, because it would be an agreement between two developed, industrialized economies sharing a common language, similar business culture and comparable legal and political systems.

An FTA with Australia would join over 304 million consumers<sup>1</sup> in a combined market worth \$10.8 trillion,<sup>2</sup> or about one-third of world Gross Domestic Product (GDP). Workers in both countries earn similar wages (\$28,907 in the United States; \$26,087 in Australia),<sup>3</sup> and both countries have the same strong commitment to human and worker rights and environmental protection. The United States and Australia share many of the same goals for the current round of multilateral trade negotiations, and work jointly already to urge our trading partners in the right directions on agricultural, goods and services trade liberalization. Australia is committed to open trade, and indeed already has FTAs with Singapore and New Zealand; another is in the works with Thailand.

But our commonalities extend beyond economic and political factors to include strong strategic linkages as well. Australia has been an important ally to the United States for all the armed conflicts of the 20th Century, as well as in the war against international terrorism since September 11, 2001.



*An FTA with Australia would be an agreement between two developed, industrialized economies sharing a common language, similar business culture and comparable legal and political systems.*

## II. Current Trade and Investment Trends

The U.S. and Australian economies already enjoy a large, mutually-beneficial trade and investment relationship. In 2002, two-way trade of goods and services totaled \$27.6 billion, up from \$25.2 billion in 1998 (see chart). Two-way direct investment reached \$57.5 billion in 2001.<sup>4</sup> Although these figures may seem small compared to the almost \$400 billion in trade and \$250 billion in investment that flow between the United States and Canada, Australia is a significant trading partner. In fact, in terms of trade in goods and services, Australia ranks as the 19th largest U.S. trading partner. Two-way foreign direct investment between the United States and Australia exceeds that between the United States and Brazil, Singapore, Hong Kong and Israel, among others.



Source: *The Trade Partnership* from U.S. Bureau of the Census and Bureau of Economic Analysis data.

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*Total trade between the United States and Australia exceeds that of U.S. trade with several current and future free trade agreement partners, such as Israel, Chile and Jordan.*

### **Agricultural and Industrial Goods Trade Between the United States and Australia Is Significant**

Although it has fluctuated with domestic economic trends in both economies, the U.S. trade relationship with Australia is significant. Total trade (exports plus imports) in goods (agricultural and industrial products) between the United States and Australia reached \$18.7 billion in 2002, up 11.1 percent over 1998 trade levels (see table). Total trade between the United States and Australia exceeds that of U.S. trade with several current and future free trade agreement partners, such as Israel, Chile and Jordan.

#### **U.S. Agricultural and Industrial Goods Trade with Australia, 1998-2002** (Millions US\$ and Percent)

	1998	1999	2000	2001	2002	Change, 1998-2002
Total trade (exports plus imports)	\$16,829	\$16,588	\$17,897	\$16,559	\$18,692	11.1%
Exports to Australia	11,551	11,394	11,684	10,226	12,294	6.4
Imports from Australia	5,278	5,194	6,213	6,333	6,398	21.2

Source: U.S. Bureau of the Census. Domestic exports are FAS Value, Census basis; imports for consumption, customs value.

Australia is a large net consumer of U.S. merchandise exports. In fact, the United States recorded a \$5.9 billion trade surplus with Australia in 2002 (see table). Every year since at least 1989, the U.S. trade surplus with Australia has exceeded \$3.5 billion. Since 1993, the U.S. trade surplus with Australia has ranked second only to the Netherlands.<sup>5</sup>

Australia purchases more goods from the United States than from any other country. Goods from the United States accounted for 18.2 percent of total Australian imports in 2001.<sup>6</sup> In 2002, U.S. merchandise exports to Australia reached \$12.3 billion (see table), making it the 12th largest U.S. export market. From 1998 to 2002, U.S. exports to Australia rose 6.4 percent (see chart). During the same period, U.S. exports to the world declined by 0.8 percent, as did exports to other major U.S. trading partners, including Japan (down 12.0 percent), the United Kingdom (down 17.6 percent) and Brazil (down 21.6 percent).



Source: The Trade Partnership from U.S. Bureau of the Census data.

U.S. manufactured exports to Australia are concentrated in a few important sectors. In 2002, four high-value manufacturing sectors made up more than three-quarters of U.S. manufactured exports to Australia: transportation equipment, non-electrical machinery, computer and electronic products, and chemicals. Since 2001, transportation equipment exports to Australia have grown by \$2.2 billion, or 110.9 percent (see table). This dramatic increase was fueled by strong growth in U.S. exports of aircraft and aircraft parts, as well as passenger motor vehicles and parts. Indeed, U.S. exports from the transportation equipment sector were so strong in 2002 they led to a net growth of total U.S. exports to Australia from 2001 to 2002. Exports of the other key products amount to well over a billion dollars each.

It is important to note that global economic trends have a large impact on the U.S.-Australian trade relationship. In 2001, the global economic slowdown and falling world prices for a number of commodities and goods put downward pressure on the Australian dollar.<sup>7</sup> This made Australian products more attractive to U.S. buyers and kept Australian exports to the United States competitive and growing. At the same time, however, U.S. exports to Australia

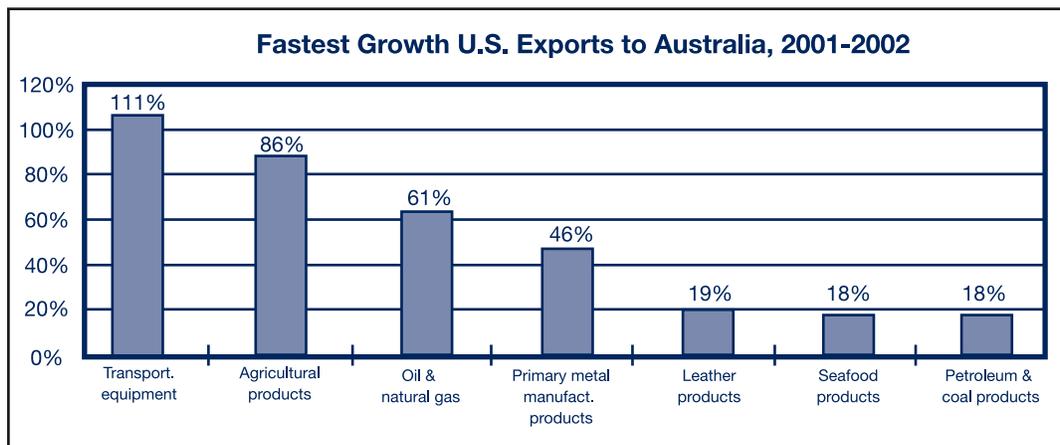
*Key U.S. exports to Australia include transportation equipment, non-electrical machinery, computer and electronic products, and chemicals. These exports helped give the United States a \$5.9 billion trade surplus with Australia in 2002.*

became more expensive, causing U.S. exports to fall. These impacts were particularly important in 2001 and 2002, and explain some of the negative trends detailed in the table.

**U.S. Exports by Sector to Australia, 2001-2002**  
(Millions US\$ and Percent)

	2001	2002	Change, 2001-2002
Agricultural, livestock, forestry, fishery products	\$77.0	\$102.1	32.6%
Mining, crude petroleum & natural gas	43.5	42.7	-1.8
Manufactured goods	9,478.8	11,513.3	21.5
Transportation equipment	1,980.1	4,175.6	110.9
Non-electrical machinery	1,808.5	1,822.3	0.8
Computer & electronic products	1,704.7	1,514.2	-11.2
Chemicals	1,613.8	1,490.2	-7.7
Miscellaneous manufactured commodities	498.4	549.4	10.2
Electrical equipment, appliances & components	300.7	335.5	11.6
Fabricated metal products	241.9	258.5	6.9
Plastics & rubber products	252.1	249.7	-1.0
Food manufacturing	221.2	238.7	7.9
Paper products	191.0	201.3	5.4
Printing, publishing & similar products	165.3	169.8	2.7
Petroleum & coal products	127.2	149.5	17.5
Textile & apparel products	92.1	82.3	-10.6
Primary metal manufacturing	50.2	73.0	45.4
Beverages & tobacco products	76.5	68.4	-10.6
Non-metallic mineral products	86.8	68.2	-21.4
Wood products	36.0	33.4	-7.2
Furniture & fixtures	22.6	21.7	-4.0
Leather & allied products	9.7	11.6	19.6
Other sectors	626.4	635.7	1.5
Total U.S. exports to Australia	10,225.7	12,293.8	20.2

Source: U.S. Bureau of the Census, domestic exports, FAS value (based on 2- and 3- digit NAICS categories).



Source: The Trade Partnership from U.S. Bureau of the Census data (based on 3-digit NAICS categories).

**U.S. Transportation Equipment Exports to Australia, 2002**  
(Millions US\$)

Total transportation equipment	\$4,175.6
Aircraft	2,611.9
Aircraft parts & auxiliary equipment	362.8
Automobiles & light duty motor vehicles, including chassis	281.7
Motor vehicle parts	229.3
Aircraft engines & engine parts	156.4
Other transportation equipment	533.5

Source: U.S. Bureau of the Census, domestic exports, FAS value (based on 3- and 6- digit NAICS categories).

**U.S. Manufactured Food Product Exports to Australia, 2002**  
(Millions US\$)

Total manufactured food products	\$238.7
Soybean oil & by products	71.2
Other foods, not elsewhere specified or indicated	21.0
Flavoring extracts & syrups	17.6
Seafood products, prepared, canned & packaged	17.1
Dog & cat foods	14.3
Other food manufacturing products	97.5

Source: U.S. Bureau of the Census, domestic exports, FAS value (based on 3- and 6- digit NAICS categories).

Australian airlines are important customers for large commercial aircraft manufactured by **The Boeing Company**. Boeing currently has 40 planes on backorder for two Australian carriers. The company estimates that future demand in Australia for commercial aircraft and related services is valued at \$20 billion over the next 20 years. Boeing has found that the aircraft Australia buys influences the choice of aircraft other carriers in the region purchase, which means that Boeing can expect an additional \$5 billion in new sales to Asia over the next 20 years.<sup>8</sup>

Australia is the second largest export market for **Caterpillar's** construction and mining machines.<sup>9</sup> Approximately 70 percent of Caterpillar's sales in Australia go to purchasers in Australia's coal, metal mining and transportation construction industries. Caterpillar expects its annual sales to Australia to increase to \$1 billion annually in the next decade.<sup>10</sup>

Australia is the leading export market for Pernod Ricard USA's Bourbon whiskey. Exports to Australia of the **Kentucky-produced "Wild Turkey"** brand Bourbon whiskey reached 170,000 cases in 2001 and account for 43 percent of the product's worldwide export sales. Pernod Ricard also exports Bourbon whiskey in bulk from its Indiana distillery to Australia where it is subsequently bottled and distributed under the brand name "Sam Cougar." 2001 sales of Sam Cougar reached 100,000 cases and sales of the pre-mixed product, Sam Cougar and cola, grew to 650,000 cases.<sup>11</sup>

Australia ranks as the fifth largest market for U.S. distilled spirits exports, accounting for 10 percent of total U.S. spirits exports worldwide. In 2002, U.S. spirits exports to Australia reached nearly \$56 million, with over 77 percent of that consisting of Bourbon and other whiskies.<sup>12</sup> Despite its lack of a domestic whiskey industry, Australia imposes a 5 percent *ad valorem* tariff on all whiskey imports. Pernod Ricard estimates the removal of this tariff would save the company nearly \$600,000 annually, stimulate increased exports to Australia and generate more production and jobs at its distilleries in Kentucky and Indiana.<sup>13</sup>

## **Friends When It Counts: The Strong U.S.-Australian Defense and Security Relationship Has a Positive Economic Impact on the United States As Well**

The U.S.-Australian partnership began in 1918, when the troops of both countries first fought side by side in France. That alliance continued through World War II, Korea, Vietnam and the Gulf War. For over 50 years, the United States and Australia have enjoyed a close strategic relationship when it comes to defense and security matters in the South Pacific. Since 1951, the ANZUS Treaty has been the cornerstone of that strategic relationship.<sup>14</sup>

Most recently, Australia has been an early and strong supporter of the U.S. war on terrorism, as well as U.S. efforts focused on Iraq. Australia has paid a heavy personal price of its own for its contribution to the war on terrorism, as terrorists have targeted Australians with the same attention they reserve for Americans. Immediately after the September 11 terrorist attacks, Australia was one of the first countries to join the U.S. coalition against terrorism by invoking the ANZUS Treaty for the first time in its 50-year history. Australia provided some 1,550 troops and military hardware to support the U.S.-led coalition to fight terrorism.<sup>15</sup>

Similarly, Australia has supported the United States in its effort to disarm Iraq. During a February 2003 visit to Washington, Australian Prime Minister John Howard stated that Australia “believe[s] the goals that the United States set of disarming Iraq are proper goals and they are goals that the entire world should pursue.”<sup>16</sup> Australian forces sent to Iraq include a squadron of F/A-18 fighter jets and transport aircraft, transport ships, an advance party of the Australian Special Forces Task Group and a Royal Australian Air Force reconnaissance team.<sup>17</sup> Thirty-two members of the Royal Australian Navy’s Clearance Diving Team 3 assisted U.S. and British divers in clearing underwater mines from the Iraqi port of Umm Qasar, allowing humanitarian goods to arrive at the port.<sup>18</sup>

Because of the close defense and security relationship between the two countries, Australia is a large buyer of U.S.-made defense-related products. In Fiscal Year (FY) 2001, Australia purchased \$269.4 million worth of defense-related products from the United States. In 2002 alone, Australia applied to purchase 64 Harpoon Block II missiles, valued at \$90 million, from the United States for use on its surface ships, submarines and aircraft.<sup>19</sup> In addition, Australia applied for 92 JAVELIN anti-tank missile systems as well as the associated equipment and services, valued at \$106 million.<sup>20</sup>

An FTA with Australia will solidify the security relationship. There is no better time, and no better way, to strengthen the U.S. relationship with Australia than through an FTA. Friends when it counts.

### **U.S. Defense-Related Exports from the United States to Australia, FY 2001** (Millions US\$)

Total exports	\$269.4
Government exports	247.7
Commercial exports	21.7

*Source: U.S. Department of State and U.S. Department of Defense.*

### Australia's Agriculture Sector Draws U.S. Exports of Agriculture-Related Products

Australia is one of the largest exporters of agricultural products in the world. This has made Australia an attractive market for U.S. manufacturers of tractors, fertilizers, chemicals and other products that directly support Australia's agricultural sector. Australian farmers purchased nearly a half billion dollars worth of U.S. fertilizers, chemicals and farm machinery in 2002 (*see table*). Practically all farms in Australia use DuPont products.<sup>21</sup>

Naturally, the weather can have an impact on trends in such exports, and it did in 2001-2002. Australia is currently experiencing its worst drought in decades. Consequently, declines in crop production have led to a decline in demand for U.S. agriculture-related products, especially fertilizers and chemicals. However, the poor harvests in Australia could lead to increased U.S. exports of competing crops not only to Australia but also to the rest of the world to make up for the loss of Australian production. In fact, because of the drought, the United States exported 48,000 tons of corn to Australia in December 2002. This was the first shipment of U.S. corn to Australia since 1994-1995. Total U.S. corn exports to Australia could reach 200,000 tons due to the severe drought.<sup>22</sup>

**Selected Agriculture-Related Exports from the United States to Australia, 2001-2002**  
(Millions US\$ and Percent)

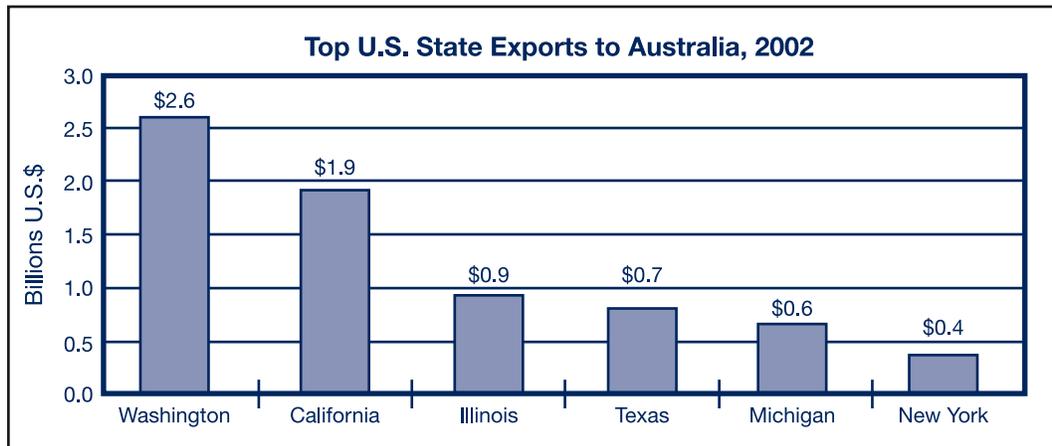
	2001	2002	Change, 2001-2002
Total agriculture-related exports	\$429.6	\$456.7	6.3%
Nitrogen fertilizers	178.0	150.3	-15.7
Agricultural chemicals	44.3	39.7	-10.4
Farm and other agricultural machinery	207.3	266.7	28.6

Source: U.S. Department of Agriculture, based upon U.S. Bureau of the Census data.

Delaware-based **DuPont** is one of the world's leaders in agricultural crop protection products. In Australia, DuPont sells nearly 30 different herbicides, insecticides and fungicides that are registered for use on numerous crops, such as cereals, oilseeds, cotton, cane, pastures and fruit and vegetables. For more than 120,000 farmers, these products play an important role in their livelihoods.<sup>23</sup>

### U.S. States Have a Stake in Exporting to Australia

Every state exported to Australia in 2002, from Washington's \$2.6 billion to Montana's \$2.0 million. In fact, when comparing state exports to other countries, Australia ranked in the top 25 for 48 of the 50 states. Australia is a major market for many states. It is the fourth largest destination for goods produced in Washington, accounting for 7.6 percent of the state's exports to the world. California sent \$1.9 billion worth of goods to Australia in 2002; Illinois and Texas sent \$910 million and \$713 million, respectively (*see table*).

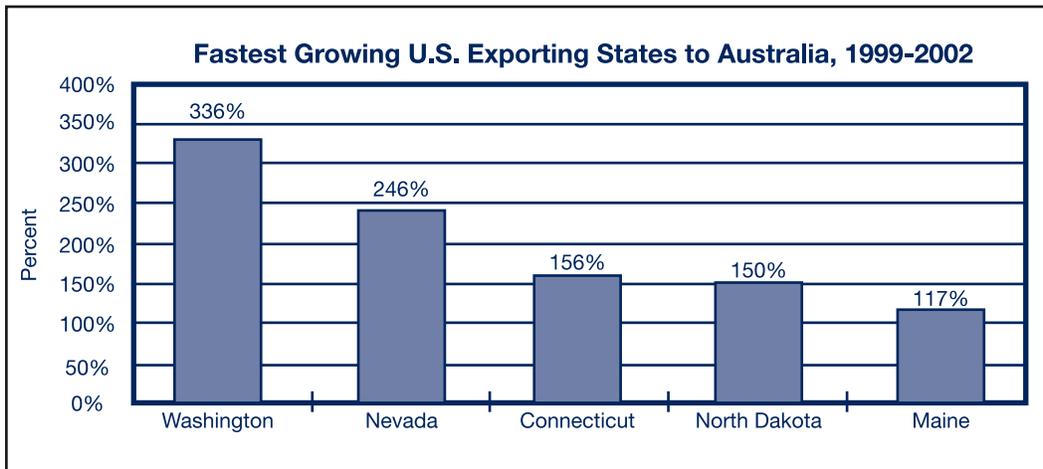


Source: *The Trade Partnership from U.S. Bureau of the Census data.*

**U.S. Export to Australia By State, 2002**  
(Millions US\$)

State	Exports to Australia	Australia's Rank	State	Exports to Australia	Australia's Rank
Alabama	\$122.9	17	Montana	2.0	15
Alaska	21.8	15	Nebraska	50.8	9
Arizona	195.4	16	Nevada	49.5	6
Arkansas	60.4	11	New Hampshire	20.1	21
California	1,910.1	13	New Jersey	274.3	16
Colorado	117.5	14	New Mexico	5.7	21
Connecticut	207.3	11	New York	365.5	20
Delaware	14.3	18	North Carolina	215.9	17
Dist. of Columbia	17.1	10	North Dakota	46.5	3
Florida	284.9	26	Ohio	339.0	11
Georgia	252.4	12	Oklahoma	41.5	12
Hawaii	54.7	4	Oregon	220.2	13
Idaho	21.3	14	Pennsylvania	291.2	13
Illinois	909.7	6	Puerto Rico	142.9	15
Indiana	227.8	10	Rhode Island	11.3	19
Iowa	115.3	7	South Carolina	171.7	12
Kansas	99.3	10	South Dakota	3.7	16
Kentucky	187.7	12	Tennessee	223.5	13
Louisiana	164.2	30	Texas	713.0	19
Maine	37.6	10	Utah	51.6	15
Maryland	94.9	13	Vermont	10.7	20
Massachusetts	250.8	21	Virginia	160.9	16
Michigan	552.9	7	Washington	2,627.0	4
Minnesota	182.5	19	West Virginia	30.4	16
Mississippi	22.2	24	Wisconsin	225.2	10
Missouri	126.1	10	Wyoming	5.8	19

Source: *U.S. Bureau of the Census, exports by origin of movement.*



Source: *The Trade Partnership* from U.S. Bureau of the Census data.

### American Consumers Seek Out Australian Products

U.S. consumers, including manufacturers of products in the United States, import a wide variety of goods from Australia. U.S. imports from Australia rose 1.0 percent from 2001 to total \$6.4 billion in 2002 (*see table*), while U.S. imports from many other major trading partners, including Canada and the United Kingdom, fell during that period. Despite the economic slowdown in the United States, Australian products have remained competitive in the U.S. market. Australia was America's 28th largest import source in 2002.<sup>24</sup>

U.S. imports from Australia reflect the diverse demands of American consumers and industries. Manufactured food products are America's largest import from Australia. Other key U.S. imports include transportation equipment, primary metal manufacturing products, chemicals and oil and gas products. More than half of U.S. imports from Australia are raw materials or capital goods like machinery used to manufacture or further process goods in the United States. Many high-paying U.S. jobs thus depend on imports from Australia as U.S. companies import raw materials, manufactured components and capital goods and use them to make other finished products.



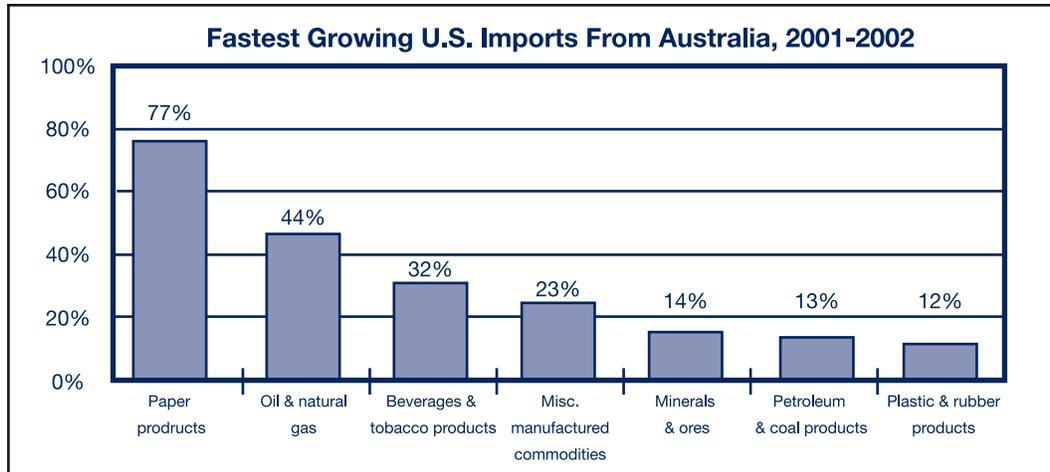
*Many high-paying U.S. jobs depend on imports from Australia as U.S. companies import raw materials, manufactured components and capital goods and use them to make other finished products.*

**U.S. Imports by Sector from Australia, 2001-2002**  
(Millions US\$ and Percent)

	2001	2002	Change, 2001-2002
Agricultural, livestock, forestry, fishery products	\$267.5	\$218.0	-18.5%
Mining, crude petroleum & natural gas	497.1	642.4	29.2
Manufactured goods	4,999.0	5,001.6	0.1
Food manufacturing	1,207.7	1,290.4	6.8
Transportation equipment	647.6	688.1	6.3
Primary metal manufacturing	851.7	688.0	-19.2
Beverages & tobacco products	346.8	459.0	32.4
Chemicals	418.9	365.3 ]	-12.8
Computer & electronic products	313.8	319.4 ]	1.8
Textile & apparel products	281.3	285.3	1.4
Miscellaneous manufactured commodities	195.6	240.6	23.0
Non-electrical machinery	315.4	229.6	-27.2
Electrical equipment, appliances & components	79.1	80.8	2.2
Fabricated metal products	71.9	79.7	10.8
Petroleum & coal products	69.9	79.1	13.2
Non-metallic mineral products	69.3	57.6	-16.9
Paper products	20.7	36.7	77.3
Plastics & rubber products	26.0	29.2	12.3
Leather & allied products	28.5	21.0	-26.3
Printing, publishing & similar products	20.8	19.1	-8.2
Furniture & fixtures	19.0	18.6	-2.1
Wood products	15.0	14.1	-6.0
Other sectors	569.5	536.5	-5.8
<b>Total U.S. imports from Australia</b>	<b>6,333.1</b>	<b>6,398.4</b>	<b>1.0</b>

Source: U.S. Bureau of the Census, imports for consumption, customs value (based on 2- and 3- digit NAICS).

Imports from Australia contribute to the U.S. economy by lowering costs and offering greater choices to consumers. From 2001 to 2002, many sectors have seen increases in U.S. imports, including paper products (up 76.9 percent), oil and natural gas (up 44.3 percent), beverages and tobacco products (up 32.3 percent) and miscellaneous manufactured products (up 23.0 percent).



Source: The Trade Partnership from U.S. Bureau of the Census data (based on 3-digit NAICS).

**U.S. Manufactured Food Imports from Australia, 2002**  
(Millions US\$)

Total manufactured food products	\$1,290.4
Meat products (except poultry)	1,081.9
Dry, condensed & evaporated dairy products	44.5
Sugars	42.9
Wet corn milling products	28.7
Cheese	19.4
Other food manufacturing products	73.0

Source: U.S. Bureau of the Census, imports for consumption, Customs value (based on 3- and 6- digit NAICS categories).

**U.S. Transportation Equipment Imports from Australia, 2002**  
(Millions US\$)

Total transportation equipment	\$688.1
Automobiles & light duty motor vehicles, including chassis	311.0
Aircraft parts & auxiliary equipment, not elsewhere specified	105.1
Motor vehicle braking systems	100.9
Motorcycles, bicycles & parts	38.7
Boats	35.9
Other transportation equipment	96.5

Source: U.S. Bureau of the Census, imports for consumption, Customs value (based on 3- and 6- digit NAICS categories).

**ResMed, Inc.**, headquartered in San Diego, has been operating in Australia since 1989. The company produces devices and accessories, developed by researchers at the Sydney University Medical School, to treat the condition of obstructive sleep apnea. ResMed's products are mostly designed and assembled in Australia, with some components coming from the United States. The company then exports 95 percent of the products to the United States and to 59 other countries. In 2002, ResMed was the second largest supplier of these products to the U.S. market, with sales exceeding \$100 million.<sup>25</sup>

**Trade in Services Between the United States and Australia Is Important and Growing**

The services sector is the largest and fastest growing sector in both Australia and the United States, yet so far total bilateral trade in services is significantly smaller than trade in manufactured goods. Total U.S. services trade with Australia, exports and imports combined, since 1998 was up 6.3 percent to \$8.9 billion in 2002 (*see table*). Due to the economic slowdown in Australia in 2001, exports of U.S. services to that country declined. However, U.S. imports of services have remained strong.



**U.S. Services Trade with Australia, 1998-2002**  
(Millions US\$ and Percent)

	1998	1999	2000	2001	2002	Change, 1998-2002
Total services trade (exports plus imports)	\$8,371	\$8,570	\$9,179	\$8,513	\$8,899	6.3%
Exports to Australia	4,968	5,331	5,781	4,909	5,184	4.3
Imports from Australia	3,403	3,239	3,398	3,640	3,715	9.2

Source: U.S. Department of Commerce, Bureau of Economic Analysis

The United States is the most important partner for Australia for trade in services, accounting for almost two-thirds of Australia's services trade.<sup>26</sup> Tourism is the most significant service traded between the United States and Australia. Also important are business, professional and technical services, educational services and financial services.

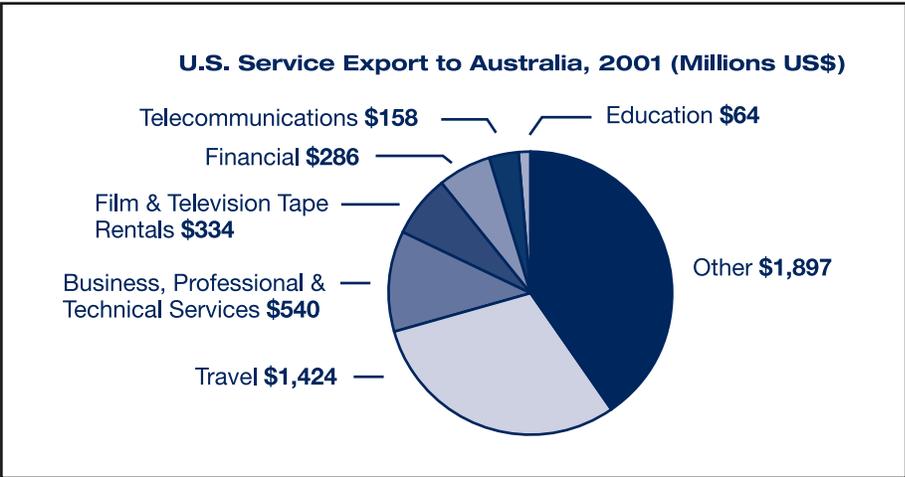
Passenger travel is the single most significant services trade between the United States and Australia. In 2001, at nearly \$3.0 billion, travel represented 34.8 percent of total services trade. Travel and private services (education; financial services; insurance; telecommunications; and business, professional and technical services) constitute the majority of services trade between the United States and Australia.<sup>27</sup>

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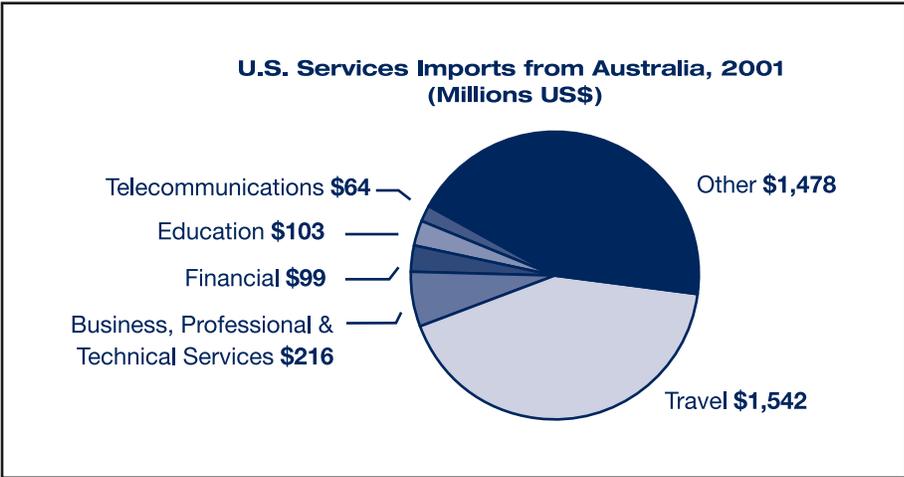
**AOL Time Warner** is the world's leading media and entertainment company, whose businesses in both the United States and Australia include interactive services, filmed entertainment, television networks, news reporting, consumer products distribution, music and publishing. Warner Bros. in partnership with Australian companies also has operations including theme parks, theatres and motion picture studios.

The divisions of AOL Time Warner have invested hundreds of millions of dollars in the Australian economy over just the past few years, including investments related to sound recordings from Australian artists such as Bardot and The Whitlmans and the production of major motions pictures such as *Scooby Doo* and *The Matrix* trilogy. Time and CNN both have news bureaus in Sydney. An FTA with commitments in areas such as intellectual property, e-commerce, telecommunications, and audio-visual services, as well as reduced tariffs, would provide even greater opportunity for shared economic growth and expansion.<sup>28</sup>

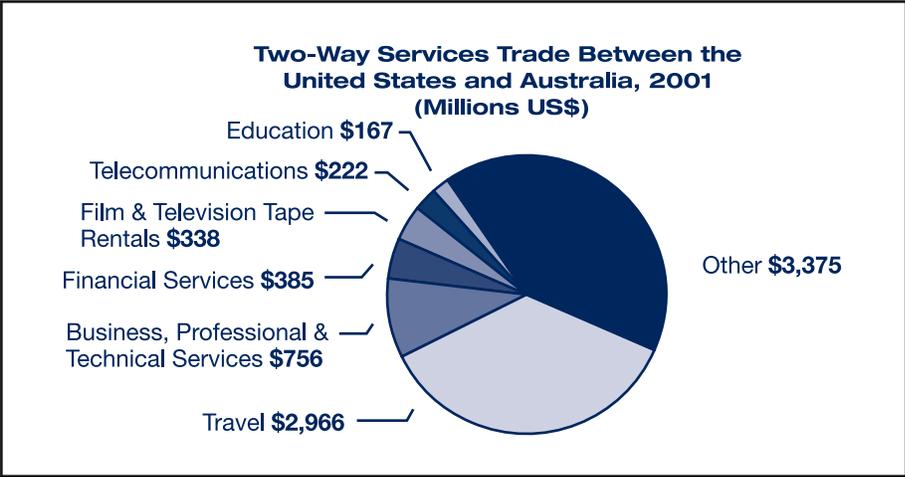




Source: U.S. Department of Commerce, Bureau of Economic Analysis



Source: U.S. Department of Commerce, Bureau of Economic Analysis



Source: U.S. Department of Commerce, Bureau of Economic Analysis

Total services trade between the United States and Australia has great potential to expand under an FTA. The FTA will reduce the barriers that exist to services trade in Australia and the United States, which will only lead to greater services trade between the two countries.

Australia is a major market for **General Electric** (GE), a global leader in manufacturing and financial services. GE Capital Services is Australia's largest provider of lenders' mortgage insurance. It has also issued over 2 million credit cards in Australia. Another division, GE Fleet Services, manages over 40,000 vehicles in Australia.<sup>29</sup>

### Bilateral Investment Between the United States and Australia Is Huge

Total direct investment between the United States and Australia is significant. It reached \$57.5 billion in 2001, up 43.4 percent over 1997 levels (*see table*). In 2001, Australian direct investment in the United States totaled \$23.5 billion, and assets totaled \$69.1 billion (in 2000).<sup>30</sup> During that same year, U.S. direct investment in Australia reached \$34.0 billion (*see table*); U.S. assets in Australia totaled \$103.1 billion (in 2000).<sup>31</sup> In fact, the United States is the largest investor in Australia, accounting for 29 percent of direct investment in that country as of June 2002.<sup>32</sup> Yet, in 2001, Australia accounted for only 2.5 percent of total U.S. direct investment abroad.<sup>33</sup>

The relatively small level of Australian investment in the United States does not signify a lack of real interest in the U.S. economy. While traditionally investment flows between the United States and Australia have tended to tilt in Australia's favor, that picture changed in 2001 when, for the first time in at least five years, Australian direct investment flowing into the United States exceeded U.S. direct investment flowing to Australia.<sup>34</sup> This change in pattern demonstrates that the American economy is an important destination for Australian investment even when that economy suffers economic challenge. An FTA that promotes business between the two countries would increase interest of Australian investors in the U.S. marketplace.

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**U.S.-Australian Direct Investment Position, Historical Cost Basis, 1997-2001**  
(Millions US\$ and Percent)

	1997	1998	1999	2000	2001	Change, 1997-2001
Total U.S.-Australian investment	\$40,125	\$42,003	\$50,359	\$56,065	\$57,529	43.4%
U.S. investment in Australia	28,404	31,483	34,743	35,364	34,041	19.8
Australian investment in the United States	11,721	10,520	15,616	20,701	23,488	100.4

Source: U.S. Department of Commerce, Bureau of Economic Analysis

Sydney-based **Westfield** is the second largest regional shopping center owner in the United States with 63 shopping centers covering 8,400 retailers, 64 million square feet, and \$14 billion in annual mall sales.<sup>35</sup>

**PBR International** is an Australian-based manufacturer of braking systems for the auto industry. It first began exporting to the United States in 1983 to supply General Motors with lightweight braking systems for the Corvette. The continued development of aluminum technology and the introduction in 1994 of PBR's revolutionary Banksia single-shoe brake has helped build demand for PBR products in the United States. This growing demand has led PBR to establish production facilities in Knoxville, Tennessee and Columbia, South Carolina. Those facilities, combined with PBR's Detroit-area engineering and customer support center, employ approximately 680 workers.<sup>36</sup>

### Trade and Investment with Australia Supports Jobs

It is well-established that international trade — both imports and exports — support good, high-paying jobs in the United States. These include jobs in manufacturing as well as in wholesaling, advertising, research and development and other key sectors of the U.S. economy.

U.S. trade with Australia is no exception. It already has positive job impacts on the United States. In 2002, the United States exported \$17.5 billion worth of goods and services to Australia. These exports directly and indirectly supported over 270,000 jobs in the United States.<sup>37</sup> Not only does trade with Australia support thousands of jobs, but these export-supported jobs also pay 13-18 percent higher than the national average.<sup>38</sup>

**U.S. Jobs Directly Supported by Exports  
To Australia by Top Exporting States, 2002**  
(Number of Jobs)

Washington	12,520
California	9,104
Illinois	4,336
Texas	3,398
Michigan	2,635
New York	1,742

*Source: The Trade Partnership, derived from U.S. Bureau of the Census data. NOTE: These figures do not include jobs in the state indirectly related to exporting, such as jobs in advertising, R&D, banking, insurance, transportation and other sectors that are tied to exporting.*

Imports from Australia also support American jobs.<sup>39</sup> More than half of U.S. imports from Australia are capital goods or raw materials that require further processing by manufacturers in the United States. These include manufacturing and related jobs in such sectors as food processing (raw and semi-processed agricultural products, like meat, that require further processing in the United States), aluminum production (alumina is a key import from Australia) and steel production (steel producers import slab from Australia and use it to make steel products in the United States).

Quantification of these jobs is less straight-forward than quantifying the export-related jobs, but still significant. Research demonstrates that, in 1997, U.S. imports from all countries, including Australia, of \$871 billion supported about 10 million U.S. jobs, including 520,000 in manufacturing.<sup>40</sup>

*Not only does trade with Australia support thousands of jobs, but these export-supported jobs pay 13-18 percent higher than the national average.*

Total investment (i.e., assets, rather than direct investment) between the United States and Australia supports thousands of jobs. In 2000 (the most recent year for which data are available), U.S. firms operating in Australia employed 257,400 workers.<sup>41</sup> Significant U.S. investors in Australia include the Capital Group (telecommunications, cinemas and adult beverages), 3M and Duke Energy Corporation.<sup>42</sup> For their part, Australian companies employed more than 83,000 workers in the United States.<sup>43</sup> Approximately 38,200 of those workers are employed in manufacturing industries, and another 19,100 are employed in information industries.<sup>44</sup>

Pittsburgh-based **Alcoa** operates three alumina refineries, two aluminum smelters, two bauxite mines and two aluminum rolling mills in Australia. This is the largest integrated aluminum production system in the world. Alcoa produces 8 million metric tons of alumina in Australia per annum, or 15 percent of world demand. Alcoa also produces 530,000 metric tons of aluminum in Australia per annum. Alcoa is Australia's sixth largest mineral/energy exporter and exports around US\$2 billion of product each year, mainly to Asian markets. Alcoa exports alumina from Australia to the United States, the bulk of which is for Alcoa's U.S. smelting operations.<sup>45</sup>

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**Steelscape**, a U.S. steel producer with an annual production capacity of 410,000 tons and production facilities at Kalama, Washington, near Seattle, and Rancho Cucamonga, California, near Los Angeles, converts hot-rolled coil to cold-rolled, metallic-coated and pre-painted steel that in turn provides feed for products for the West Coast building and construction industry. Australia's **BHP Steel** supplies 60 percent of Steelscape's feedstock requirements for quality steel and regular, on-time deliveries in order to keep its just-in-time plants operational. BHP Steel has also worked with Steelscape to develop new steel grades and innovations such as increased coil mass, which have resulted in greater productivity. The majority of BHP Steel's exports to the United States is in the form of feedstock — slab, hot-rolled coil and cold-rolled full-hard coil, rather than finished products — for U.S. steel plants. Most of the BHP Steel's customers are on the West Coast, an area traditionally less well-served by domestic steel producers.<sup>46</sup>

*More than half of U.S. imports from Australia are capital goods or raw materials that require further processing by manufacturers in the United States, including manufacturing and related jobs in food processing, aluminum production and steel production.*

#### **Friends When It Counts: An FTA with Australia Would Help to Promote U.S. Objectives in Regional and Multilateral Trade Negotiations**

The U.S.-Australia FTA would have not only bilateral, but global benefits for the United States and Australia. Successful conclusion of an FTA that liberalizes bilateral trade across a host of difficult sectors can demonstrate to the rest of the world the right way to liberalize trade under the auspices of the World Trade Organization (WTO). Both countries' endorsement of the positive impact of sometimes difficult cuts in trade barriers can provide a powerful example to other WTO members.

This is particularly true for the shared U.S.-Australia goal of liberalizing global trade in agriculture. Both the United States and

Australia are world leaders in agricultural exports. While they compete in each other's markets, the main opportunities for growth are in developing nations and in Europe. For years, the United States and Australia have fought the European Union's agricultural support system. Now, both the United States and Australia, as a leader of the "Cairns Group" of agricultural exporting countries that seek meaningful global trade liberalization,<sup>47</sup> have offered ambitious proposals in the latest round of WTO negotiations that would drastically reform world agricultural trade. An FTA will further strengthen the U.S.-Australian alliance against unfair agricultural trade practices. Evidence has shown that the partnerships countries create through free trade agreements actually assist those countries in other spheres.<sup>48</sup> Together, both the United States and Australia will have greater leverage to force other countries to come to terms with the WTO negotiations on agriculture.

Some have argued that an FTA with the United States will dissipate any interest Australia has in joining U.S. positions in multilateral negotiations and pushing for them forcefully. This argument assumes that the U.S. market is all that Australia cares about, and that once Australia has unfettered access to it, it will direct all its export and investment attentions to the United States. In fact, Australia maintains longstanding and important trading and investment relationships with other countries in Asia, most notably Japan, and with Europe. It is every bit as anxious as the United States to see further trade liberalization of these markets for agriculture, industrial goods and services.

The argument also assumes that Australia will win all that it wants from the United States in FTA talks. However, it is apparent that U.S. agricultural subsidies, which Australia wants reduced or eliminated, will most likely be addressed as part of the multilateral process rather than as part of an FTA. Thus, an FTA between two large agricultural exporters and competitors will demonstrate what should be done to liberalize agricultural trade and will spur action in the Doha Development Agenda round of multilateral negotiations.<sup>49</sup> Therefore, continued U.S.-Australian cooperation in the Doha Round will remain in Australia's interest even if an FTA covering other issues is complete.

In addition, an FTA between the United States and Australia builds another step in the ultimate goal of a network of FTAs encompassing the entire Association of Southeast Asian Nations (ASEAN). As noted, Australia already has FTAs with Singapore and New Zealand, and is negotiating an FTA with Thailand. The United States has an FTA with Singapore. Other countries in the region have express interest in trade negotiations.

*An FTA between two large agricultural exporters and competitors will demonstrate what should be done to liberalize agricultural trade and will spur action in the Doha Development Agenda round of multilateral negotiations.*



### III. An FTA with Australia Will Broaden and Deepen the Bilateral Relationship

As strong as the U.S.-Australia trade and investment relationship currently is, it can be improved. Australia maintains trade and investment barriers that affect U.S. exports and investors. For its part, the United States has barriers of its own that disadvantage Australian exports.

*Eliminating tariff barriers with an FTA will give U.S. exporters a huge advantage in the Australian market relative to the European Union and Japan.*

Through FTA negotiations, the United States will have an opportunity to address a number of Australian trade and investment practices that have inhibited U.S. export or investment growth in Australia. In his letter notifying Congress of the Administration's intent to negotiate an FTA with Australia, U.S. Trade Representative (USTR) Robert Zoellick presented a long list of negotiating objectives that address these barriers.<sup>50</sup> It should be noted that many of the objectives have as much to do with joint positions in multilateral trade negotiations, in particular at the World Trade Organization, as they do with an FTA, further demonstrating the importance of the FTA in building a strong alliance with Australia at the WTO.

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In addition to the USTR list, a number of U.S. interests spanning all sectors of the economy have offered detailed negotiating objectives of their own, covering trade or investment barriers they hope an FTA with Australia will eliminate. Clearly, as strong as the U.S.-Australian trade and investment relationship already is, there is room for improvement that an FTA can achieve.

#### **An FTA Could Eliminate Australian Barriers to U.S. Exports and Investment**

Australia maintains tariff barriers that, on balance, are relatively low. The average applied tariff rate in 2001 was 4.3 percent (1.2 percent for agricultural products, and 4.7 percent for industrial products).<sup>51</sup> That said, some individual tariff rates of key interest to U.S. exporters are much higher: apparel and certain finished textiles, up to 25 percent; woven fabrics, 15 percent; and passenger cars and parts, 15 percent. All of these tariff rates are on the FTA negotiating table. The National Association of Manufacturers has noted that the United States, European Union and Japan compete head-to-head in the Australian market. "Because of the similarity in product offerings and the high level of technology and product quality available from all three major suppliers, even marginal shifts in trade barriers can have a large effect in determining which supplier gets the sale."<sup>52</sup> Eliminating tariff barriers with an FTA would therefore give U.S. exporters a huge advantage in the Australian market relative to these competitors.

The FTA provides an opportunity to address Australian barriers to U.S. agricultural exports. Although Australia's tariff and quota barriers have been largely eliminated in recent years, other areas of interest to the U.S. may exist, which include sanitary and phytosanitary (SPS) practices. State- and even former state-trading enterprises that influence export volumes, prices, financing and other practices that may give Australian exporters an edge in international markets are targets of opportunity for U.S. agricultural interests.

The United States has already had some success in opening Australia's market to U.S. agricultural products, which demonstrates that additional change is possible as well. In 1994, Australia permitted the import of U.S. fresh cherries; fresh plums began arriving in 1999, and fresh table grapes in the summer of 2002. Since opening its market, Australia has become the sixth largest export market for U.S. cherries, reaching over \$3 million annually. The U.S. table grape industry estimates that exports to Australia could potentially reach \$20 million annually, making Australia the sixth or seventh largest U.S. table grape market.<sup>53</sup>

Other areas of interest to U.S. negotiators include Australia's foreign investment government screening policy. The Foreign Investment Review Board can block investments that it deems to be contrary to the national interest.<sup>54</sup> In addition, explicit restrictions exist for several sectors on foreign investment wholly apart from the national interest: investment in information technology companies, telecommunications firms, broadcasting and media, shipping and civil aviation.

Barriers exist to U.S. services exports to Australia. For example, Australia imposes domestic content restrictions on its commercial free-to-air television services, requiring that 55 percent of all television programming broadcast between 6:00 a.m. and midnight be of Australian origin. It also requires pay television channels that include more than 50 percent drama programs in their schedules to spend 10 percent of their programming budget on new Australian drama programs.<sup>55</sup> Australia maintains various barriers adversely affecting U.S. financial services providers, telecommunications services and insurance, among others.

Violations of intellectual property rights, while low in comparison to most countries, are nevertheless a problem that an FTA could address. The U.S. motion picture industry estimates that annual losses due to audiovisual piracy in Australia totaled \$34 million in 2002.<sup>56</sup> Australia's House of Representatives recently passed legislation amending Australia's Copyright Act making it easier for copyright holders to defend their rights in civil actions and to increase the criminal penalties for commercial infringement. An FTA negotiation could identify additional benefits for copyright holders.

In addition to the immediate removal of Australia's spirits tariffs, FTA negotiations will give the United States the opportunity to secure from Australia a commitment to provide explicit protection for Bourbon and Tennessee Whiskey as distinctive products to the United States. Securing these protections will ensure that only spirits produced in the United States, in accordance with the laws and regulations of the United States, may be sold as "Bourbon" or "Tennessee Whiskey" in Australia.

Although Australia's government procurement market is relatively open, Australia is not a signatory to the WTO Agreement on Government Procurement. "Thus, it is not bound by principles and rules on transparency and non-discrimination in this area."<sup>57</sup> U.S. companies have a significant interest in the Australian government procurement market, and an FTA would provide an opportunity to bind Australia's current practices.



**Removal of U.S. Barriers to Australian Exports and Investment as Part of an FTA Would Benefit American Consumers, Including Manufacturers**

Needless to say, Australia has a list of U.S. barriers of its own that it would like to see addressed in a free trade agreement. These include tariff-rate quotas on agricultural products, and U.S. agricultural subsidies (including export subsidies). In addition, Australia has SPS complaints against the United States. Although the United States imposes no quotas on apparel imported from Australia, U.S. apparel tariffs, particularly on wool apparel, are among the highest in the tariff schedule. In 2002, U.S. importers paid \$123.9 million in duties applied to imports from Australia.

Australia hopes to reduce impediments in accessing the U.S. market for Australian services suppliers, such as providers of professional services, other business services, education services, environmental services, financial services and transport services. These include “unnecessary access impediments” imposed by limits on the recognition of the qualifications and experience of Australian professionals, licensing requirements, standards or other regulations.<sup>58</sup>

**Duties Assessed on U.S. Imports of Australian Goods, 2002**  
(Millions US\$)

Agricultural, livestock, forestry, fishery products	\$2.6
Mining, crude petroleum & natural gas	1.3
Manufactured goods	119.9
Apparel & accessories	44.3
Food manufacturing	31.5
Transportation equipment	12.5
Beverages & tobacco products	7.9
Primary metal manufacturing	4.9
Chemicals	3.8
Miscellaneous manufactured commodities	2.5
Electrical equipment, appliances & components	2.1
Non-metallic mineral products	1.9
Textiles & fabrics (e.g. yarns, threads, fabrics)	1.5
Computer & electronic products	1.5
Fabricated metal products	1.2
Leather & allied products	1.0
Plastics & rubber products	1.0
Textile mill products (e.g. carpets, rugs, linens, curtains)	1.0
Non-electrical machinery	0.6
Wood products	0.3
Petroleum & coal products	0.2
Paper products	0.2
Furniture & fixtures	0.1
Printing, publishing & similar products	*
Other sectors	0.1
<b>Total</b>	<b>123.9</b>

\* Less than \$50,000

Source: U.S. Bureau of the Census, collected duties, imports for consumption.

Australia wants to expand access for Australian goods and services to U.S. government procurement markets.

In general, there is a remarkable degree of similarity in the U.S. and Australian negotiating objectives for the FTA. Both countries hope that the FTA will strengthen their joint positions on key issues, particularly agriculture and intellectual property rights, at the WTO. These similarities point to the strong potential for negotiators to succeed in bringing home a free trade agreement that offers significant benefits to exporters as well as importers, and producers as well as consumers.

*An FTA will further strengthen the U.S.-Australian alliance against unfair agricultural trade practices.*

The United States exported \$10.2 million in **sugar** to Australia in 2002 (\$0.52 per Australian), and imported \$48.6 million from Australia (\$0.17 per American). The applied tariff on raw or white sugar imports into Australia is zero (its bound tariff is equivalent to 1.84 cents per pound); the United States limits sugar and sugar-containing imports from Australia and other countries with tariff-rate quota.

American sugar producers are concerned that Australia's export capability will be directed to the U.S. market.<sup>59</sup> Australian sugar producers insist that they will continue to supply other foreign markets that currently account for 85 percent of Australian raw sugar exports.<sup>60</sup>

American consumer groups support sugar import barrier liberalization under an FTA with Australia, arguing that a reduction in the cost of Australian sugar would make American grocery product manufacturers more competitive as they develop new products, increase product sizes and increase employment.<sup>61</sup>

The United States imported \$837 million in **beef** from Australia in 2002 (second only to Canada). U.S. beef imports from Australia face a tariff-rate quota, and 2001 was the first year Australia filled it. Although Australia imposes zero tariffs and no quotas on imports of beef, it is not a big market for U.S. exporters: the United States exported \$273,000 of beef to Australia in 2002.

The U.S. beef industry is much larger than that of Australia. Australian beef exports to the United States are predominately lean manufacturing frozen meat suitable for blending with U.S. beef trimmings for patty production for the fast-food business.

A study has concluded that an increase in imported beef levels into the United States would have minimal impact on the domestic cattle industry and potentially add up to \$1 billion in value to the U.S. economy. An FTA with Australia has the potential to allow greater specialization among the U.S. and Australian beef industries, leading to increased exports from both countries.<sup>62</sup>

The United States exported \$2.8 million of **dairy** products to Australia in 2002 (\$0.14 per Australian), compared to \$32.9 million imported into the United States from Australia (\$0.12 per American). Dairy products imported from Australia face 18 different U.S. tariff-rate quotas (depending on the product). Except for a large quota on selected European-style semi-hard cheeses, Australia imposed no tariffs or quotas on dairy imports.

The U.S. dairy sector is huge relative to Australia. Australia estimated that its milk production in 2002, at 24.5 billion pounds, was 30 percent less than that of California, the leading milk-producing state in the United States. Australian dairy exports to the U.S. represent 0.4 percent of U.S. dairy production.

Australia's primary export destinations for dairy products are Southeast and East Asian nations who together account for two-thirds to three-quarters of total Australian dairy exports, thanks to geographic proximity, market growth opportunities, long-established and valued trading relationships and relatively open markets.<sup>63</sup>

## Eliminating Barriers Through an FTA Will Benefit Both Economies – and Third Countries As Well

A recent analysis by the Centre for International Economics (CIE) found that an FTA between the United States and Australia would provide measurable economic gains to both parties.<sup>64</sup> It is important to remember that Australia's national output is about 4 percent of that of the United States, so the gains from an FTA to the United States would seem small relative to the size of its economy, and much larger to Australia because of the relative size of its economy.<sup>65</sup> Remember also that the United States is the second largest single country export market for Australia after Japan, and its single largest import source. In contrast, Australia is America's 12th largest export market and its 28th largest import source.

CIE found that an FTA would increase real U.S. household consumption, and boost U.S. GDP by \$2.1 billion. Exports would increase more than imports. U.S. exports to Australia would increase by \$1.9 billion, compared to an increase in imports from Australia of \$1.2 billion. Australia's Ambassador to the United States has noted "[t]his does not sound large against the total size of America's GDP, but it represents new investment, new trade and new jobs that would otherwise not exist."<sup>66</sup> CIE estimates U.S. exports under an FTA would increase in several sectors, including textiles, clothing and footwear; sugar; motor vehicles and parts; beverages and tobacco products; dairy products; ferrous metal products; and other mineral and metal products.<sup>67</sup>

A U.S.-Australia FTA will have some negative impact on other trading partners, as U.S. exports displace those of other countries in the Australian market, and Australian exports displace those of third countries in the U.S. market. CIE estimates that increased Australian exports to the United States come largely at the expense of exporters in South America (sugar) and the European Union (dairy products). Increased exports from the United States to Australia will have the greatest adverse impact on exports from China (clothing), the European Union (motor vehicles and parts) and Japan (motor vehicles and parts).<sup>68</sup> Indeed, the threat of trade diversion is a strong incentive for countries that will not be parties to an FTA to press for similar benefits through liberalization at the WTO.

*U.S. exports to Australia would increase by \$1.9 billion, compared to an increase in imports from Australia of \$1.2 billion.*

These estimates of the benefits of an FTA of necessity measure only those barriers for which removal can be quantified. Other benefits cannot be measured but clearly will make companies and their employees more competitive in both countries. These include greater transparency, reduction in regulatory burdens, more certainty associated with doing business between the two countries, and greater flexibility in moving employees and their families between the countries, a "must" if trade and investment are to grow and flourish.



## IV. Conclusion

The time has come to undertake this important initiative with Australia. A U.S.-Australia FTA will build on an existing strong economic and strategic relationship. It promises to grow that relationship. It will indeed deliver a partnership for a better future for the United States and Australia, bilaterally, regionally and multilaterally.

**Friends, when it counts.**

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# Endnotes

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- 3 Labor cost per worker in manufacturing; data for Australia cover 1995-1999 and data for the United States cover 1990-1994. The World Bank, *2002 World Development Indicators*, Table 2.5, pp. 64-66.
- 4 U.S. Department of Commerce, Bureau of Economic Analysis.
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- 10 Written testimony of William C. Lane, Washington Director of Governmental Affairs, Caterpillar Inc., to the U.S. International Trade Commission, February 6, 2003.
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- 14 The ANZUS Treaty binds the United States and Australia together in mutual obligation towards military security issues. ANZUS originally also included New Zealand; however, in 1986, the United States suspended its treaty security obligations to New Zealand in response to that country's refusal of port access by U.S. nuclear-weapons-capable and nuclear-powered ships. U.S. Department of State, "Background Note: Australia," downloaded March 31, 2003 from <http://www.state.gov/r/pa/ei/bgn/2698.htm>.
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- 19 U.S. Department of Defense, Defense Security Cooperation Agency, press release 03-04, October 11, 2002.
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- 27 U.S. Department of Commerce, Bureau of Economic Analysis, "U.S. International Services: Cross-Border Trade in 2001," *Survey of Current Business*, October 2002.
- 28 Communication from AOL Time Warner to the American-Australian Free Trade Agreement Coalition, May 29, 2003.
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- 30 It is important to note the differences between direct investment position and total assets. According to the Bureau of Economic Analysis, "[D]ata users often confuse the direct investment position . . . with the total assets of the affiliate. . . . Total assets of the affiliate cover all assets of the affiliate carried in its balance sheet, regardless of how the assets are financed. The position is the portion of the affiliate's assets that is financed by the foreign parent or other members of the foreign parent group in the form of debt or equity." For example, an Australian producer invests in the United States. For its \$100 million factory, the Australian parent company uses \$75 million of its

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vehicles, shipping (including services) and financial  
services. For Australia, it examined trade barriers  
affecting motor vehicles, textiles, clothing, footwear,  
cheese, wood, chemicals and financial services. Media  
local content rules and foreign investment screening  
could not be modeled and therefore the benefits of  
their elimination are not included in the results. The  
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