Australian Government

Department of Foreign Affairs and Trade

28 October 2016

Mr Stuart Robert MP
Chair
Joint Standing Committee on Treaties
C/- Joint Standing Committee on Treaties Secretariat
Department of the House of Representatives
PO Box 6021
CANBERRA ACT 2600

Dear Mr Robert

I am writing to correct my evidence on two matters, given at the Joint Standing Committee on Treaties Hearing on GATT Schedule of Concessions – amendment on 10 October 2016.

In the context of questions about agricultural export subsidies, I was asked which countries had last applied the subsidy and for what commodity. I was also asked about the difference between an export subsidy and anti-dumping measures. The discussion is referenced on pages 13 and 14 of the proof Hansard (attached).

In relation to the first issue, I made reference to a 40 per cent tariff applied in 2009 on skim milk powder. Consistent with other references to this issue in the course of the hearing (page 13), this should be corrected to: world prices for skim milk powder dropped as much as 40 per cent in 2009.

On the second issue, I referred to countervailing duties, and said that one of the parameters around countervailing duties was that one has to show that a country has applied a subsidy contingent on exports. This should be corrected to: one has to show the existence of a specific subsidy to remedy its effect. This can include, but is not limited to, export subsidies.

Please accept my sincere apology.

Yours sincerely

Simon Newnham
Assistant Secretary
Agriculture and Food Branch

R G Casey Building John McEwen Cres Barton 0221
Telephone:02 6261 1111 Facsimile:02 6261 3111

Senator IAN MACDONALD: So they are subsidies of the country that is exporting, and it is some sort of subsidy paid to the producer-manufacturer to enable them to sell their products overseas at a cheap price. Would that not be covered by antidumping?

Mr Newnham: Antidumping has quite distinct and specific requirements for showing that, in fact, that product has been dumped from one country to another.

Senator IAN MACDONALD: Isn't one of the tenets of antidumping where exports by a particular country are subsidised to a price that is obviously below the cost of production? Isn't that what dumping is all about?

Mr Newnham: There is antidumping and then there is countervailing duties. Countervailing duties are actually the area which you can put on with subsidised product. That is right, but there are a couple of parameters around that. One is that they are contingent on exports, so you have to show that that country has applied those subsidies contingent on exports. The second point to make is that it is beyond the WTO entitlements. There are actually WTO rules that allow for export subsidies, until the Nairobi decision last year. The third thing is you have to show is that injury was caused by that, and the last thing I would say is, in relation to CVD cases, countervailing duties cases, it is country to country. So Australia, for example, would claim that an individual country has subsidised its product and sent it to us, and then it is a country to country dispute. Multiple countries can be involved but it tends to be one-to-one. This is, in fact, headline WTO entitlements which have now been reduced to zero across the board for all 163 members.

Senator IAN MACDONALD: Do you have figures? Does your statement, which I have not read in detail, say what that means to Australia in cash terms?

Mr Newnham: There is $15.746 billion that is currently part of WTO entitlements, so countries are able to spend that money on export subsidies as it stands. To break that down, for example, a bit over $12 billion is European Union entitlements. Maybe I will throw to Mr Ross from the Department of Agriculture to give you a little bit more detail on that.

Mr Ross: On the expenditure from Europe on subsidies?

CHAIR: The EU spends 12 billion bucks on export subsidies. What do they do with the money? What does it look like? How do they spend it?

Mr Ross: They utilise it to alter the price that the producers in the EU receive for their product, so it provides an incentive for them to overproduce and, hence, influence the world price.

Senator IAN MACDONALD: If the cost of production is 100, the European government gives the producer 20 so that the producer can sell it for 80 and thus beating the competition that might have been selling it for 90.

Mr Ross: Yes, that is essentially the concept.

CHAIR: I am not a cynic, however, what stops countries, or conglomerates like the EU, simply getting rid of export subsidies but beefing up domestic subsidies or using other non-tariff barriers—that is, getting rid of taking the $12 billion the EU use and putting the money into domestic support, domestic subsidy or domestic environmental-based non-tariff barriers to achieve the same effect at the same dollar cost?

Mr Newnham: I might try for two parts to my answer. The first is, just to be clear, these are entitlements, so I am not trying to suggest to the committee that on any given day there are $15 billion worth of export subsidies being applied, but that is what is allowed by the system. So, to your question, it is not like the EU has $12 billion that is currently applied there and now it is going to move it to somewhere else.

CHAIR: Let us say they apply $10 billion to the $12 billion?

Mr Newnham: Sure. The short answer is that can be done but, of course, there are existing WTO rules about domestic support and, in particular, are these the sorts of subsidies that distort trade, that affect production, that affect prices, and if they are they go into certain categories. There is a very dense, complex set of boxes—you will have heard of amber box and green box and blue box and so forth. They are existing rules around this but, to be fairly blunt about it, this is exactly the sort of thing that we are still trying to fight on in the WTO context, to actually take forward that domestic support fight. So, I am not pretending this solves that. You are, indeed, correct. This is a future set of negotiations that we keep fighting on.

CHAIR: This is clearly a good step, but it may not be as large a step as we would all hope it to be?

Mr Newnham: Indeed. You can look at it in a couple of different ways. That is exactly right. There are still these two huge pillars left in the WTO context: the domestic support and the market access—that is, tariffs. They are huge, and they are really—many would say—the big game when it comes to trade liberalisation on agriculture. On the other hand, this is the most significant agriculture outcome in the WTO ever, and 163 damaging to world trade. To give you an example: when the European Union last used export subsidies for skim milk powder in 2009, world prices dropped by as much as 40 per cent. For farmers who were operating on razor-thin margins, distortions like this can really put them out of business.

Australian farmers stand to benefit from the removal of export subsidy entitlements in some of our most important agricultural exports: sugar, dairy, cotton and wheat in particular. It is a major win that complements the market access gains that Australia has delivered through the free trade agreements that we have negotiated. As an addendum, this outcome in Nairobi last December took some time to negotiate. This year is the 30th anniversary of the founding of the Cairns Group of agricultural trading nations, through which Australian governments, on both sides of the House, have worked with like-minded governments around the world to push global negotiations in agricultural trade reform. That is to say, I guess, that decades of hard work culminated in this decision last year.

Moving now to the expanded ITA, at this conference last year over 50 WTO members concluded the ministerial declaration on the expanded information technology agreement, thereby agreeing to eliminate tariffs on 201 information and communications technology products—including a range of medical devices, advanced manufacturing products and telecommunication satellites, as well as a range of everyday consumer products such as headphones and speakers.

The original ITA was concluded in 1996, but since then we have seen a huge growth in trade in technology products. And products, for example, that are very common today, such as GPS devices and touch screens, were not included in the original ITA. The WTO estimates that the expanded ITA will now cover about $1.3 trillion in global trade, worth almost 10 per cent of all global trade.

For its part, Australia is estimated to export about $3.6 billion of products covered by this agreement. While many already receive tariff-free treatment, the agreement will ensure that these tariffs are permanently bound at zero, will provide some new market access opportunities and will also reduce red tape for businesses which currently claim preferential rates or tariff concessions. The Australian government consulted widely with Australian industry stakeholders about the ITA, and there was strong support for Australia's participation. I think there was recognition of the benefits of the expanded ITA in lowering costs and in improving competitiveness.

Overall, to conclude, I think the implementation of these two decisions very much reflects Australia's national interest, and I commend the treaty actions and the national interest analysis to you for your consideration. Thank you.

Senator IAN MACDONALD: Do I understand you to be telling us that there are no more subsidies in the United States for United States farm products—and in Europe with their sugar beet?

Ms Brink: Export subsidy entitlements.

Mr Newnham: It is important to differentiate export subsidies from domestic support—export subsidies being a standalone silo of WTO work, and that is what this agreement covers. Domestic support, domestic subsidies, are still in place. There has been no tangible process in WTO negotiations on that front—we continue to fight them. I think that is where your question might be directed—those massive domestic subsidy programs are still in place.

Senator IAN MACDONALD: But the Cairns Group that you spoke about—that was all about trying to get rid of domestic subsidies, wasn't it?

Mr Newnham: It has been fighting on a bunch of fronts, but export subsidies has certainly been a key feature of what they are fighting against, as well as the domestic support. When you think about it, you have the export subsidies, you have domestic support and you have market access, so tariffs—all three are where the Cairns Group has focused its attention in the agriculture negotiations. This is just the first silo of negotiations.

Senator IAN MACDONALD: Can you tell us what countries, principally those we deal with, were involved with export subsidies and to what extent they were—not down to the last dollar and cent, but in general terms?

Mr Newnham: Since 2005 there have been $6 billion worth of export subsidies used—

Senator IAN MACDONALD: Between whom and for what?

Mr Newnham: Primarily the EU and the US are applying those. There are two layers to my answer—one is the actual subsidies used and one is the entitlements. The entitlements are in the order of $15 billion, almost $14 billion of which is for developed countries. The EU and the US make up the bulk of those. That is their entitlements. What they actually use underneath that varies, depending on the time and the issues. Ms Brink mentioned earlier the 40 per cent tariff that was put on in 2009 on skim milk powder which raised the price back then. Those entitlements are no longer being used, but that cap has existed the whole way through with countries using it depending on the particular time period. That is a partial answer to your question.