



# Executive Memorandum

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## NOW IS THE RIGHT TIME TO SIGN A FREE TRADE AGREEMENT WITH AUSTRALIA

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As the Senate discusses an omnibus bill that would include trade promotion authority (TPA) for the President and trade adjustment assistance for U.S. workers, the Bush Administration should continue its efforts to open markets by negotiating a bilateral free trade agreement with Australia.

Like the United States, Australia is committed to low trade barriers, strong property rights protection, low levels of regulation, and foreign investment. But after Canberra recently demonstrated its willingness to trade more freely with Americans by opening its markets to California grapes, the Administration imposed a significant tariff on steel imports, affecting Australia directly and causing many around the world to question America's commitment to trade.

Signing an agreement with Australia now would help to quell such concerns and reaffirm America's leadership on trade while expanding trade opportunities with a close ally. The United States, which has a large trade surplus with Australia, is Australia's largest source of imports (19.8 percent) and its second largest export market (9.9 percent). But both countries impose barriers that limit trade and investment. Australia, for example, imposes health requirements on agricultural goods.

A free trade agreement with Australia would have valuable effects besides expanding trade. The United States, which is party to only three of the world's 131 trade and investment agreements, is

losing ground internationally as other nations work to open their markets. A bilateral agreement with Australia would demonstrate to the global market that the Administration has not abandoned its commitment to trade and could spur the momentum at the World Trade Organization (WTO) round of negotiations now taking place by igniting a series of other bilateral and regional agreements among its members.

**Expanding Opportunities.** Considering the levels of trade and foreign direct investment between the United States and Australia, a bilateral free trade agreement is the next logical step in their relations.

According to data from the Massachusetts Institute for Social and Economic Research, the United States exported nearly \$11 billion in commodities to Australia in 2001. The California Technology,

Trade and Commerce Agency reports that total California exports to Australia exceeded \$2 billion in 2000. A free trade agreement would spur this vital trade link at a time when the U.S. economy needs a boost.

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Australia's recent move to allow California grapes into the Australian market will greatly benefit American producers. The California grape industry estimates that the export market to Australia could be worth \$10 million. Such opportunities are merely the tip of the iceberg compared with the effects of a bilateral free trade agreement for U.S. businesses and consumers.

The United States, the world's largest agricultural exporter, exports one of every three acres grown, but U.S. agriculture producers face such non-tariff barriers in Australia as excessive standards on U.S. exports of chicken, pork, apples, and other products. Tariff and non-tariff barriers increase the price of U.S. goods, making them less palatable in foreign markets. A free trade agreement that eliminates such barriers would expand U.S. opportunities to trade and increase prosperity. U.S. workers and even state treasuries would benefit. As Representative Jim Kolbe (R-AZ) has noted, Arizona already has "a booming trade with Australia in agricultural products as well as manufactured products and services." Expanding such trade would translate directly into more job opportunities for U.S. workers.

As President George W. Bush explained in his State of the Union address, "good jobs depend on expanded trade." Past trade agreements have brought higher-paying jobs to America; jobs supported by exports are estimated by U.S. Trade Representative Robert Zoellick to pay 13 percent to 18 percent more than non-export jobs. As America emerges from its recession, opportunities for U.S. workers should not be hampered by unnecessary policies that limit trade with friendly nations like Australia.

**The Administration's Next Steps.** To be effective, the negotiations for a free trade agreement with Australia must address several key issues now hampering relations. The Bush Administration should take the lead and move these negotiations forward by making the political decision to expand trade with Australia and then taking steps to:

- **Exempt all Australian steel exports from the recent tariffs.** The President's decision to impose tariffs and caps on steel imports will still affect Australia, even though the United States agreed to exempt 85 percent of Australia's steel exports from the tariff. All Australian steel should be exempted just as the United States has exempted its NAFTA partners, Israel, and Jordan.
- **Reduce U.S. farm subsidies and liberalize the U.S. agriculture sector.** America's reputation for heavily subsidizing agriculture rivals that of the European Union. Subsidies on agriculture products act as non-tariff barriers to trade and should be reduced. Tariffs, like the past U.S. tariff on Australian lamb, also undermine efforts to liberalize trade and should be eliminated.
- **Convince Australia to reform its agricultural inspection system.** Australia's quarantine system has been questioned as a protectionist tool rather than a tool to address health concerns.
- **Revise America's foreign investment regimes and press Australia to do the same.** Some U.S. sectors are restricted because of national security concerns. Considering the fact that the United States and Australia have been close allies for 50 years and fought together in every major conflict in the 20th century, these restrictions should be reevaluated.

**Conclusion.** Addressing these concerns may prove challenging, but it also will prove fruitful if they are resolved. Negotiating a free trade agreement with Australia will greatly benefit both countries and reaffirm U.S. leadership on trade liberalization. America should come in from the sidelines of the global trade arena and advance free trade now by signing an agreement with Australia.

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