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Australian-U.S. Economic Relations

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Summary

Australia and the United States maintain extensive economic relations. Each is a strong proponent of more liberalized trade in the World Trade Organization. Australia, like the U.S., maintains relatively few trade barriers. U.S.-Australian economic ties have expanded steadily over the past several years, although some trade disputes have arisen, especially in regard to agriculture issues. In 2002, the two nations agreed to begin negotiations for a free trade agreement, which, if achieved, could further boost bilateral economic ties. This report will be updated as events warrant.

Australia's Economy¹

Australia is a country whose size is nearly as large as that of the United States, but with a significantly smaller population—about 19.6 million people. It can be described as “a Western country located in the Asia-Pacific region with close ties and affinities with North America and Europe and a history of active engagement throughout Asia.”²

Australia has a developed economy: in 2002, its gross domestic product (GDP) of \$397 billion was the world's 15th largest. Australia's 2002 per capita GDP on a purchasing power parity basis (a common measurement of a country's living standards) was \$27,800, the 9th highest in the world.³ Based on this measurement, Australia's living standards are higher than those of such major economic powers as Japan (\$26,930), Germany (\$27,100), and France (\$26,540), but lower than those of the U.S. (\$36,390).⁴

¹ All data with a “\$” sign in this report are U.S. dollars.

² Australian Department of Foreign Affairs and Trade, *Advancing the National Interest, Australia's Foreign Trade and Policy Paper*. Available at [<http://www.dfat.gov.au>].

³ *Economist Intelligence Unit (EIU), Country Indicators*. Much of the 2002 data used by EIU are estimates.

⁴ Purchasing power parity (PPP) measurements are used to convert foreign currencies into U.S. dollars based on the actual purchasing power of such currencies (derived from surveys of the
(continued...)

Australia's economy has enjoyed relatively healthy growth over the past few years, due largely to productivity gains, structural reforms (such as tax reform, deregulation and privatization, and trade liberalization), and sound macroeconomic policies (such as tax cuts, balanced government budgets, and anti-inflationary monetary policies), making it one of the best performing economies among the 30 nations that make up the Organization for Economic Cooperation and Development (OECD).⁵ From 1992 to 2001, Australia's real GDP grew at an average annual rate of 3.8% (compared to 3.3% for the United States). The OECD estimates that Australia's real GDP grew by 3.7% in 2002 and projects it will rise by 3.3% in 2003 and by 3.8% in 2004.⁶

Australia maintains relatively few trade barriers.⁷ Tariffs are low (the average applied tariff is 4.3%⁸) and the trade regime is considered to be highly transparent. In 2002, Australia was the world's 25th largest exporter, and 19th largest importer, of merchandise products.⁹ Its principal exports include wheat, barley, beef, lamb meat, dairy products, wool, coal, iron ore, machinery, and transport equipment. Principal imports include manufactured raw materials, machinery and transport equipment, computers and office machines, consumer goods, and petroleum products. Australia's top five merchandise trading partners in 2002 were Japan, the U. S., China, South Korea, and New Zealand (see **Table 1**).¹⁰ The United States was Australia's second largest merchandise export market and its largest source of merchandise imports. Australia incurred a \$6.3 billion trade deficit with the United States.

Foreign direct investment (FDI) in Australia at the end of 2001 totaled \$111.1 billion, making Australia the world's 12th largest destination for FDI. The United States is the largest source of FDI in Australia. By the end of 2001, U.S. investors had direct investments in Australia valued at \$34.0 billion on an historical-cost basis (valued at the cost at the time the investment was made). Over the same period, Australian direct investments in the United States were valued at \$23.5 billion.¹¹ According to Australian data, over half of Australia's total FDI has gone to the United States.

⁴ (...continued)

prices of various goods and services in each respective country).

⁵ OECD, *Economic Surveys, Australia*, March 2003, p. 7.

⁶ Ibid, p. 34

⁷ Complaints by Australia's trading partners have dealt with such issues as domestic and export subsidies (especially for agricultural products, autos, and certain service sectors), trade and investment barriers on services, frequent use of anti-dumping measures, failure to join the WTO Agreement on Government Procurement, and strict sanitary and phytosanitary regulations.

⁸ High tariffs exist in a few sectors, mainly autos, textiles, clothing, and footwear. The Australian government has announced that it will complete a reduction in rates for these products by 2005.

⁹ *Economist Intelligence Unit (EIU), Country Indicators*.

¹⁰ Including trade in services makes the United States Australia's overall top trading partner (i.e., the top trading partner in goods and services) followed by Japan, China, the United Kingdom, and New Zealand. Australian services exports to the United States were \$3.3 billion and its imports were \$3.7 billion, making the United States Australia's largest trading partner in services.

¹¹ Department of Commerce, Bureau of Economic Analysis.

Table 1. Australia's Major Merchandise Trading Partners: 2002
(\$ billions)

Country	Total Trade	Exports	Imports	Trade Balance
Japan	20.6	12.0	8.6	3.4
United States	18.9	6.3	12.6	-6.3
China	11.5	4.5	7.0	-2.5
South Korea	8.0	5.4	2.6	2.8
New Zealand	6.2	4.3	1.9	2.4
Total Australian trade	134.4	65.0	69.4	-4.4

Source: Australian Bureau of Statistics.

U.S.-Australian Trade Relations

According to U.S. data, Australia was the 13th largest destination for U.S. exports (\$13.1 billion) and the 28th largest source of U.S. imports (\$6.5 billion) in 2002 (see **Table 2**). Major U.S. exports to Australia included aircraft and parts, road vehicles, and specialized machinery. Major U.S. imports include meats, petroleum products, and metal ores and scrap (see **Table 3**).

Table 2. U.S. Merchandise Trade with Australia: 1998-2002
(\$millions and % change)

	1998	1999	2000	2001	2002	1998-2002 % change
U.S. Exports	11,929	11,811	12,460	10,945	13,084	9.7
U.S. Imports	5,382	5,290	6,439	6,479	6,478	20.4
U.S. Trade balance	6,547	6,521	6,021	4,466	6,606	0.9

Source: U.S. Census Bureau.

Australia and the United States share similar economic and trade goals. Both are strong supporters of achieving significant trade liberalization in agriculture and services in the current round of multilateral negotiations in the World Trade Organization (WTO), while at the same time, both are pursuing market access through regional and bilateral free trade agreements. The United States and Australia maintain relatively stable commercial relations; they have brought only a few dispute resolution cases against each other in the WTO.¹²

¹² The United States won cases against Australia for its use of auto leather subsidies and import restrictions on salmonids. Australia won cases against U.S. safeguard measures on lamb imports and U.S. anti-dumping subsidy offsets (the "Byrd Amendment").

Table 3. Major U.S.-Australian Trade Commodities: 1998-2002
(\$millions and % change)

SITC 2-Digit Commodity Category	1998	1999	2000	2001	2002	1998-2002 % change
Major U.S. exports to Australia						
Transport equipment (mainly aircraft and parts)	942	1,322	1,353	1,060	3,235	243.4
Road vehicles	857	764	943	835	945	10.3
Specialized machinery	976	830	866	850	806	-17.4
Major U.S. Imports from Australia						
Meats	577	625	826	1,049	1,074	86.1
Petroleum and related products	346	312	664	463	584	68.8
Metalliferous ores and metal scrap	659	574	739	556	513	-22.1

Source: U.S. International Trade Commission (USITC) DataWeb.

Proposed U.S.-Australian FTA and Negotiations

On November 13, 2002, United States Trade Representative (USTR) Robert Zoellick notified Congress that the Bush Administration would begin negotiations with Australia on a free trade agreement (FTA). The negotiations are scheduled to begin on March 17, 2003, in Canberra, Australia's capital. The second and third rounds of negotiations are scheduled to take place the weeks of May 19 and July 21, respectively.¹³ While the U.S. business community has indicated strong support for the negotiations, the American agricultural community appears to be ambivalent at best. Although negotiations have not yet begun, key interest groups have already weighed in with their concerns.¹⁴ The following sections present a discussion of the issues that are likely to emerge in negotiations on a U.S.-Australian FTA.

Agricultural Issues

A consensus exists among trade policy experts that agricultural issues will be the greatest challenge in the bilateral FTA negotiations.¹⁵ As major agricultural exporting countries, the United States and Australia are, for the most part, allies in multilateral negotiations on agricultural issues. Nevertheless, the movement towards a tighter economic relationship under an FTA exposes fault lines on government policies and practices on trade that seek to assist or protect specific agricultural products.

¹³ *International Trade Reporter*. January 24, 2003. p. 182.

¹⁴ Trade liberalization often creates both winners and losers among producers. Economists argue that lowering trade barriers benefits consumers (through lower prices) and usually promotes greater economic efficiency by redirecting resources to their most productive use.

¹⁵ In 2002, U.S. agricultural exports to Australia totaled \$317 million, accounting for 2.4% of total U.S. exports to Australia. U.S. agricultural imports from Australia were \$1.8 billion, which was 28.2% of total U.S. imports from Australia.

Many of Australia's concerns over U.S. trade barriers pertain to U.S. agricultural policies. Primarily, Australian officials have argued that the farm bill that was enacted in 2002 (The Farm Security and Rural Investment Act of 2002, P.L. 107-171) contains too much assistance to U.S. farmers providing them with an unfair competitive advantage over Australian farmers. They further argue that the subsidies undermine efforts by the United States, Australia, and other agricultural exporting countries to get WTO members to agree to reducing agricultural supports and other trade barriers. Australia may attempt to seek a reduction in U.S. subsidies to U.S. farmers.

Australia also takes issue with U.S. tariff-rate quotas (TRQs) on dairy products, sugar, and beef.¹⁶ Regarding dairy products, one Australian study cites TRQs on cheeses, skim milk powder, butter, and butter-oil as impediments to Australian exports to the United States and likely Australian targets under an FTA. The study also mentions Australian fresh milk producers' concerns with testing requirements under the Federal Milk Import Act of 1927 as an impediment to selling in the U.S. market. In addition, the study states that the assigned share for Australia of 8.3% of the total quota on sugar imports heavily restricts Australian sugar imports and also cites the U.S. TRQ on beef, the leading Australian export to the United States.¹⁷ Australia also has identified other U.S. barriers to its agricultural exports: U.S. TRQs on cotton and peanuts; and U.S. tariffs on wool, a range of fruits, vegetables, nuts, certain cut flowers, wheat gluten, rice, vegetable oils, wine, margarine, chocolate and cocoa preparations, and bovine leathers.¹⁸

Although the U.S. business community as a whole has indicated strong support for an FTA, the American agricultural community appears to be ambivalent at best. U.S. producers of dairy, sugar, and beef oppose a U.S.-Australian FTA that would seek to reduce U.S. import restrictions on their products. The National Milk Producers Federation (NMPF) has argued that the benefits of an FTA would be decidedly unbalanced in favor of the Australian dairy industry. The NMPF argues that the FTA would open up the U.S. market to Australian dairy producers, increasing import competition for U.S. producers. However, U.S. producers' exports to Australia would not be expected to increase given the small size of the Australian economy.¹⁹ The National Cattlemen's Beef Association opposes the FTA on similar grounds of "no net benefit" to U.S. beef producers.²⁰ The American Sugar Alliance (ASA) has argued that the elimination of restrictions on sugar imports from Australia would cause major harm to the U.S. sugar industry. The ASA also cited trade distorting practices that would prevent U.S. exporters from gaining access to the Australian market. These practices include

¹⁶ TRQs are restrictions in which a limited volume of a product can be imported at a low (sometimes zero) tariff rate, but imports above that limit can be imported only at another, usually much higher, tariff rate.

¹⁷ Center for International Economics. *Economic Impacts of an Australia-United States Free Trade Area*. Prepared for Department of Foreign Affairs and Trade (Australia). June 2001. p. 50-52.

¹⁸ Australia Department of Foreign Affairs and Trade, "Free Trade Agreements: United States" at [<http://www.dfat.gov.au/trade/negotiations/us.html#bp>].

¹⁹ Testimony Presented on Behalf of the National Milk Producers Federation Before the Trade Policy Staff Committee, Office of the United States Trade Representative. January 15, 2003.

²⁰ The National Cattlemen's Beef Association, press release, January 15, 2003.

“single desk selling” in Queensland (which accounts for 95% of Australian sugar production), where all raw sugar is bought and sold by a state-owned entity, and Australian government subsidies for the domestic sugar industry.²¹ Australian exports of wheat and rice are monopolies run by government-run commodity boards which the U.S. government has cited as trade barriers and will likely be targeted during FTA negotiations.

Sanitary and Phytosanitary (SPS) Measures

U.S. exporters of agricultural products have long complained that Australian government SPS requirements violate Australia’s obligations under the WTO Agreement on Sanitary and Phytosanitary Measures. They contend that Australia’s quarantines and health measures are excessively restrictive, are not scientifically grounded, and have restricted U.S. exports of Florida citrus, stone fruit, chicken, pork, apples, pears, and corn.²² Australian officials argue that these requirements are necessary to protect the health of its citizens and to protect Australian produce from disease. The Australian ambassador to the United States stated that Australia would strongly defend its SPS measures against change in FTA negotiations, arguing that they are scientifically based and fully transparent.²³

Investment Restrictions and Other Issues²⁴

All foreign investments in Australia are subject to government screening and approval. While this process has apparently not stopped U.S. investors from establishing successful operations in Australia, representatives of the U.S. business community insist that the process does not conform to the principle of “national treatment,” that is, treating foreign investors no less favorably than domestic investors. The U.S. business community has called for its elimination under an FTA or at least for the Australian government to make it more transparent. USTR Robert Zoellick has stated that he would seek a commitment from Australia to eliminate or reduce trade distorting investment measures, including the screening and approval process.²⁵ The Australian government has indicated that changing the process might be difficult. Other trade issues that the United States might seek to address in FTA negotiations include Australia’s price controls on prescription drugs, enforcement of intellectual property rights, and trade barriers on services and government procurement. New Zealand has indicated interest in participating in a FTA with the United States and Australia, or for a separate FTA with the United States.

²¹ American Sugar Alliance. Submission to the United States International Trade Commission Hearing Investigation Nos. TA-131-24 and TA-2104-04. *Proposed Free Trade Agreement Negotiations Between the United States and Australia: Advice Concerning Probable Economic Effect*. Washington, D.C. January 21, 2003.

²² United States Trade Representative. *2002 National Trade Estimate Report on Foreign Trade Barriers*. Washington. p. 9.

²³ *Inside U.S. Trade*. February 14, 2003.

²⁴ For a broader discussion of U.S.-Australian issues, see CRS Report RS21358, *Australia: Background and U.S. Relations*, by (name redacted).

²⁵ *Text: Zoellick Letter on Australia FTA*, November 15, 2002. Reproduced by *Inside US Trade*.

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