

FOR PRESS:



STATEMENT BY THE RT. HON. J. McEWEN, DEPUTY PRIME MINISTER
AND MINISTER FOR TRADE AND INDUSTRY, ON HIS RETURN
FROM OVERSEAS ON 26TH MAY, 1967.

1. KENNEDY ROUND - GENERAL

The Kennedy Round started as a proposal that practically all world tariffs of the GATT countries should be cut in half. Very early, less developed countries were excluded from this proposal.

There is quite a wide range of trade in which countries deliberately ensure that they do not increase their cost of raw materials and food, by imposing import duties. Australia is a predominant exporter of these items. Therefore, under the original Kennedy Round proposal, Australia was invited to cut her protective tariffs in half but with no balancing tariff reductions on what she exported. You can't cut a nil tariff in two.

In 1963 I visited the United Kingdom and told the British Government that Australia would prefer to continue its reciprocal Trade Agreement with Britain, to whom we have exported so much, rather than go into the Kennedy Round with all its doubt and risks.

The British Government intimated they had firmly decided to go into the Kennedy Round, and would offer a general 50% cut in practically all their tariffs.

For the things we export to Britain, the Australia-United Kingdom Trade Treaty mostly gives us duty free entry, with an obligation on Britain to impose a tariff on our foreign competitors. For this benefit we, in return, impose higher duties on Britain's competitors in our market. In 1965-66 90% of Britain's total exports of \$A759 million to Australia benefited from these preferential tariff arrangements in our market.

The British Government's position amounted to leaving Australia's right of free entry unaltered but to halve the tariff obstacle raised against our foreign competitors.

Upon this British declaration, Australia said she would enter the Kennedy Round discussions constructively, and examine at the end of the day, whether there were sufficient benefits left for Australia in the British market, to justify a new trade treaty with Britain. That was the situation when we entered the Kennedy Round of negotiations.

The next step in 1963 was for me to argue before the full assembly of the Kennedy Round countries, about 80, that it was unreasonable, and impossible, to ask a country circumstanced as Australia was, to cut all her protective tariffs by half, for the very doubtful prospect of being given advantages in the export of her primary products and raw materials.

It was a very important part of the Australian case that because of the great variety of barriers other than tariffs to improved trade in agricultural products, and because of the long history of unsuccessful negotiations to reduce or limit those barriers, agricultural exporting countries should only be expected to pay in tariff cuts, for overall advantages accorded their agricultural trade.

I intimated that if at the end of the day we had been given important new advantages for our commodity exports, we would give balancing advantages by appropriate tariff reductions to those who exported manufactured goods to us. This was accepted, and it is on that basis that since 1963 we have participated as a big importer and exporter in the Kennedy Round discussions.

It was always made clear that Australia would not destroy its existing manufacturing industries by cutting their protective tariff in half. However because of the fact that Britain had offered to foreigners to cut our preferences in half, we would be entitled to pay in part for whatever advantages we gained, by some balancing diminution in the preferential advantages accorded to British exports in our market.

We also have a very wide range of imports of items which we do not manufacture but on which customs duties already exist. Many of these Customs duties are there for some historical reason of the past. On two occasions I have asked the Tariff Board to advise, whether, in respect of a very great range of items we could reduce duties without detriment to Australian industry. This advice of the Tariff Board has been available in the selection of items for which we have offered tariff reductions.

This sets out the general history and nature of Australia's position in respect of the Kennedy Round from before negotiations commenced, our consultations at that point with Britain and right through to the near-final situation of today.

2. KENNEDY ROUND - WHEAT AND WHEAT AID

Mr. McEwen said: "The major achievement for Australian agriculture was the negotiation of the basic elements for a new international agreement of wheat."

It is intended that the new Agreement reached in Geneva between the world's major grain exporters and importers should in due course, take the place of the existing International Wheat Agreement which has been "carried on" with a number of temporary extensions while the GATT negotiations have been going on in Geneva.

The major objective of this new GATT agreement on grains is to put a floor under world wheat prices. This was a concept within the old International Wheat Agreement.

However, the new Agreement will not only establish the floor at a higher level than under the I.W.A., but will establish a floor that is really firm, a floor below which prices do not fall.

The old International Wheat Agreement has never been really effective on this major objective. That Agreement set the minimum price only for Manitoba No.1, the highest quality wheat commercially traded. The great number of lower quality grades of wheat below Manitoba No.1, were left without specific minimum prices, and without "agreed differentials" of price - a very loose, unfirm situation.

The minimum or floor price that had been finally agreed in Geneva for a middle grade of American wheat known as Hard Red Winter No.2 (ordinary) was \$US1.73 per bushel the price being fixed on the basis of shipping from ports in the Gulf of Mexico. This is an increase of some 19 U.S. cents per bushel over the equivalent I.W.A. minimum for this grade of wheat.

Around this central minimum price for the "base" wheat, as it is known minimum prices for other wheats have been determined by establishing firm "differentials for quality" for wheats higher in quality and lower in quality than U.S. Hard

Winter Ordinary.

In this way minimum prices have been arrived at for a number of the important wheats that are traded internationally and a schedule of minimum prices is set out in the agreement. This innovation of establishing a schedule of minimum prices for a number of wheats will help greatly in making the new floor price for wheat firm and effective.

In Australia's case the minimum price for f.a.q. wheat has been set at 5 U.S. cents below the minimum price of the base wheat. This is accepted as a satisfactory margin.

All the minimum prices are expressed in the Agreement f.o.b. Gulf of Mexico to put them on a comparable basis. It should be noted that they are not the c.i.f. prices which customer countries pay for their wheat delivered, nor are they selling, or offering prices at which wheat must be sold. They represent the prices below which wheat cannot be sold or bought.

Mr. McEwen went on to say: "The new floor prices represent a substantial improvement on existing floor prices. The new floor price for f.a.q. wheat will not be high enough to cover the present Australian "cost of production" under the Wheat Stabilisation Plan while prices are at the minimum but actual selling prices of wheat will vary from time to time depending on supply and demand.

"These prices may fluctuate above, but cannot fall below the new agreed minimum price of \$US 1.73 at Gulf for U.S. Hard Winter Ordinary Wheat.

"In the opinion of the experts from wheat exporting and wheat importing countries gathered at Geneva, the establishment of a new minimum at substantially higher levels than the old minimum would substantially lift "market" prices.

"The opinions of these experts on the extent of the likely increase in market prices ranged from about 8 US. cents to 16 U.S. cents a bushel. On the basis of 300 million bushels of

exports from Australia, which we should be able to count on for our exports in the future, each additional cent increase in price, increases our export earnings by \$US 3 million a year. An 8 cent increase on 300 million bushels exported would increase our earnings by \$US 24 million and 16 cents by \$US 48 million.

If one assumed that the increase would be between these two extremes, at 12 cents, Australia could look forward to increased export earnings of \$US 36 million a year on such crops. This will be a net increase in the Wheat Board's sales.

Another new and important feature of the Agreement negotiated in Geneva, is a commitment on member Governments, both exporters and importers, to provide developing countries with food aid equivalent to $4\frac{1}{2}$ million metric tons of grain a year. Australia's contribution to this new programme is 225,000 metric tons which compares with aid given by Australia in the form of wheat over the last 3 years at an average rate of approximately 150,000 a year.

Mr. McEwen said: "The new food aid provisions in the Agreement are important in a number of ways. They are a recognition by the affluent countries of the great need to provide more food for the hungry people of the world. This is of enormous importance in a world in which millions of people are on the verge of starvation, with consequent political instability.

Moreover, the food aid provisions are a great step forward in winning acceptance of the principle that affluent countries as a whole, should share equitably the responsibility, and the cost of supplying food aid, and not leave food aid to those countries which produce wheat in surplus to their own requirements.

"I am sure that Australians everywhere will be pleased to see Australia doing its bit in this new programme for feeding the hungry. I am personally very pleased also that the principle of joint responsibility for food aid, a principle which I have advocated for at least 10 years, is at last gaining recognition."

3. KENNEDY ROUND - MEAT

Australia had been negotiating on a number of other important primary products. Originally it was hoped that negotiations similar to those for grains, could be undertaken on both meat and dairy products. Negotiating groups similar to the Cereals negotiating group were set up for these other two commodities.

It proved impossible to negotiate world arrangements for meat. However, Australia has meat arrangements with its two major markets, Britain and the United States.

At Geneva we have been in intensive bi-lateral negotiations with both the European Common Market countries and Japan in an effort to improve trading opportunities in those two markets. A reasonably successful result for beef and veal with these two countries is expected.

An arrangement is being discussed with the Common Market countries on beef that could allow Australian exports of frozen beef to have access to the E.E.C. markets with a modest customs duty, and without payment of import levies for a 5 month period from mid-April to mid-September. During the remaining 7 months of the year it is proposed that import levies lower than at present will be applied. Such an arrangement would be a significant break-through into the very large and affluent European market.

Discussions have taken place also with Japan in the hope of securing improved access to that market. The results of these discussions have been encouraging.

If within the Kennedy Round we succeed in getting access improvements, permitting a steady expansion of Australian exports of frozen meat to these markets, this will provide the added safety of greater diversification of our meat markets.

4. KENNEDY ROUND - WOOL, DAIRYING - OUR GAINS AND OUR LOSSES

Referring to negotiations on wool, Mr. McEwen said that he had entered the Kennedy Round confident that Australia would be able to negotiate a reduction in the duty which the United States maintains on imports of raw wool. The United States is the only country to have a substantial duty on raw wool and had indicated willingness to cut the duty in the course of the Kennedy Round.

It was a matter of immense disappointment that at this stage Australia has not secured from the United States improved access to the American market for wool or for that matter, within these negotiations, improved access to America for any product of important trade interest to Australia.

On dairy products, the Kennedy Round negotiations were not successful. This had been a great disappointment not only to Australia but also to New Zealand which is the largest exporter of dairy products.

Mr. McEwen said: "The Agreement on cereals and the prospect of improved arrangements for beef prompt me to say that it is the wheat and beef industries that will gain most directly.

"It is not just the farmers who will benefit from this. The benefits will flow to the whole community as a result of the higher earnings of foreign exchange, and greater spending power in the hands of the wheatgrowers and beef producers. To the extent that wheat prices rise, there is a reduction in the costs to the Commonwealth Treasury arising from the obligations under the Wheat Stabilisation Act, which guarantees that Australian wheatgrowers shall not receive a lower figure than the guaranteed price for 150 million bushels of wheat exported."

"Australia will suffer losses as a result of the British decision to make a 50% cut in tariff items which had been designed to establish Australia's preferential position, under the U.K.-Australia Trade Treaty.

THE HISTORY OF THE UNITED STATES OF AMERICA

The history of the United States of America is a story of growth and change. It begins with the first settlers who came to the continent in search of a better life. They found a land of opportunity, but also a land of conflict. The struggle for independence from Britain was a defining moment in the nation's history. The American Revolution was a war for freedom and self-determination. It was a war that shaped the character of the young nation.

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The list of products on which Britain originally proposed to make a 50% cut in the duty paid by foreign countries and hence at the same time reduce Australia's preferences in the United Kingdom, covered a great many items of Australia's export trade. Some of these offers have now been withdrawn. Amongst those which now stand to lose 50% of their preferences in Britain include raisins, sultanas and currants, canned peaches, canned apricots (but not canned pears) and canned pineapples, unmilled rice and leather.

The effect of the cut in preference is of great importance to the industries concerned.

Looking at the negotiations overall, Australia's gains will much more than offset her losses.

When the Government is considering adverse effects on particular industries, from the cut in their Commonwealth preference arising from the Kennedy Round, the overall National gain will be weighed in relation to particular industry losses."

5. BRITISH APPLICATION TO JOIN COMMON MARKETUNITED KINGDOM - AUSTRALIA TRADE TREATY

Mr. McEwen said that his visit to Europe provided an opportunity to discuss matters of common interest with British Ministers. There was discussion related to the Kennedy Round which was approaching the critical negotiating period at that time.

At the time of Mr. McEwen's visit, British Ministers were considering whether to apply to join the European Common Market, and this topic was discussed.

Australia's attitude to British entry of the European Common Market is the same as it has always been. The decision to apply for membership is one for Britain alone. The British Prime Minister has said that safeguarding essential Commonwealth interests is an essential prerequisite to British entry and has promised also to consult fully with Commonwealth countries during the negotiations for British entry.

Australia's trade relationship with Britain is based on a contract, the United Kingdom-Australia Trade Agreement. As a result of that contract each country has built up a substantial trade interest in the other country.

Britain's exports to Australia amounted to \$A759 mil. in 1965-66 and about 90% of those imports receive preferential treatment in the Australian tariff. That is to say, about 90% of British exports to Australia entered Australia at lower rates of duty than were charged on the same products from other countries.

The Department of Trade and Industry has made a calculation of the value of the present Preferences the United Kingdom has in Australia, by comparing the United Kingdom share of the Australian import market, with the share the United Kingdom has of non-preferential markets such as the U.S.A. This comparison has been made on a fairly detailed product-by-product basis. The calculation suggests that if the United

Kingdom lost all its preference in Australia on entering the European Common Market then it could, in the long term, lose about \$A400 million of its trade with Australia.

This kind of figuring makes it pretty plain that Britain has a very big stake in the Australian market.

Australia also has a very big stake in the British market. The view is widely held in Europe that because Australia has diversified its trade so much in recent years, the effects of British entry will be very much less than they would have been in 1961.

It is quite true that Australia has diversified its trade but in spite of this the value of our trade "at risk" if Britain enters the E.E.C. has actually increased in total since 1961. Since 1961 Australia's exports of wool to Britain have declined markedly. Wool is one commodity which would almost certainly be unaffected by British entry, but it is now relatively less important in our trade with Britain.

The value of our trade "at risk" has increased from \$A 310 million in 1959-60 to about \$A 375 million now. Nor is it much comfort to the dairy industry faced with the loss of important preferences in the United Kingdom, to know that Australia's sales of iron ore to Japan have increased.

The threat to Australia's trade, if Britain enters the European Common Market does not come only from the loss of preferences on our important export commodities. It comes also from the "reverse preferences" that will be created against Australia when Britain enters the E.E.C. A product such as dried fruit, not only faces the loss of important preference in the British market, it also sees the creation of a new Preference in favour of Greece and Turkey by reason of their associate membership of the E.E.C.

Possibly an even greater threat than the loss of preference comes from the overall agricultural policies of the Common Market. Under many of the agricultural policies of the E.E.C. the European farmer is insulated from outside competition by a water-tight system of variable import levies on agricultural imports. The Common Agricultural Policy, of the E.E.C. provides very high internal supports, and with the water-tight import protection E.E.C. agricultural production has increased enormously.

From being a net importer of wheat a few years ago the E.E.C. has now become a net exporter. Large surpluses of butter exist in Europe. Meat production has increased rapidly. We know that agricultural production in the E.E.C. has further potential to increase, and that if Britain joined, the agricultural policies of the E.E.C., applied to British agriculture, could expand production considerably to fill a large part of their existing import market.

Mr. McEwen said: "These were the kind of issues that I discussed with British Ministers in the course of a very frank exchange of views."

Mr. McEwen also said that now that the shape of the final Kennedy Round package was becoming clear, Britain and Australia would shortly be holding talks to discuss the future of the United Kingdom/Australia Trade Agreement. Mr. McEwen recalled that review of the Agreement had been deferred pending the completion of the Kennedy Round negotiations.

6. TRADE TREATY SIGNED WITH ROUMANIA

Mr. McEwen said that from Geneva he went to Bucharest to conclude a trade agreement with Roumania.

Czechoslovakia alone of the countries of Eastern Europe is a member of the GATT. Many Western countries have in recent years negotiated Trade Agreements with the countries of Eastern Europe in order to provide a formal basis for trading with those countries.

Mr. McEwen said that over the last two years Australia had written Trade Agreements with the U.S.S.R., Poland and Bulgaria in addition to Roumania. In all of these agreements the central provisions were a mutual undertaking by each country to extend to the other "most-favoured-nation" tariff treatment.

In fact, Australia has extended "most-favoured-nation" tariff treatment to Roumania for many years. The Trade Agreement formalises and guarantees conditions of trading that already exist.

Mr. McEwen said that the new trading links that had been established between Australia and Roumania were designed to be mutually beneficial. Trade between the two countries had increased markedly over the last twelve months. Australian exports to Roumania totalled \$A433,000 in the first seven months of this financial year, mainly cattle hides, rutile concentrates and wool tops. Imports totalled \$A119,000 mainly specialty cheeses and wood and cork manufactures.

The potential for increased trade clearly exists, given the assurance of established access conditions as provided in the new Agreement.