



## Global Corporate Grab

### Free Trade Agreements, the WTO and neo-liberalism in Australia

*Howard believes market forces and free trade are a global panacea that will solve the problems social service delivery, poverty and terrorism. He wants the TELSTRA sell-off to be a jewel in the crown of his third term. This workshop will explore the real impacts domestically and globally on our social policies, human rights and the fundamental question of democratic processes and discuss our alternatives.*

#### Introduction

There is a debate about how to describe governments like those of Bush and Howard – are they neo-liberal or neo-conservative? But when it comes to their economic programs, they are firmly in the neo-liberal category – a primacy for:

- markets over all other social relations,
- the competitive, self-interested individual over communities,
- contracts over all other forms of managing group relationships.

This is the perfect formula for justifying attacks on workers rights, disregard for the environment, and plundering the public sector.

Bush and Howard did not invent this economic program. It was developed after World War II, by economic philosophers grouped around the Austrian Friedrich von Hayek. Hayek's ideas were championed by super-rich Americans, and made their breakthrough following the collapse of Keynesian economic policies in the mid-1970s. Neo-liberalism became the 'conventional wisdom' in the era of Thatcher and Reagan.

Backed by these two powerful governments, and by the international financial institutions – the International Monetary Fund and the World Bank – neo-liberal economic policies were rapidly introduced in poor countries in the 1980s through structural adjustment programs which were imposed as conditions for loans. They were also progressively imposed on the rich countries, including Australia. When it was created in 1994, the World Trade Organisation also became a vehicle for neo-liberal policies to be imposed through trade agreements. But a broad opposition in both poor and rich countries has slowed the WTO process, after its initial success.

This Briefing Paper examines the proposed full privatisation of Telstra, the impact of the US Free Trade Agreement, the possible impacts of the China Free Trade Agreement, and of the Services Agreement (GATS) in the World Trade Organisation, as a demonstration of the scope of the global corporate grab.

#### Telstra privatisation

The privatisation of Telstra is a prime example of how these neo-liberal policies work. Telstra created a nation-wide telecommunications system over 90 years, which came to embody values of public enterprise, universal affordable access, regular employment based on awards and collective bargaining, extensive training, research and development, and support for domestic manufacturing of telecommunications equipment. In 1990 Telstra was Australia's largest enterprise, built up by reinvestment of its surpluses and public borrowings. Telstra's profits contributed to important federal government programs.

But by then, neo-liberal policies were dominant in big business and in the Hawke – Keating Labor government. Global corporations were demanding access to this lucrative enterprise, which they condemned for being too rigid, unresponsive to consumer demand, and inefficient.

Under Labor, big business got the telecommunications sector 'opened up' to a second operator in 1991 - Optus (then owned by Cable & Wireless of the UK). This immediately privatised 15% of the business to a company which did not have to pay up-front for any cables or exchanges, just pay an access fee. Optus only had to take over the Aussat satellite and install a mobile phone system. It had to agree to negotiate with the Telstra unions, but it sought to recruit non-union workers. The sector was fully deregulated in 1997. The dominant providers are still Telstra, Optus (owned by the Singapore government through Singtel), and Vodaphone, a UK company.

Business demands for timed local calls were defeated. However, prices have been heavily cut for business users since then, but have remained high for domestic users. Rural and outer urban services have been badly lagging,

and improvements have been paid for by the government rather than the operating companies. Broadband investments were wrongly focused on pay TV, and over \$5 billion was lost in Hong Kong-based mobile and international fibre-optic cable investments.

Under the Howard Conservatives, 33% of Telstra was sold for \$14.3 billion in November 1997, and then in mid-1999 a further 16.9% of Telstra was sold for \$16 billion. From the first sale, \$1.15 billion were set aside for the Natural Heritage Trust; \$250 million for the Regional Telecommunications Infrastructure Fund, and the balance was used to reduce Commonwealth public debt. After a recent share buy-back, the government now owns 51.1% of Telstra.

From June 1995 to June 2004, Telstra jobs were cut from 76,522 to 36,159, and were partially replaced by 19,000 casuals and sub-contractors on inferior terms of employment. Taken together, this means 21,000 jobs were lost in these nine years. Jobs in the new telecommunication companies are also often on a casual or sub-contract basis.

The Howard government intends to use its slim majority in the Senate after July 1 to force through the Bill to sell the government's remaining 51.1% of Telstra in 2006-07, for an estimated return of \$30 billion. The Howard government wants to use this to retire government debt, which is already very low, and to put into the 'Future Fund'. But the telecommunications network is sorely in need of nation-wide upgrading for broadband, and many communities need to be included in a genuine high quality national fibre-optic network.

Keating wanted the full privatisation of Telstra and deregulation of the sector but he could not persuade his Cabinet. Prime Minister Howard has also been unable until now to persuade his National Party partners to sell more than 49% of Telstra. This is because services in rural, remote and outer-urban communities remain poor and patchy, and because these communities really fear that their services will decline in a free market, and that Telstra jobs in the bush will disappear.

The Telstra privatisation is one of the jewels for international capital. It offers big fees for the banks and consultancies which run the share sale. It offers big profits to the new shareholders. Up to 35% of it can be owned by overseas interests, and the new CEO from the USA, Mr Solomon Trujillo, has been appointed mainly to help sell Telstra overseas. The struggle over the proposed privatisation is going to be big.

## Free Trade Agreements

With the failure of the World Trade Organisation meetings in Seattle in 1999 and Cancun in 2003, the Howard government has turned to bilateral free trade agreements to continue the push for the neo-liberal nirvana. This is also the strategy of the Bush Administration.

The US – Australia Free Trade Agreement came into force on January 1, 2005. A huge community campaign was successful in turning public opinion against it, as only 30% supported it. This campaign also modified some of the content of the agreement. There is no NAFTA-style investor vs state complaints process that would allow US corporations to sue the Australian government for damages. Also the US drug companies wanted more changes to the Pharmaceutical Benefits Scheme than they managed to get.

However, the US FTA:

- gives US drug companies rights to seek reviews of decisions by the Pharmaceutical Benefits Advisory Committee and despite the ALP amendments,
- gives priority to protecting the intellectual property rights of drug companies over the principle of universal access to affordable medicines.
- adopts US copyright law, meaning higher costs for libraries and schools and negative effects for small IT software firms, including the Australian local Open Source software industry.
- sets up joint committees on quarantine, opening us to US pressure to reduce standards. The American Farm Bureau Federation expects many gains for US exporters because of these committees.
- gives greater access for the US to Australian manufacturing markets than Australian access to US markets. This could mean significant loss of Australian jobs in regional areas of high unemployment, and impact on union strength.
- "binds" or freezes state and local government regulation of essential services at existing levels, unless they are listed as exceptions. This limits the ability of future governments to regulate in many areas. Water, electricity, public transport and aged care have not been listed as exceptions.
- limits the Foreign Investment Review Board's power to assess if US investments are in the national interest, by increasing the threshold from \$50 to \$800 million, except for a few exempt sectors.
- has not been subject to an environmental impact assessment, leaving many questions about the environmental consequences of the FTA unanswered; and

- allows the US government to challenge many Australian laws and policies before a trade tribunal based on trade law, without considering impacts on health, culture or the public interest.

Now that the USFTA is operating, the only remaining remedy is for the Australian government to use the termination clause to give six months notice to end the agreement. This would not be easy, as the FTA would be strongly supported by those businesses that gain from it. But if the US government does use the USFTA to challenge an Australian law or policy, this could start a campaign to end the agreement.

## China Free Trade Agreement

On April 18, 2005, the Australian Government started negotiations for a Free Trade Agreement with China. A Joint Feasibility Study was meant to be released for public scrutiny *before* any decision to start negotiations. But this did not happen. The Feasibility Study was released the day *after* negotiations were announced. This 'decisions first, evidence later' approach is unacceptable in a democracy.

China is already Australia's second largest export market and third largest source of imports, and China already has a big trade surplus with Australia. The question is not whether we should trade with China. The question is whether we should have an agreement to remove all trade barriers with China, when the low prices of China's exports rely on poor environmental regulation and failure to comply with China's own labour laws and international labour standards, and when the impacts in Australia could be devastating to the car and clothing industries, and to important areas of horticulture. Many of the Chinese exports are from non-Chinese corporations now operating in the special export zones in eastern China.

### Feasibility Study misleading and flawed

The Feasibility Study predicts a \$24 billion boost to Australia's GDP over 10 years to 2015 if the FTA proceeds. But this prediction is misleading. This amount is calculated on the basis that *all* tariffs will be removed across *all* sectors by 2006, conditions which can't be fulfilled.

The feasibility study model does not account for indirect loss of competitiveness as some industries collapse. The model also assumes full employment, which means that workers can glide effortlessly from one job to another. The more likely scenario is that workers who lose their jobs in regional communities will remain redundant, with little choice of other employment.

"We can't teach car makers to become computer programmers overnight. In reality, such sectoral change ... comes at the cost of leaving a rump of newly redundant workers on welfare for the rest of their working lives." David Bassanese (*Australian Financial Review*, 22/4/05, p66)

Many community groups and individuals made submissions to the Feasibility Study. Despite this, the Feasibility Study makes no mention of jobs, workers' rights, or environmental protections. The Government's response is that these issues have no role in trade agreements.

"For governments and employers to say that the rights of working people have no place in the discussion around trade is simply to say that neither business nor government has any concern about how working people are treated in their own country or another country – that's not a very humane approach to either democracy or development." Sharan Burrow, President of Australian Council of Trade Unions (*Australian Financial Review*, 21/4/05, p60)

The proposed China FTA could well have a major impact on Australia's technological and manufacturing capacity, but this is hidden under a cloud of 'free trade' rhetoric.

## General Agreement on Trade in Services (GATS) – WTO

The General Agreement on Trade in Services is a legally-binding World Trade Organisation treaty to expand the global trade in "services", which covers banking and finance, consultancy services of all kinds, education, health, water, communications and transport services. At one level it aims to make it easier for professional workers to move around the global economy. At a more significant level, it aims to allow global service corporations to break into what are traditionally public sector services through privatisation or competitive tendering. Education and water services are major targets. Banking and finance sectors are strategic to any economy, and even if they are largely privatised, as now in Australia, they remain highly regulated. GATS also aims to break down this kind of regulation, alleging that it can be an 'unfair barrier to trade'. Australia retains the 'four pillars' policy in banking, for example, which retains the four major Australian-owned banks and has kept foreign banks at the margin of the sector.

Despite the WTO failures in Seattle and Cancun, the Services component of the World Trade Organisation process rolls on, based on commitments made back in 1994, when Australia signed on. The Australian Government's GATS discussion papers in 2003 and 2004 defined its objective within the GATS process as being to expand exports for service providers.

The Government has failed to state any other broad principles underpinning its GATS negotiating position, such as environmental sustainability, human rights compliance, protection of marginalised groups, and the prosperity of poor countries. These are all official policy objectives, but have not been linked to trade policy.

It is important for developing countries to keep their capacity to regulate foreign investors and corporations, so as to have some control over the development process, and Australia should have this as a GATS objective. This is also an issue for Australia's own sovereignty. The DFAT 2003 GATS discussion paper said:

[The Australian Government] will not agree to any diminution of our overall right to regulate that would constrain our ability to pursue legitimate policy objectives in the regulation of services sectors, or compromise the capacity of governments to fund and maintain public services (p 10).

This statement raises more questions than it answers. What exactly is meant by the "overall right to regulate"? Does this differ from a right to regulate in particular sectors? Public services should be clearly exempted from GATS and the capacity of all levels of government to regulate should not be diminished.

## **The impact of bilateral treaties on GATS**

In bilateral negotiations between larger and smaller economies, large economies have more bargaining power. Multilateral negotiations can reduce these power inequalities. This is why Australia, as a relatively small economy in the global context, has generally relied on multilateral rather than bilateral negotiations.

Australia has accepted significant new obligations regarding services under the US Free Trade Agreement and the Singapore – Australia Free Trade Agreement. These contain services commitments that go well beyond the current GATS commitments – in areas such as water, energy, audio-visual and public transport. Once a sector is committed in a bilateral agreement, which often contains Most Favoured Nation clauses relating to subsequent bilateral agreements by the parties, there is greater pressure to then 'multilateralise' these commitments. Such commitments, made in the unequal bargaining context of bilateral agreements, should not be included in the GATS.

Future bilateral agreements proposed with Malaysia and China may also contain commitments on services.

## **Transparency, openness and democracy**

In principle, regulating international trade through multilateral trade negotiations has the potential to constrain the economic power of the largest economies and the influence of transnational corporations. However, the current WTO framework does not do this.

The lack of transparency within the WTO process, and the lack of resources for poor countries to fully participate, makes it difficult for public debate about such fundamental democratic concerns as the capacity for governments to regulate, the appropriate mix of public and private control over resources and services, and principles for spending public funds. The GATS negotiations impact significantly on all of these matters.

The community campaign pressured the Australian government to make its GATS negotiation initial offers public in 2003. But it has refused to make public its requests to other countries or the requests received from other governments. The community campaign had another victory when the government announced that its second round of offers in May 2005 had excluded drinking water and its related services from the offer. This was an important win for the public campaign to protect the public interest in this GATS round.

However, the GATS negotiations will continue until 2007 and continued campaigning is needed to prevent last minute concessions being made in return for gains in other areas of negotiation such as agriculture. The GATS negotiations are part of a general 'round' of WTO negotiations (the Doha round), that also includes negotiations on trade in manufactured goods and agricultural products.

## **Resources**

The internet carries a huge amount of material about the global corporate grab. The best places to start are:

[www.aftinet.org.au](http://www.aftinet.org.au) – the Australian Fair Trade and Investment Network, with over 90 member organisations.

[www.aidwatch.org.au](http://www.aidwatch.org.au) – AID/WATCH, monitoring Australia's official development aid program

[www.tradewatchoz.org](http://www.tradewatchoz.org) – Global Trade Watch, a grassroots campaign in Australia

[www.cepu.asn.au/section\\_campaigns/telstra-sale/nosale\\_index.shtml](http://www.cepu.asn.au/section_campaigns/telstra-sale/nosale_index.shtml) - against the sale of Telstra

[www.amwu.asn.au](http://www.amwu.asn.au) – contains the Manufacturing Workers Union 's 'fair trade not free' trade campaign.

[www.actu.asn.au](http://www.actu.asn.au) – the Australian Council of Trade Unions site. [www.citizen.org](http://www.citizen.org) - Public Citizen in the USA

[www.canadians.org](http://www.canadians.org) – Council of Canadians [www.focusweb.org](http://www.focusweb.org) – Focus on the Global South, Bangkok

[www.dfat.gov.au](http://www.dfat.gov.au) – The Australian Dept of Foreign Affairs & Trade [www.wto.org](http://www.wto.org) – the World Trade Organisation

This briefing paper was written by Peter Murphy for the conference: Advance Australia Fair – Building sustainability, justice and peace, 30-31 July 2005, Melbourne Trades Hall. For more information please visit [www.nowwethepeople.org](http://www.nowwethepeople.org).

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