



Implications and Opportunities for Australia Cotton

Abstract of Speech to be presented by Richard Haire, CEO Queensland Cotton

At the 12th Australian Cotton Conference, 10-12 August 2004

In considering my paper 'Implications and Opportunities for Australia Cotton', I have deliberately chosen not to dwell on the aspect of fibre quality in any detail. I have no doubt that having regard to calibre of speakers who will participate at this conference in subsequent sessions this issue will be covered in greater depth and eloquence than I could cover. What I do propose to discuss are several key issues which in my mind have the potential to shape the international trade landscape going forward. As a country that will continue to be heavily dependent upon export markets, I believe these issues have the potential to influence not just trade patterns but also the very competitiveness of our industry over the next decade. My primary purpose will be to stimulate your thinking about some of the issues and opportunities for trade in Australian cotton going forward. But more specifically, I would hope that this information will help you better assess some of the potential risks associated with competing in the international cotton market into the future.

I will be addressing 4 broad issues:

1. **Bilateral Trade Agreements verses Multilateral Trade Reform**

Australia has long been perceived as a champion of multilateral trade reform. This status has been confirmed by our chairmanship of the Cairn's Group, a group of exporting nations committed to multilateral trade reform. However at the recent Doha Round of meetings held at Cancun, Australia was not included in the group of 21 exporting countries who got together to promote multilateral trade reform. Was this exclusion a deliberate reaction to Australia's participation in bilateral trade agreements or was it simply reflecting the fact that Australia may have had less in common with the other 20 members than it did with the Cairns Group? On 28 July 2003, Australia signed a Free Trade Agreement with Singapore. On 5 July this year, we signed a Free Trade Agreement with Thailand. We are about to sign an FTA with the United States and we have embarked upon a feasibility study into a FTA with China. Since the creation of the WTO in 1995, 130 Regional Trade Agreements notifications have been lodged. This spaghetti bowl of Free Trade Agreements across the world adds complexity to the international trade landscape. And although they are signed under the auspices of the original GATT agreements, by definition they exclude those countries not a party to the agreements. It is suggested that bilateral agreements harm efforts to conclude multilateral reform, that they enable sensitive sectors to be excluded, that the subsequent diversion of trade away from the most efficient producers in the global economy causes economic loss in both production and consumption and that they can become a surrogate for the promotion of foreign policy. On the positive side, successful bilateral agreements can be seen to promote multilateral progress, they are able to deliver overall trade benefits in a much more timely manner than multilateral reform, they can promote commercial reform in the developing world and they can enable countries to deal with some of the more sensitive trade negotiations outside the glare of the full multilateral process. Either way Australia, since the year 2000, has accelerated its level of interest and activity in bilateral agreements. The actual outcome of these agreements has the potential to promote trade between Australia and its counterparties. But as the main business advisory group to APEC stated in May this year, "Increasing numbers of bilateral trade agreements are undermining multilateral trade groups such as the WTO."

2. **Other Non Tariff Trade Issues**

There are other elements of international trade moving forward that have the potential to impact trade activity. For example, Australia has resisted ratification of the Kyoto Protocol. Many of our Asian trading partners are firm advocates and supporters of this protocol. Will our reluctance to ratify this protocol become a source of trade discrimination in future? Will we see differing levels of environmental stewardship, human rights, labour market reform or policies on genetic modification for example become influential in future trade decisions?

3. **Financial Market Maturity**

As previously mentioned we are heavily dependent upon export markets to buy our cotton. Over the past decade we have survived significant financial upheaval in many of our primary markets in Asia. None the less, navigating our way through those troubled financial crisis diverted substantial industry resources away from conventional use. Many of the countries that buy our product do not have



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sophisticated or mature financial markets. This leads to volatility in interest rates; it can constrain the availability of credit on commercial terms and depending upon the exchange rate policy of the country, can lead to significant volatility in international exchange rates. Despite our push for trade globalisation there are still a vast range of policy options which are being employed by many of our customers with regards to exchange rate policy. From the fully floated exchange rates policies, to the pegged or targeted exchange rate policies, there are a variety of foreign exchange policy settings available. When combined with differing domestic, monetary and fiscal policy outcomes and escalating capital flows across exchange markets, we have a deadly cocktail of exchange rate volatility. Deliberately undervalued currencies provide an unfair competitive advantage for exporters in the same way that deliberately overvalued currencies provide an unfair advantage for importers.

The United States catchcry that low currencies are a direct form of industry subsidisation was initially dismissed as a self interested attempt at justifying their own domestic agricultural subsidies. But there can be no doubting that the manipulation of exchange rates by central authorities has the potential to significantly alter natural competitive dynamics.

4. International Standards

If we are to move to a truly globalised economy and commodity, then we need to embrace standards across a range of areas. This is the only way we can promote market liquidity, trade integrity and bipartisan confidence in the trading system. The international cotton market has embraced standards for aspects such as fibre quality, (the USDA standards) and to a large degree, contract sanctity (the Liverpool Rules) but we need to continually update these aspects of trade to ensure they are current and appropriate to the modern market demands. We need to ensure that appropriate standards of corporate governance are observed if we want our trading system to be inclusive rather than exclusive. Also, International Cotton markets continue to struggle with inaccurate and at times misleading market information. At the end of the day we are all traders in information and decisions we make on a daily basis are made on the basis of information that is available to us. How do we take our responsibilities to ensure that the market place is accurately informed about our own crop?

If we review many of the issues I've discussed today, I believe the Australian industry is particularly well placed. Whilst being a champion for multilateral trade reform, we have also successfully initiated important bilateral trade agreements. We are moving down the path of a Free Trade Agreement with China which is the world's largest single cotton market. We have a highly sophisticated financial and capital market in this country and the standards which govern our product and our conduct are world's best. And if our customers wish to look at the way we produce the cotton that we do produce, then I have ever confidence that our performance will rank in the upper quartile of global producers.