THE POLITICAL ECONOMY OF AUSTRALIA'S
TRADE POLICY-MAKING
TOWARDS THE UNITED STATES

Russell Keith Solomon

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Department of Government
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ABSTRACT

The purpose of this study is to explain how Australia has bargained for improved outcomes in its trade with the United States over the 1980s and into the early 1990s. This explanation is sought by means of an analysis of the forces which have shaped Australia’s trade policy-making towards the U.S. in the five trading sectors of wheat, sugar, beef, steel and international air passenger transport.

The study adopts a theoretical framework which postulates that state actors and institutions are principally responsible for trade policy-making and the concomitant bargaining strategies adopted to improve trade outcomes. However, a state-centred approach needs to be qualified by state actors’ accommodation of societal-actor demands for policy action. While exogenous to this domestic bargaining process, influences emanating from the international political economy must also be taken into account. The relationships within and between state and societal actors, influenced as they are by international institutions and ideas, are critical to understanding the bargaining approaches made by one state towards another.

It is argued that sectoral trading outcomes between Australia and the U.S. can be understood by reference to a bilateral bargaining process within each trading sector. Within each such bargaining process, Australia has, within broad bilateral and multilateral approaches, devised strategies by which it could mobilize sectorally-specific resources to seek to exploit opportunities and minimise problems so as to improve its trading outcomes. The nature of these sectoral strategies has been influenced by first, the nature of the U.S. policy and policy-making process; second, the Australian domestic bargaining process between state and societal actors; and third, and to a lesser extent, prevailing ideas and the perceptions of the negotiating parties.

The study has concluded that in Australia’s bargaining with the U.S. in each of the five sectors, its sectoral bargaining strategies have generally reflected an accommodation between Australian state and societal actors towards the achievement of coterminous trading objectives. These strategies, involving the mobilization of sectorally-specific resources, aimed to exploit the relatively open nature of the U.S. policy-making process.
towards an improvement in outcomes. The strategies also sought to address the influences upon the sectoral bargaining process coming from the international political economy, such as the GATT’s liberalism and the growth of global protectionism. This attention by Australia to sectoral possibilities and problems for improved trading outcomes has represented a more focused approach to bargaining with the U.S. Australia continues to be faced with difficult problems in its trade with the U.S. in each of the sectors studied. While this sectorally-focused approach may be unable to deliver great gains for Australia in any of these sectors, it holds the promise of securing at least marginal improvements, when circumstances permit, to Australia’s sectoral trading outcomes with the U.S.

An important theoretical implication of this study is the importance of the domestic bargaining process between state and societal actors in the development and execution of international bargaining strategies. Another implication of the study is the need to consider the international bargaining process as an independent variable capable of intervening between relative power-capabilities and resultant outcomes to the benefit of a weaker state.
ACKNOWLEDGEMENTS

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<tr>
<td>ABARE</td>
<td>Australian Bureau of Agricultural and Resource Economics</td>
</tr>
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<td>ACTN</td>
<td>Advisory Committee for Trade Negotiations</td>
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<td>ACTU</td>
<td>Australian Council of Trade Unions</td>
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<td>AD</td>
<td>Antidumping</td>
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<td>AIIS</td>
<td>American Institute for International Steel</td>
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<td>AISI</td>
<td>American Iron and Steel Institute</td>
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<td>ANZUS</td>
<td>Australia New Zealand and United States security alliance</td>
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<td>AMLC</td>
<td>Australian Meat and Livestock Corporation</td>
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<td>APAC</td>
<td>Agricultural Policy Advisory Committee</td>
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<td>ASA</td>
<td>Air Service Agreement</td>
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<td>ATA</td>
<td>Air Transport Association</td>
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<td>AUSMINT</td>
<td>Australia-U.S. Ministerial Meetings</td>
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<td>AWB</td>
<td>Australian Wheat Board</td>
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<tr>
<td>BIE</td>
<td>Bureau of Industry Economics</td>
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<tr>
<td>BHP</td>
<td>Broken Hill Proprietary Company Limited</td>
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<td>CAB</td>
<td>Civil Aviation Board</td>
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<tr>
<td>CCA</td>
<td>Cattle Council of Australia</td>
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<td>CCC</td>
<td>Commodity Credit Corporation</td>
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<tr>
<td>CEA</td>
<td>Council of Economic Advisors</td>
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<tr>
<td>CIE</td>
<td>Centre for International Economics</td>
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<tr>
<td>CRS</td>
<td>Computer Reservation System</td>
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<tr>
<td>CSR</td>
<td>Colonial Sugar Refining Company Limited</td>
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<tr>
<td>CTAG</td>
<td>Commodity Trade Advisory Group</td>
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<td>CVD</td>
<td>Countervailing Duty</td>
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<tr>
<td>DFAT</td>
<td>Department of Foreign Affairs and Trade</td>
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<td>DITAC</td>
<td>Department of Industry, Technology and Commerce</td>
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<td>DOC</td>
<td>Department of Commerce</td>
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<tr>
<td>DOT</td>
<td>Department of Transportation</td>
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<td>DOTAC</td>
<td>Department of Transport and Communications</td>
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<tr>
<td>DPLIE</td>
<td>Department of Primary Industries and Energy</td>
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<tr>
<td>EC</td>
<td>European Community</td>
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<tr>
<td>EEP</td>
<td>Export Enhancement Program</td>
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<td>EPC</td>
<td>Economic Planning Council</td>
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<td>ERS</td>
<td>Economic Research Service</td>
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<td>FAS</td>
<td>Foreign Agriculture Service</td>
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<td>FFP</td>
<td>Frequent Flyer Program</td>
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<td>FOR</td>
<td>Farmer-Owned-Reserve</td>
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<td>GCA</td>
<td>Grains Council of Australia</td>
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<td>GAO</td>
<td>General Accounting Office</td>
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<td>GATT</td>
<td>General Agreement on Tariffs and Trade</td>
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<td>GNS</td>
<td>Group Negotiating Services</td>
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<tr>
<td>HFCS</td>
<td>High Fructose Corn Syrup</td>
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<td>ICAP</td>
<td>International Civil Aviation Policy</td>
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<td>IAC</td>
<td>Industries Assistance Commission</td>
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<td>IASC</td>
<td>International Air Services Commission</td>
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<td>IC</td>
<td>Industry Commission</td>
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<td>ITA</td>
<td>International Trade Agency</td>
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<td>ITC</td>
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<td>Acronym</td>
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<tr>
<td>MIL</td>
<td>Meat Import Law</td>
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<td>MOU</td>
<td>Memorandum of Understanding</td>
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<td>MSP</td>
<td>Market Stabilization Price</td>
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<td>NAWG</td>
<td>National Association of Wheat Growers</td>
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<td>NCA</td>
<td>National Cattlemen’s Association</td>
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<td>NFF</td>
<td>National Farmers Federation</td>
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<td>OMB</td>
<td>Office of Management and Budget</td>
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<td>PAC</td>
<td>Political Action Committee</td>
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<td>PIK</td>
<td>Payment-in-Kind</td>
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<tr>
<td>QCGC</td>
<td>Queensland Cane Growers’ Council</td>
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<tr>
<td>SIA</td>
<td>Steel Industry Authority</td>
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<tr>
<td>SIAC</td>
<td>Steel Industry Advisory Committee</td>
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<td>SIP</td>
<td>Steel Industry Plan</td>
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<tr>
<td>TIFA</td>
<td>Trade and Investment Framework Agreement</td>
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<tr>
<td>TNG</td>
<td>Trade Negotiating Group</td>
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<tr>
<td>TPM</td>
<td>Trigger Price Mechanism</td>
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<tr>
<td>TPRG</td>
<td>Trade Policy Review Group</td>
</tr>
<tr>
<td>TPSC</td>
<td>Trade Policy Staff Committee</td>
</tr>
<tr>
<td>USDA</td>
<td>United States Department of Agriculture</td>
</tr>
<tr>
<td>USTR</td>
<td>United States Trade Representative</td>
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<tr>
<td>VRA</td>
<td>Voluntary Restraint Agreement</td>
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A THEORETICAL FRAMEWORK

Introduction

The 1980s was a period of change and stress for the global trading system. Relatively weak players such as Australia were especially prone to the vicissitudes of this system. Faced with the challenge of change, Australian policy-makers have found their old trade strategies wanting and, either with or without domestic industry support, have sought to adapt the approach taken to both the global trading system and their major trading partners.

Trade relations with the United States constitute Australia’s second most important trading relationship after Japan. The U.S. purchases about 10 percent of Australia’s merchandise exports and supplies almost one quarter of the imports, making it the largest source of imports and the second largest destination, after Japan, for Australian exports. Despite the growing importance of the East Asian region to Australia and developments in the Western Hemisphere (most notably the North American Free Trade Agreement), this relationship will remain of great importance to Australia in the coming years.

While this study of Australia’s trade relations with the United States over the period of the 1980s will not make detailed reference to other economic aspects of their bilateral relations (such as investment), trade must, of course, be seen as part of the much broader dimension of their economic relations. Apart from studies which referred to earlier trade difficulties and opportunities with the U.S., [see Esthus, 1965; and R. Bell, 1977] analyses of the economic aspect of their bilateral relations are only now beginning to appear after a long period of neglect.[see for example, Higgott 1989b]

The end of the Cold War and the lack of any immediate threat to Australia can be expected, as J.L.Richardson has noted, to place economic concerns higher up on Australia’s external agenda.[Richardson, 1991, 290] The Australian government’s recent prioritisation has placed trade and economic objectives second in importance to geopolitical and strategic concerns.[Department of Foreign Affairs and Trade, 1993a;
Evans and Grant, 1992; Evans, 1989b] However, this has had less to do with the diminution of the military threat to Australia's security than with the fact that the relatively peaceful global and regional environment has encouraged the release of hitherto contained tensions between the major economic powers. These tensions have been largely caused by an increase in protectionism by each of these major powers which has itself produced harmful results for Australia. However, while this shift in official focus has encouraged scholarly attention, Australia's trading concerns have, as J.D.B. Miller has correctly pointed out, always been a major, if not the only continuing, element in its external dealings.[Miller, 1992, 115]

Trade policy-making, like general economic policy-making, is a political process. Governments may well be the principal players in this process, but resultant policies can often be expected to reveal the involvement of societal actors. In focusing upon Australia's trading relationship with the United States, one of the purposes of this study is to expose the highly political nature of the Australian trade policy-making process.

While acknowledging the interconnectedness of economic matters in any relationship, this study of Australia's trade relations with the U.S. will confine itself to five trading sectors covering both goods or services which Australia either exports into the United States or where the two countries compete on the world market. The sectors covered in this study include some of Australia's most important exports. Each of the sectoral studies will seek to reveal the opportunities and constraints faced by Australia in pursuing improved trade outcomes in its relations with the US. The focus will be upon how Australia makes its trade policy with respect to the US: what policy choices and political strategies have been adopted by policymakers in an attempt to better manage the relationship, if not directly improve sectoral outcomes.

This is a study of a bilateral relationship which examines the relations between a smaller and much larger player in the international trading system. As the sectors illustrate, this relationship cannot be explained by reference simply to any particular bilateral or multilateral agreements but must consider the interaction of a vast array of institutional, ideological and human factors, situated as they are at either the domestic or international
level. Consideration of these factors will provide a breadth of coverage necessary for a proper understanding of this relationship.

Five industry sectors, ranging from agricultural commodities, to manufacturing to aviation services, are considered so as to provide sufficient breadth of coverage as to make their conclusions about Australia's trade outcomes meaningful in terms of the whole bilateral trading relationship. The three agricultural commodities to be studied, wheat, sugar and beef, illustrate similar problems for Australia in seeking to have the United States change its protectionist programs, be they domestic support structures, export subsidies or quantitative restrictions upon imports. Analysis of these three sectors reveals how the Australian policy-makers deal with the nature of the U.S. agricultural policy-making system with its obstacles and opportunities for influence from both within and outside the U.S. national decision-making process. Each sector highlights certain aspects of the domestic process within each country as well as the influences of the international trading system. Policymaking in all three sectors will be considered simultaneously so as to draw out both similarities and differences in the way in which the sectors are dealt with.

Steel is a sector where Australia's access to the U.S. market has been affected by quantitative restrictions. This is the only manufacturing sector considered in the study and while the making of Australian steel policy reveals some similarities with agricultural policy-making, there are differences which relate to both the nature of the product and the forces at play in the domestic policy process. The inclusion of this sector will assist in ascertaining whether Australia approaches its trade relations with the U.S. differently in a manufacturing sector than in one of its traditional export commodity sectors.

The final sector examined is a service sector, international air passenger transport (commonly referred to in this study as "international aviation"). This aspect of aviation services has the potential to be a major export earner. This sector, along with that of steel, adds to the comprehensiveness of the study. In the aviation sector, there are differences to be found in terms of the nature of the societal actors and their interaction with government, both in Australia and the U.S. In this sector, the bilateral bargaining
process in revealing the relative bargaining strength of the two countries would also seem to perform an important, if not decisive, role in explaining sectoral outcomes.

The Argument in Brief

Australia’s trade policy-making towards the United States, as well as more generally, can be best understood by reference to an interactive process between state actors and important societal actors. Australia’s state actors, acting within state structures, direct or guide trade policy-making but do not alone decide policy outcomes. With sectoral variations, important societal actors, such as representative organizations, will be accommodated by state actors in return for their market intelligence and possible electoral support, considered necessary for effective policy-making.

The relationship between state and societal actors is principally responsible for explaining domestic policy outcomes with societal demands being capable of producing adjustments to policy outcomes. This capacity depends, however, upon the nature of the relationship these actors enjoy with the state actors within each sector and at a particular point in time. Resultant policy may also be affected by international influences upon either or both state and societal actors. State actors will, for instance, be influenced by the opportunities and constraints which confront the Australian economy as it engages with the global economy, while societal actors are affected by international influences as they trade in the global marketplace.

In directing the policy-making process, state actors (the central decision-makers, including the bureaucracy) act through state institutions. These state structures, while the creation of past state/societal actor interaction, have a conditioning effect upon both state actors and societal actors as they seek the satisfaction of their demands within the domestic political process.

In terms of their respective power-capabilities, Australia and the U.S. stand in quite different positions within the structure of the global political economy. This asymmetry has helped to shape the trading outcomes between the two states but should not be considered as determining sectoral outcomes. As important as both the international and
domestic influences are in having an effect upon sectoral outcomes in Australia's trade with the U.S., an intervening bargaining process holds the key to understanding how and what determines trading outcomes in each sector.

Each sectoral Australia-U.S. bargaining process presents both opportunities and problems for Australia as it seeks to improve its trade outcomes. Taking account of both international and domestic influences upon Australian policy-making, these opportunities and constraints are determined within each sector by reference to the nature of the U.S. trade policy and process; the nature of the domestic bargaining process between Australian state and societal actors; and, less directly, by prevailing ideas and the perceptions of the negotiators for each state.

Australia has sought to improve its outcomes within each trading sector by means of either a bilateral and/or a multilateral approach to the U.S. More importantly, within each approach, Australia has developed and applied certain strategies designed to capitalise on the opportunities available and minimise the problems in its trading relations with the U.S. It is to these strategies that one must look in search of an explanation of Australia's trade policy-making towards the U.S. over the past decade.

The Level of Analysis Problem

The nature of the problem for study relates to the search for an explanation of the policy choices made in an area of policy-making at the point of interconnection between the international and the domestic arenas. This means that in seeking causation for policy behaviour, one is immediately confronted with the problem of arriving at an appropriate level of analysis. Each level may have something to offer theoretical explanation but, as David Singer has pointed out, prior translation from one level to the other must occur before they could be integrated.[Singer 1961: 91] However, they can be integrated so long as the relationship of one level to the other is made explicit in terms of the research study.

This study focuses more upon the domestic level than the international but seeks to take account of the influence of international factors upon the choices made and strategies
adopted by domestically-based actors. While there will be shown to be problems with a purely deductive analysis from the international system to explain the why and how of trade policy-making, neither is a domestically-oriented inductive approach capable of providing, on its own, a suitable framework for analysing the problem at hand. A more useful analytic framework would be one which considers political processes in such a way that the boundaries between the national and the international and the political and economic have been removed. [Almond, 1989, 257]

In order to explain Australian trade policy-making towards the United States, three important approaches are considered. Each approach places varying emphasis on international, state or societal factors in seeking to provide an explanation.

**International System Approach**

In considering an international system approach to understanding Australia’s trade policy, attention will be given to the neorealist perspective. As a contemporary offshoot of political realism, neorealism offers a simple and parsimonious theory which lays emphasis upon the structural characteristics of the international system. Kenneth Waltz, a prominent member of this school, has argued that states are the most important units in the international system and it is their interactions which form the structure of that system. In Waltz’s view, states can only be differentiated by reference to their capabilities and their other attributes have no place in defining the structure of the international system. [Waltz, 1979, 93-97]

While the states, the basic units of analysis, are ascribed a good deal of control over their own behaviour, they are seen as needing to conform (at least to some extent) to the logic of the international system. Patterns of behaviour of states are derived from structural constraints of the system. [Waltz, 1979, 92] The structure of the international system defines the arrangement and ordering of the system and any change in the distribution of capabilities across states must be considered to be a change of the system. In other words, the behaviour of one government towards another will be strongly influenced by how their relationship is organised within the international system.
A key assumption of these neorealist writers is that states behave rationally. This assumption is, however, not without its problems. One such problem is that the assumption of rationality ignores the importance of ideology as a rationale. The pursuit of ideology may serve the interests of the power elite but may, at the same time, lead to the adoption of nonrational policies. The powerful act in terms of what they think is their best interests. [Domhoff, 1990, 113] Another problem is that the assumption, itself, assumes perfect information for the actors. Linked to the rationality assumption is another which postulates that states, the principal actors in the international system, seek power as a means to an end or as an end in itself.[Keohane, 1986, 194] Non-power considerations, be they influenced by belief systems of central decision-makers, perceptions or prevailing ideas are not considered relevant in seeking to understand state behaviour.

An important aspect of the international system approach is its emphasis upon the systemically-determined power inequalities between the states. Waltz refers to differentiating between states by reference to their capabilities [Waltz, 1979, 96]; David Lake categorizes states by reference to their relative size and relative labour productivity [Lake, 1988, 30]; and Robert Gilpin has argued that the distribution of power among states is the principal form of control in the international system [Gilpin, 1981, 29].

In referring to the obvious difference in power capabilities between Australia and the U.S., this study will use the terms 'weak' and 'strong' as they are more susceptible to calculation than the terms 'small' and 'large'. It is, however, not so much the power capabilities themselves which need to be considered but the position of each state relative to the other within the global economy by virtue of its possession of those capabilities. A state’s relative position will also have an effect upon its behaviour towards other states given the differential opportunities and constraints found within the international system.

The issue of size and economic inequality is a useful one to test the salience of the international system approach. If it can be shown that Australia’s trade outcomes with respect to the U.S. are proportional to its relative economic capability vis-a-vis the much larger power, then it follows that relative size within the international system is a
plausible explanation. In other words, should these outcomes be determined more by Australia’s position within the global political economy than by its own actions or strategies, then the international system approach would be validated.

An important contribution of the neorealists is that in emphasising the explanatory value of the international system, they assist in addressing the issue of context for states’ actions. As Robert Keohane has argued, this structural approach sees the international system as providing the context for the action of states which would make it easier to understand states’ actions.[Keohane, 1986, 193] In other words, all states’ action occurs within the international system and the nature of that system will affect the behaviour of states.4 Together with Robert Axelrod, Keohane has elaborated on this by arguing that unless an issue is either isolated or all-consuming, the context will have a decisive impact on the politics and outcome of this issue.[Axelrod and Keohane, 1986, 227]

The international system is, in the view of the neorealists, an anarchical, self-help one. [Oye, 1986, 1] Thus the context for action provided by the international system is one where in the absence of a common government, cooperation may be sought but is not guaranteed.5 This environment would seem particularly unhelpful for a small international player such as Australia whose position is further weakened by the volatility of the world markets for those commodities upon which it relies for the great bulk of its export income.

While it is beyond the scope of this study to discuss what has become known as hegemonic stability theory and the issue of whether the United States is a declining hegemonic power, the U.S. does undoubtedly remain a major economic power. This is of significance when comparing the systemic opportunities and constraints it faces with those experienced by Australia.

The international economic order is a hierarchical one and more powerful states such as the U.S. are in a stronger position to structure their relationships with smaller actors on particular issues, if not generally.[Axelrod and Keohane, 1986, 249] Susan Strange has argued that in the global political economy there are four interacting structures (security, production, finance and knowledge) through which power is exercised in
particular relationships. [Strange, 1988] Structural power (being the power to shape or determine the structures of the global political economy) in Strange’s view, is more important than relational (or relative) power (the power of one party to determine the surrounding structure of the relationship) and lies with those in a position to exercise control over any of the four structures. [Strange, 1988, 26]

The U.S., as a major economic force within the global economy, retains structural power within the international economic system. Regardless of the relative power which the U.S. may have over Australia (or, in fact, which Australia may have in a particular bilateral relationship with the U.S.) the U.S.’s structural power places it in such a position as to be able to define the structure within which their bilateral relationships (as conducted within particular issue areas) take place. For example, Australia’s steel exports to the U.S. have been constrained by the application of a restrictive voluntary restraint agreement and then unfair trade suits. In each case, Australia has considered it prudent to meet U.S. demands so as to maintain access to the U.S. market.

A powerful state may exercise power directly over a weaker state through their bargaining relationships or indirectly, possibly through the establishment of an international regime which will proscribe certain behaviour. The extent to which the U.S. is able to influence Australia’s trade policy behaviour and affect its trade outcomes may well point to a systemic explanation derived from their relative capabilities. However, even if Australia finds itself achieving suboptimal trade outcomes in its relations with the U.S., causation may yet be found in the interplay of a number of intervening variables, not all of which will be found at the international level. There is, for instance, little evidence to suggest that international regimes in the area of trade, (and the General Agreement on Tariffs and Trade (GATT) is the most prominent), act solely in response to the demands of the major trading states, much less at the behest of any one of these states. In fact, a regime may act to constrain the self-seeking behaviour of a major state and operate as a mechanism for structuring states’ preferences. [Goldstein and Lenway, 1989, 308]

The international system explanation has merit in drawing attention to the importance of the state as actor and the fact that the system, while anarchical, is an organized or
structured one which must affect the behaviour of states in their dealings with others. In providing contextual factors, the value of this approach may well be in how such factors interact with domestic political actors in the making of national policy.

The problem with the international system explanation is that if it is to explain Australia's trade policy behaviour then it would have to show policy choices in this area being completely constrained by international structures or forces. This approach has the advantage of parsimony but lacks comprehensiveness. A systemic approach could be tested by considering the policy outcomes of a particular state and then examining whether a direct causal relation can be drawn back to that state's relative position in the international system and the opportunities and constraints it faces resulting from that position. Should that state's policy outcomes not reflect its position within the international system, then an examination of other explanations, focusing on the state and its domestic society, would be necessary. If policy outcomes were found to vary across issue areas/sectors, then this would constitute another occasion where a systemic explanation would be judged inadequate.

**Complex Interdependence and Issue Linkage**

Complex interdependence, a development of transnational and economic interdependence analysis, is a system-oriented explanation that requires separate treatment in this analysis. This approach refers to a multitude of transnational interactions, properly understood as systemic processes and seeks to show how the experience of an interactive relationship between states will affect outcomes.

Robert Keohane's "multiple channels of contact" helps to explain how this approach differs from the neorealist approach. [Keohane, 1986, 197] The amalgam of the multiplicity of avenues of contact between societies (accepting that states are not unitary actors and do not monopolize the contacts) is termed complex interdependence, meaning a situation among a number of countries in which multiple channels of contact connect societies; where there is no hierarchy of issues; and where military force is not used by governments towards one another. [Keohane and Nye, 1977, 24-25] Complex interdependence is a condition of the relations between states rather than an actual policy
of one or more states. Advocates of this approach argue that the development of this condition helps to explain policy outcomes of the affected states. [see for example, Keohane and Nye, 1977] Taking account of the many different arenas or issues in which the states have contact, it is argued that the relative power capabilities of the states as a determinant of outcomes will be affected by the experience of interaction between the states in a condition of interdependence.

To consider whether Australia's trade relations with the U.S. are conditioned by the complex interdependence of their political and economic relations, the definitions and classifications of Robert Keohane and Joseph Nye provide useful starting points. *Dependence* is defined by them to mean a state of being determined or significantly affected by external forces. For them *interdependence* means mutual dependence. However, this does not mean that each will gain equally from the relationship and, as Keohane and Nye have argued, it is asymmetries in interdependence that provide sources of influence for actors (states) in their dealings with one another.[Keohane and Nye, 1977, 10-11]

Relations between two states may be characterised by neither pure symmetry nor pure dependence of one on the other. Taking this into account, two further distinctions are useful for this study. They are *vulnerability* and *sensitivity.* Sensitivity involves degrees of responsiveness within a certain policy framework while vulnerability refers to the relative availability and costliness of the alternatives that each actor faces. [Keohane and Nye, 1977, 12-13]

A distinction between these two levels or degrees of dependence would seem to be best understood by referring to vulnerability as the capacity of the state affected to be able to change its situation to avoid externally-imposed costs. Sensitivity as a lesser degree of dependence would mean a state may still have the capacity to improve its situation and avoid being liable to these costs. A state's sensitivity may well mean nothing more than that it simply needs to be aware of the position of the other state on a particular issue. In Australia's trade relations with the U.S., Australia's vulnerability can be understood by reference to U.S. structural power in each trading sector; the fact that Australia needs its share of the U.S. import market more than the U.S. needs Australian
exports and; and Australia’s weaker position in those global export markets where it competes with the U.S. The particular problems faced by Australia in maintaining levels of access in each of the beef, sugar and steel sectors and in seeking alternative markets to the U.S. reveals a level of vulnerability to the impact of U.S. trade policies.

The disproportionate power capabilities of Australia and the U.S. lead, at first sight, to the conclusion that a condition of asymmetrical interdependence correctly describes their relations. Asymmetrical interdependence is a source of power in bilateral relations and establishes the power balance from which the two states (with their differential power capable resources) would begin to bargain. However, these statements only state the obvious: that the U.S. is a much stronger power than Australia and is the less dependent state in the relationship.

Asymmetrical interdependence will assist in explaining outcomes from Australia’s trade relations with the U.S., (presumably through the U.S. using its market strength to gain political concessions) if it can be shown that trading outcomes will tend to favour the U.S.

However, what needs to be considered is not so much power as control over resources (which, as noted by Keohane and Nye, is the power the stronger state derives from asymmetrical interdependence), but rather whether this can be translated into control over outcomes. As Keohane and Nye argue in their study, there is no guarantee the advantage enjoyed by the stronger state will be translated into similar patterns of control over outcomes. [Keohane & Nye, 1977, 11]

How well a more powerful state is able to translate its superior capabilities into more favourable outcomes may vary from issue to issue. This will largely depend upon how it and a weaker state are able to apply their resources in their particular bargaining relationships. Bargaining will take place when a stalemate occurs (or when a decision is impossible by other means) and constitutes a joint decision-making process in which both parties are necessary to the decision or in which each party has veto power. [Zartman, 1978, 71] While there remains a general appreciation of the relative power
capable resources of the two states, the negotiation process may act to reduce the importance of the asymmetry of their interdependent relationship.

The bargaining process, itself, while influenced by both contextual (or systemic factors) and issue specific capabilities (as determined within the domestic political process of each state), has the potential not only to transmit but also translate power-capable resources towards certain specific outcomes. Each state brings issue or sectorally-specific resources to the negotiations and through the negotiation process seeks to apply these to improve its outcomes. William Habeeb has argued that in the course of bargaining, a weaker state may be able to gain as against a stronger state through the application of these issue-specific resources. [Habeeb, 1988, 130-131] These issue-specific resources are derived from domestically-based factors in each of the states. In this sense, the bargaining process facilitates examination of the impact of domestically-based factors upon the relationship between the states within particular issue areas and in so doing, influences sectoral outcomes.

In the area of trade, one state’s greater market power does not translate across into political influence over the weaker, more dependent, state unless there are what Harrison Wagner refers to as unexploited opportunities to exchange economic resources for political concessions. [Wagner, 1988, 474] In other words, the condition of asymmetrical economic interdependence between two states (with one state using its greater market power as unexploited bargaining power) means that the less dependent state will not be able to exercise political influence unless both parties can gain from the exchange of economic benefits for political concessions. [Wagner, 1988, 481] This means that the political benefits to the less dependent party from the exchange will only be acquired if the more dependent party is able to gain benefits, political or economic, from the bargain. In so using its market power to gain political concessions from the weaker power, the stronger power would effectively have to surrender some of its relative market power.

A weaker, more dependent, state may not be prepared to allow the stronger, less dependent, state to exchange economic resources for political concessions. For example, on a particular issue, the weaker state with a high level of commitment (or intense
preferences) may be prepared to make great concessions on other issues to attain its objectives or; in another scenario, may refuse to comply with the demands because of the greater cost involved as compared to the alternative.[Keohane and Nye, 1987, 734; Wagner, 1988, 476-7]

The negotiation process can also provide other opportunities for weaker states in their bargaining with stronger ones. For example, weaker states may have what has been described as procedural power in the negotiation process. [Zartman, 1971, 227] In particular, weaker states can provoke an encounter with a stronger state, thereby choosing the terrain of the negotiations, influence the agendas of negotiations (especially in multilateral fora and organizations), put forward their needs and use this as a moral challenge to the stronger power/s. An example in this study was Australia's 1987 termination of its Air Service Agreement with the U.S. and its determination to have a capacity clause in the new Agreement. Importantly, weaker powers also have the power to agree which gives them a powerful role in satisfying the stronger power/s and in bringing about a resolution of a dispute. [Zartman, 1971, 227-8]

The role performed by negotiations in directing the states' attention to specific issue areas and in mobilizing their sectorally-specific resources, is explained by reference to the fact that these international negotiations involve, simultaneously, a domestic bargaining process within each state. With the state at the intersection of the international and domestic policy domains, the central decision-makers find themselves, to use Robert Putnam's conceptual description, involved in a two-level game. In his view, central decision-makers must bargain at both the international and domestic levels as they seek to reconcile international and domestic imperatives simultaneously.[Putnam, 1988, 460]

At the domestic level, central decision-makers need to take account of state and societal demands. These decision-makers must both "mobilize societal groups with complementary interests into the policy-making process" as well as "redefine issues and bind the government through international agreements".12[Lake, 1988, 221] Policy outcomes from this domestic bargaining process may act to either enhance or diminish the effectiveness of the negotiators as they conduct the international negotiations.14
should be noted that the domestic bargaining process in an adversary state may also serve to enhance the position of the weaker state’s negotiators by providing opportunities for them to affect bilateral outcomes. For example, the presence of powerful U.S. state and societal actors opposed to the U.S. steel VRA program was instrumental in having it removed, something for which Australia had lobbied.

The bargaining process between Australia and the U.S. will be shown to have explanatory value if, in showing how a relationship of asymmetrical interdependence can be modified within specific issue areas, it acts as an intervening variable to vary Australia’s trade policy outcomes from what would be expected from the application of its relative power capabilities.

Asymmetrical interdependence will only have explanatory value across issue areas if we look beyond issue-specific outcomes and reference across a range of issue-areas to explain the nature of a bilateral relationship. This can only be achieved if linkage across the issue areas can be proved and this will only occur if a state has power resources, unused in one issue area, which can be applied in another issue area.

Questions of linkage must be addressed in assessing whether the stronger state can exercise influence over the weaker state in one issue area without making concessions in another. To do so, the strong state must have unexploited bargaining power in that issue area. [Keohane and Nye, 1987, 735] The pursuit of linkage across issue areas may present more problems than opportunities. Such linkage may, for instance, expose a lack of alternatives by the party seeking to link issues and the costs of such exposure may indeed be greater for the weaker state.15 [Axelrod and Keohane, 1986, 240] Australia, as the weaker state, must be careful in seeking to use a linkage strategy for the U.S. as the stronger state may have greater power-capable resources which it can translate across into other issue areas. An awareness of this problem may well have been part of the reason for its reluctance to make linkage between Australian agricultural trade problems with the U.S. and the defence relationship.

The extent of issue linkage in the relations between Australia and the U.S. and its capacity to assist in explaining the nature of their relations may also be dependent upon

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non-power factors such as the perceptions of the actors. How each state looks upon these relations and its preparedness to make linkages may be more important than the power-capable resources it believes it can apply from one issue area to the other. For the purposes of this study, a mere awareness that situations may arise where one or both states believe that outcomes can be improved through issue-linkage would seem to be sufficient for such linkage to be considered a possible means by which an asymmetrical relationship may be either endorsed or undermined.

A related problem is the assumption of power fungibility across issue areas. For two states in a supposed relationship of asymmetrical interdependence, the ability of the strong to influence the behaviour of the weak and thus affect outcomes is predicated on the stronger state being able to apply its greater capabilities across a number of issue areas. The application of a superior power capability may not be as simple a matter as would appear at first sight. The disaggregation of the stronger state may reveal domestic constraints upon the stronger state’s foreign policy executive’s ability to execute its desired policy. As John Zysman has argued, to speak of the general capabilities of states, does not address the matter of the specific abilities that are required by the state to carry out the particular policy tasks in each sector. [Zysman, 1983, 297] For any state, it is likely to be easier to apply power-capable resources in some sectors than others.

Issue linkage and power fungibility both present problems and are of only limited use in altering an outcome that would be expected in an asymmetrical relationship. There is evidence to suggest that Australian attempts to link trade and defence issues have been effectively undermined by the U.S. As to the question of power fungibility, the U.S. finds it more difficult to exercise the same relative power in, for example, air negotiations than in negotiations over Australia’s share of U.S. steel imports.

The temptation to move from an analysis of the problems of issue linkage and power fungibility to argue that an issue area approach would be a useful explanatory framework, needs to be addressed. This approach asserts that the nature of the issue or policy area is important in determining how politics is organized and the nature of the interaction between state institutions and societal actors. While there may be particular issue area characteristics which can help determine the relative influence of state and
societal factors in explaining outcomes, this does not mean that issue area analysis provides the organizing framework to understand policy-making. John Ikenberry has argued that while the nature of a policy area may affect the policy process in a number of ways,\textsuperscript{16} it is important to note that the way that policy is defined may vary widely.\textsuperscript{[Ikenberry, 1988, 238]} In other words, how a policy is represented and described can have implications for the relationships within and between state and societal actors. The recognition of an issue area by state actors can, itself, be a matter of contention and may result from the exercise of a broad discretion. As Keohane and Nye have pointed out, "issues are problems about which policymakers are concerned and which they believe are relevant to public policy".\textsuperscript{[Keohane and Nye, 1977, 64-65]} How an issue area is defined is important and may be helpful in ascertaining whether this analytical device has value in explaining outcomes.

A condition of asymmetrical interdependence does arguably exist between Australia and the U.S. While it provides a prima facie description of the power balance between the two states, there are difficulties in using asymmetrical interdependence to predict sectoral outcomes from that relationship. Asymmetrical interdependence is modified by the individual bargaining relationships of Australia and the U.S. found within specific sectors. It is within each of these sectors that one should look to discover the capacities of the states to mobilize and apply power-capable and other resources to secure favourable outcomes.

**State-Centred Explanations**

State-centred approaches have argued that the state does not simply respond to societal demands and should not be considered merely an arena for the political struggles of societal actors. The capacity of the state to act autonomously and produce policies different from those demanded by societal actors must be seen as varying from sector to sector and over time. Attributing a degree of autonomy does not mean, however, that such state action will be disinterested in the sense of not favouring certain societal actors and disadvantaging others.\textsuperscript{17} The recent attention to inbound tourism interests by the Australian government in the making of international aviation policy is an important example of such state action within this study. More importantly, as advocates of this
approach have argued, state actions can be expected to act to reinforce the authority, capacity and position of control of state actors. [see for example, Skocpol, 1985, 15]

Non-state actors must be understood as acting within the context of a broader structure that ultimately rests upon the power and interests of states affected as they may be by the societal consequences of their own past decisions. [Krasner, 1976, 343] These past decisions will have determined, for example, the degree of centralisation and concentration of authority or the characteristics of its bureaucracy which will in turn influence the state’s policy outcomes.

A state-centred explanation would be of value in understanding Australia’s trade policy outcomes if it can be shown that Australian state actors acting through state institutions perform a significant role in determining Australia’s trade strategies. This will depend upon whether and to what extent these state actors, acting through national institutions, are able to both fashion the demands that societal actors make upon the state (if not to actually structure societal-actor preferences) as well as acting to check international influences upon state policy-making.

The institutional argument is another state-centred approach and provides further insights into the respective roles of state and societal actors (the state/society debate) in the determination of domestic policy outcomes. This argument ascribes importance to how institutions structure the way individuals interact within a state and thus affects how much power any one set of actors has over policy outcomes. [Hall, 1986, 19]

Institutions are seen as being capable of taking on a character of their own independent of the powerful interests which created them and thereby producing something of a time lag between the demands of societal actors and the making of responsive policy. [Goldstein, 1986, 164]

Advocates of this approach see the nature of these institutions being able to determine whether a policy outcome will favour certain interests to the exclusion of other competing interests and this can vary both within and across particular issue areas. [Goldstein, 1986, 164]

For example, the Australian Steel Industry Authority (SIA), established in 1983 to
oversee the implementation of the Steel Plan, included representatives of the steel industry, the steel unions and the Australian government. However, the SIA did not include representatives of the steel-using industries. The role of the Industry Commission in arguing against what was considered a protected position for Qantas Airways undoubtedly had an effect upon the Australian government in encouraging it to take other economic interests into account in formulating international aviation policy.

The effectiveness of domestic political institutions will depend upon how well they condition the behaviour of both state and societal actors as these actors seek to influence the policy-making process. As an important component in determining state structure, domestic political institutions can be influential in allocating both authority to certain elements of the state and legitimacy to certain societal actors in the making of policy on any particular issue. [Lake, 1988b, 38] In Australian agricultural trade policy-making, for example, producer groups are given preferential access to the policy-making process through their membership of a number of agricultural policy advisory bodies, the most important of which is the Rural and Allied Industries Council, a body chaired by the relevant Minister.

The consultative arrangements which have developed between government (principally the bureaucracy) and certain important societal actors (usually industry groups) have institutionally provided these groups with a level of access to policymakers not enjoyed by other societal actors interested or involved in trade policy matters. The domination of the legislature by the executive and the latter’s control over the bureaucracy enhances the importance of these arrangements.

As Theda Skocpol has noted, the structure and activities of the state may unintentionally influence the formation of groups and the political capacities, ideas and demands of various sectors within the society.[Skocpol, 1985, 21] Institutions and institutional arrangements (the structures, norms, and rules which characterize the relationship between institutions) may, themselves, be important in influencing the extent to which certain ideas and interests will contribute to the determination of policy. The 1930s change in the United States’ tariff-setting institutions, for example, has been argued as
being significant for the subsequent development of a U.S. postwar liberalizing policy towards trade. [Goldstein and Lenway, 1989, 325; Destler, 1992]

Institutions within the state policy-making process are also seen as being able to act in more than an intermediary role between both competing interests and competing ideas. In so doing these institutions are capable of producing outcomes quite at variance from anything demanded from prevailing ideas or interest groups. [Gowa, 1988, 28] In other words, the state does not simply respond to external stimuli (such as societal-actor demands or ideas) but possesses interests of its own and makes choices.

The structure of the state has a conditioning effect upon the policy-making process and can thereby affect the extent to which societal actors will find the state responsive to their demands. [see for example, Lake, 1988, 225] State institutions are also capable of influencing the self-selection process undertaken by societal actors in deciding whether to seek assistance from these state institutions. [Hansen, 1990, 38-39] The Hawke Government’s policy of lowering levels of protection for industry over the 1980s would have affected industry’s attitude as to whether to seek government assistance. In a direct way, the giving of references to the Industry Commission (IC) (previously the Industries Assistance Commission) by the government and the government’s receptivity to that body’s recommendations were, and remain, good indicators of whether state assistance to industry was likely to be forthcoming.

The state is at the intersection of the domestic and international political economies and linked into what Skocpol has identified as transnational structures and international flows of communication. This positioning has encouraged state actors to pursue what are referred to as ‘transformative strategies’, even if faced with societal-actor indifference or resistance. [Skocpol, 1985, 9] Facing distortions in the trade practices of major states and the continuing threat of further marginalisation in the global economy, the Australian state has responded positively to the ideas of economic rationalism and sought to adopt the kind of strategies to which Skocpol has referred. The state in Australia, as elsewhere, is uniquely positioned for its actors and institutions to perform a vital role in the formulation of strategies to cope with problems of adjustment. [23] This
role of state and institutions may be directed either outwardly at international regimes and/or other states or inwardly at transforming domestic structures.24

In addressing both the external trading problems as well as the need to adjust the domestic economy to make it compatible with the global economy, the Australian state has taken the lead and, as advocates of state-centred approaches would argue, strengthened the role of state actors and institutions vis-a-vis non-state actors. The action of the Australian state in pursuing market reforms, in many instances the result of Industry Commission recommendations, has often been decisive. Conversely, state institutions may provide structural constraints upon state action and thus may present "road blocks" to successful adjustment by certain states. For example, the Australian government departments of Industry, Technology and Commerce and of Primary Industries and Energy have, on occasion, been accused by industry and business leaders of "dragging the chain" on the reform of certain industries over which they have had policy responsibility. The establishment of the Steel Plan by the Hawke Government has been interpreted by many as an example of political resistance to industry reform. As John Ikenberry has noted, such structural constraints, while revealing difficulties in implementing reform measures, may give little guide to a state as to what may be possible in terms of a successful adjustment strategy.[Ikenberry, 1988, 242]

A state-centred argument makes a valuable contribution to explaining trading outcomes through the attention it gives to the role of state actors and institutions in both the domestic policy process and in bargaining between states. However, the approach only provides a partial explanation in that it gives insufficient attention to how the state actors and institutions, in responding to international influences and the demands of domestic societal actors can, itself, be affected. One example can be seen in the need for the state to respond to changes in the international economic environment by making adjustments to its domestic economy. State institutions may also become aligned with certain important societal actors which can act to limit policy alternatives. In the 1980s, for example, the Hawke Labor Government sought to reform the steel industry without harming the interests of either the major producers or the major industry unions.
A state-centred approach could only claim to be comprehensive if state actors and institutions performed the same role across all sectors. However, as this study will show, there have been important differences in the role of these actors and institutions across the sectors. In the case of international aviation rights negotiations, for example, the state acted at ‘arm’s length’ from the national carrier, Qantas, and did not identify the government’s role as being to necessarily or exclusively promote the aviation industry’s interests. On the other hand, in the case of the agricultural commodities, the government had been more likely to see the trade interests of the producers as being identical with its own and to act accordingly.25

**Society-Centred Explanations**

Societal actors cannot be dismissed as sub-systemic factors of value in explaining policy outcomes. They are not, however, autonomous agents capable of exerting the kind of influence which alone can determine policy and important though societal actors may be within the policy process of particular sectors, they must be assessed within the structure of state policy-making.26

The general influence of societal actors in state policy-making has been considered by a number of writers. Robert Gilpin, while advocating a structural approach, has argued that the state should be viewed as a ‘coalition of coalitions’ which may have “interests (which) result from the powers and bargaining among several coalitions composing the larger society and political elite.”[Gilpin, 1981, 18-19] In a later work, Gilpin again disaggregated the state to refer to the political struggle among groups and nations as providing the context for the operation of economic forces in the international economy. [Gilpin, 1986, 310] The nature of the political interaction between groups (constituting important societal actors) and states is thus seen as being fundamental to understanding the operation of the international economy.

Peter Gourevitch has argued for an important determining role for societal actors in any explanation of policy choices.[Gourevitch, 1986] While arguing that the particular structure of a national economy in relation to the international economy explains policy
outcomes, for Gourevitch it is a matter of referring to how developments in the international economy affect individual sectors and groupings. These groupings form coalitions and interact with political parties and thereby influence the choices that are ultimately made by policy-makers.

Should important societal actors gain a dominant position as a result of a struggle with the state, then a change in the distribution of power would result in favour of those societal actors at the expense of state interests and/or other less successful societal actors. Over a long period of time, these successful societal actors may even be able to change the character of the state institutions with which they must deal. [Goldstein, 1988, 186]

This argument is extended by Gourevitch who refers to the need for the state to retain the support of important social groupings. In this argument, the state structure formed by the "institutions reward or punish specific groups, interests..." and its impact is found in how, at any particular time or period, it "helps one set of opinions prevail over another." [Gourevitch, 1978, 904] In referring to what he terms "coalitional analysis", Gourevitch has argued that the process (including gaining the support of important societal actors) which the state must undertake in order to get a policy adopted will affect the content of the policy. [Gourevitch, 1978, 905] This is not an argument to the effect that state policy is determined, albeit indirectly, by societal actors, but rather one which questions whether the state can operate separate and apart from the societal actors within its domain. As Gourevitch asserts, "for state autonomy to exist for specific purposes, the state must be able to obtain support, of differing kinds, from societal actors." [Gourevitch, 1986, 238]

John Gerard Ruggie has referred to processes (such as policy processes) as the patterned relations that go on between units within any system. [Ruggie, 1986, 134] Societal actors would constitute some of the units which interact within the state just as states do within the international system. At the domestic or state level, the structure of private property rights (which Ruggie refers to as being analogous to sovereignty at the international level) plays a role, along with the 'institutional framework of sovereignty', in conditioning social behaviour. [Ruggie, 1986, 147] This argument that the structure of
private property rights will determine when and how the state intervenes in domestic economic and social affairs assists in understanding the nature of state/society relations within a capitalist political economy. Thus, the nature of the structure of the economic interests of societal actors is capable of affecting national policy outcomes.28[Ruggie, 1983, 23; 1986, 147]

Katzenstein has argued that societal actors are more likely to influence policy-making when they join with other important societal actors to form what he refers to as ‘governing coalitions’. These coalitions then link up with relevant public actors and seek expression in policy making and implementation through ‘policy networks’. [Katzenstein, 1978, 19] This argument places these societal actors at the centre of policy-making (in both its formulation and implementation stages). These ‘policy networks’ of state and societal actors are, however, considered subject to the constraints of the state’s institutional structure. It should be noted that these combinations may constitute, to use Katzenstein’s term, ‘loose coalitions of convenience’ which are only temporary and relate to particular sectors where certain state and societal actors are seeking to have their policy preferences adopted. The 1983 Australian Steel Industry Authority which brought together the Australian Government, the Australian steel industry and the steel industry unions into one body to reform the Australian steel industry, constituted such a loose coalition.

Understanding the role of representative groups can also assist in explaining the role of societal actors in policy-making. Representative groups are important for what they tell us about the organization of societal actors within a political economy. Gourevitch has considered their role by referring to the characteristics of associational groups: for example their size, organizational features and relationships to political parties. These representative associations help to explain outcomes by virtue of their position mediating between societal actors and the state.[Gourevitch, 1986, 60-61] However, the utility of these representative associations in explaining the interaction between societal actors and the state is considered by Gourevitch to be marginal.29 While representative associations can perform an important role in mediating between state and societal actors in some sectors, such as the agricultural sectors of this study, this has not occurred in other sectors. More importantly, this mediation role has not provided the kind of linkage
function between state and societal actors across the sectors which would give these representative associations the capacity to explain state/society interaction in policy formation.

All societal actors (including transnational actors) have effective domicile within a particular nation-state. This fact of residence and the nature of the particular historically-shaped domestic structures [to use Katzenstein’s expression: 1985, 207] in which they must operate will inevitably have some effect upon how these societal actors behave in relation to their state, and indirectly, in relation to the global economy. In particular, the effectiveness of such actors in the policy-making process will depend upon how well they are able to articulate their demands within the political institutions of their own state structure.

Joanne Gowa argues that how effective groups (presumably all societal actors) are in having their demands met will depend upon the potential that each political ‘good’ (for example, trade policy) has for collective action. This potential is determined not only by the nature of the political ‘good’, but importantly, also by the state institutions in which the good is situated.[Gowa, 1988, 28] Even if societal-actor influence over policy-making can be shown, it is unlikely to be uniformly effective across sectors or issues within the domestic political economy. In the sectoral studies concerned with improving Australia’s share of the U.S. market, societal actors in the steel and sugar sectors (principally the producers) have been more effective in influencing Australian trade policy-making towards the U.S. than has been the case in the beef and aviation sectors.

Societal actors perform the important functions of articulating opinion and disseminating information within liberal democracies. Their role within policy-making can only be properly understood in terms of how both state actors and institutions and societal actors impact upon each other. Judith Goldstein, has recently argued that state institutions "establish, maintain, and monitor the rules under which social actors seek protection" and that along with the demands of societal actors, government preferences affect outcomes. [Goldstein, 1988, 186]
Societal actors must be cognizant of the nature of the state institutions (and the differential constraints they impose) and be able to develop strategies by which they can secure adoption of their preferences when state actors are making policy.\textsuperscript{32} The threat of potential electoral damage by the steel producers (principally Broken Hill Proprietary (BHP)) in 1983 and by the sugar producers in 1993 were both instrumental in adjusting the plans of Australian state actors for reform of these sectors. In the wheat and beef sectors, societal actors have been cognizant of state-actor preferences for a reduction in levels of industry protection. Having tailored their demands so as to be compatible with these state-actor preferences, societal actors have bargained such compatibility for increased attention by the state actors to, inter alia, the removal of U.S. barriers to the improvement of their sectoral outcomes.

Australian societal actors involved in trade sectors will be directly affected by developments in both the U.S. and global political economies. To ameliorate the effects of these developments upon their economic interests, Australian societal actors will be anxious to ensure that national trade policy strategies accord with their best interests. BHP has worked closely with Australian state actors in lobbying both for some preferential treatment in terms of the U.S. steel voluntary restraint agreement (VRA) program and then subsequently for the withdrawal of the unfair trade suits. Likewise, the Australian National Farmers Federation (NFF) has made determined efforts to ensure that the removal of the U.S.’s Export Enhancement Program (EEP), which harms Australia’s wheat exports, has a high priority in Australia’s trade policy approaches towards the U.S.

Given that Australian trade policy-making is a state-led activity, these societal actors will need to barter their resources (such as their influence over the rural or industry vote and the possession of or access to commercial intelligence) for influence with the state actors actually making trade policy. In this study, societal actors in each of the sectors have developed both formal and informal channels through which they have sought to influence Australian trade policy-making towards the U.S. Particular societal actors, be they private companies (such as BHP and CSR in the steel and sugar sectors) or statutory marketing authorities (such as the Australian Wheat Board (AWB) or the Australian Meat and Livestock Corporation (AML)) have been successful, with some
variation, in bargaining commercial information and advice for influence in the formation of bargaining strategies adopted by Australia towards the U.S.\textsuperscript{33}

If it can be shown that the mutual state/societal-actor interest in improved Australian trade policy outcomes will produce coalitions of state and societal actors for the execution and implementation of certain policies, then it could be argued that societal actors have an immediate and influential role to play in explaining Australian policy outcomes. How influential societal actors will be in determining policy outcomes depends on the nature of the policy sector as well as the extent to which state actors, acting within state institutions, need to accommodate the demands of these societal actors. Societal-actor explanations, while useful in revealing the extent to which Australian state actors are not autonomous in making trade policy and bargaining with the U.S., can themselves only serve as a contribution to a complete explanation of the approaches Australia has taken towards the U.S.

In testing for a role for societal actors in explaining outcomes, it is apparent that their influence is not uniformly effective across sectors. Some groups will undoubtedly be able to organize and articulate their interests much better than others within the policy-making process or be able to take advantage of favourable political or economic circumstances. Thus, the demands of some societal actors have resulted in more favourable results than has been the experience of other societal actors.

Societal actors in the sugar and steel sectors have, for example, been able to successfully influence state-actor decisions about domestic industry reform which has affected both Australia’s multilateral and bilateral approaches for the reform or removal of U.S. protectionist policies. In developing bargaining approaches to the U.S., Australian state-actors have been more responsive to the demands of societal actors in the wheat and steel sectors than to those in the other sectors of this study.

Societal actors have undoubtedly performed an influential role in the making of Australia’s trade policy towards the U.S. and in the development of bargaining strategies to seek an improvement in trading outcomes. The importance of this role has, however, varied across sectors and over time, thus precluding an argument that societal-actor
demands have had a determining role in those policy approaches and strategies adopted by Australia towards the U.S. As important as the contribution of societal actors may have been within the policy process of particular sectors, it must always be considered within the structure of state policy-making.

Cognitive (Non-Power) Factors

Cognitive factors constitute another dimension which needs to be considered in assessing various explanations for Australia’s trade policy-making towards the U.S. Attention to these factors, including ideas and the beliefs and perceptions of state and societal actors, within the analysis assists in understanding the role of the individual policy-maker.

Prevailing ideas as well as the perceptions of both central decision-makers and societal actors will affect the goals and objectives of these actors which in turn can influence bargaining outcomes. Adherents of state or society-oriented explanations are more likely to take this dimension into account while advocates of systemic approaches would be inclined to dismiss such factors as affecting unit-level processes which have no value in explaining outcomes.

Role of Ideas

In the postwar period, the U.S. and to a lesser extent Australia, have displayed a pro-trade bias and have favoured the expansion of the liberal trading system. Influenced by the Great Depression of the 1930s and the interwar experience of competitive and retaliatory tariff-making, the U.S. as the strongest postwar economy, was keen to promote liberalism as the dominant ideology in national trade policy-making. While drawing on the intellectual tradition of free trade, the US, in particular, established a liberal international trade regime.

This international regime can operate as a systemic influence to change the ideas and beliefs (and possibly even the perceptions) of policy-makers and domestic groups, either generally or with respect to certain issues. A regime, itself the product of the dominant beliefs and ideas of the policymakers of important states, either of the present
or the recent past, may continue to have some influence over policy-making long after
its ideas have ceased to be popularly held. However, the effect of any regime’s
principles or norms upon the policy choices of individual state policy-makers will
always be indirect, at best, and difficult to prove.

The regime of the General Agreement on Tariffs and Trade (GATT) has promoted the
liberalisation of trade over the postwar period. GATT’s ideas have often been
compromised in practice and, within individual states, they have had to coexist with
more mercantilist ideas. U.S. trade policy (and that of most other major states in the
global trading system) accepted liberalism on the understanding that there would be
safeguards which could be used to defuse particular industry demands for protection.36

Despite these policy departures, the regime has still served as a focal point for the
advancement of trade liberalisation and as an avenue through which states could seek
redress against blatant departures from implementation of the regime. While established
by the strong, such a regime will often serve to assist the weaker states, in both direct
and indirect ways. For example, as Conybeare notes, the generalized norms of equality
of the GATT and its promotion of ‘free trade’ may serve to ameliorate the size
asymmetry problem between states.[Conybeare, 1987, 279] The GATT’s processes may
also provide opportunities for weaker states to embarrass stronger states by exposing
departures from the dominant ideas of liberalisation.37 A satisfactory conclusion to the
GATT’s Uruguay Round would, for instance, benefit relatively small agricultural traders
such as Australia by a proportion far greater than would be expected from the exercise
of their power capable resources.

Ideas of liberalism, which formed the intellectual basis for the global trading system in
the immediate postwar period, despite dilution in both rhetoric and application,38 retain
some relevance for policy-makers in both Australia and the U.S. Ideas of “free trade”
rather than mercantilist reciprocity set the standard by which trade policy behaviour by
states over the past forty or so years was judged.

The dominance of the liberal idea in global trade, promoted by the GATT regime, has
been seen as serving Australia’s trade interests both in terms of its relations with the
U.S. and more generally. Australia may be able to take advantage of the U.S. administration’s adherence to this ideology and promote it to secure improved trade outcomes. This will depend, however, upon whether Australia’s informing strategy (informing the U.S. and its principal trading partners of the economic benefits of free trade)\textsuperscript{39} and concomitant high level of commitment to multilateral reform can be translated across into U.S. policy choices which will benefit Australia, either directly or indirectly. Some trading sectors were more susceptible to such translation than others with the U.S. administration being more inclined to promote reform in, for example, the sugar and steel sectors than in the wheat and beef sectors. This has been due largely to the relative power of the domestic constituencies within each sector as well as the nature of the U.S. sectoral programs.\textsuperscript{40}

The institutionalisation of the liberal idea in both national laws and bureaucracies over the postwar period\textsuperscript{41} helps to explain why certain statutes were enacted over this period.[Goldstein, 1988] However, there has been a revival of pre-liberal ideas, albeit in a neo-mercantilist form, and these ideas not only continue to hold some appeal within certain sectors of U.S. government and industry but are reflected in legislation (pre-dating the liberal era) that remains on the statute books. In other countries, including arguably Australia, there has been a revival of ideas whose genesis goes back to the laissez faire liberalism of the last century.

Apart from the institutionalisation in national laws and the bureaucracy, ideas can impact upon the policy-making through their adoption by those who administer the laws.[Goldstein, 1988, 183] Certain ideas may be important not only for the influence they have over state actors but also for that which they have over societal actors who are, in turn, able to influence the policy choices made by state actors. As Gourevitch has argued, ideas may assist in forming and integrating those social coalitions which can be influential in the policy-making process. [Gourevitch, 1986, 234]

Australian state actors have, over the period of the 1980s, increasingly accepted the need for the application of economic rationalist ideas when considering public policy problems. The application of these ideas, including industry restructuring and the removal or lowering of levels of industry protection, has had implications for the
approach taken by Australia in bargaining with the U.S. (as with others) for an improvement in trading outcomes. Societal actors have generally accepted the need to lower both domestic barriers to trade and income supports for industry efficiency and the promotion of international liberalisation. Important exceptions have, however, been the sugar cane growers who have resisted Australian government efforts to remove tariffs on imported sugar; and to a lesser extent, the Australian Wheat Board which has fiercely defended its status as the sole exporter of Australian wheat, something which arguably has served to distort market signal.

The growing acceptance of economic rationalist ideas by influential societal actors in all sectors of this study has meant that it has been not so problematic electorally for the Australian government to prosecute policies designed to make Australian industry more efficient and responsive to market signals. More importantly for this study, evidence of societal-actor support for a program of industry reform has added credence to Australian state-actor claims that Australia has a high commitment to global liberalisation. These claims together with Australia’s self-promotion as a relatively unsubsidised producer have been used to argue for more favourable consideration by the U.S.

Role of Perception

In Australia’s trading relations with the U.S., as in any such relationship, there have and will continue to be occasions where what individual policy-makers believe or perceive will be important. Beliefs of policy-makers and societal actors are independent of one’s position in the government or in interstate negotiations. The beliefs and perceptions of either or both state and societal actors may result in the adoption of certain courses of action towards both domestic and interstate bargaining which may be at odds from what would be expected from their material interests.

Trade policy-making understandably considers issues that go beyond the borders of one state. This means that closer attention must be given to the impact of the perceptions and beliefs of policy-makers than if only issues found within the one state were being studied. Differences between the cultural backgrounds and personal experiences of the policy-makers of the different states will be more profound. As well, dealings between
states can add the further difficulty that state leaders (and those who represent them in negotiations) may well operate according to quite different cognitive frameworks about what is important, what needs to be done, and who bears responsibility for change. [Axelrod and Keohane, 1986, 247] For instance, in the 1988 negotiations over aviation rights, Australian and U.S. negotiators, acted upon quite different views as to the importance to be given to regulating capacity on the trans-Pacific routes.

A state’s policy choices will reflect, perhaps imperfectly, the perceptions that members of its elite (central decision-makers and dominant societal actors) have of the state’s interests. These perceptions are not necessarily reflections of views held within the society at large but, as expected, will not often diverge markedly from views held by those upon whom the elite relies for political support. Australian state actors and dominant societal actors can be expected to hold generally similar views about what should and should not be done to improve trade outcomes. Important divergences of opinion do, of course, occur and one recent example was that between Australian state and certain influential societal actors during the 1980s over the pace and extent of the removal of industry protection.

There will be occasions (even if severely confined by time frame or issue) which provide opportunities where Australian policy-makers may be able to promote certain beliefs or perceptions in the U.S. in an attempt to improve Australia’s trade outcomes. Important examples have related to Australia’s communication of both its commitment to international liberalisation, especially in agricultural trade, and to the damage that a lack of reform is causing for both U.S. interests (such as taxpayers and consumers) and for Australian industry. The Hawke and Keating governments’ have constantly promoted (in tandem with Australian wheat farmers) the belief that the continuation of the U.S. Export Enhancement Program (EEP) was having a deleterious effect upon both Australia’s wheat exports and upon its economic capability to play its part as an ally of the U.S. While the U.S. policy has, to date, not been changed, the Australian campaign against the EEP is not likely to be dismissed so lightly as it was during the 1989 visit of former Vice President Quayle.
Perception can also be important in explaining outcomes from the negotiation process. For example, perceptions and expectations of an opponent's strengths, weaknesses, intentions, commitments, and goals are likely to affect negotiator responses and the interpersonal communication between the negotiators. [Spector, 1978, 57] The behaviour of the parties in the bargaining process can affect the nature of the resultant outcomes and this behaviour, including the parties' respective strategies and tactics, is itself influenced by subjective factors. Both Australian and U.S. negotiators of the bilateral aviation accords have referred to the important effect which the manner and behaviour of their respective adversaries had on the course, and indirectly the outcome, of the negotiations. Should, for example, perceptions of the other's capabilities be distorted then this would seriously affect the resultant policy-making.

For weaker states bargaining with much stronger ones, the negotiation process can often provide opportunities for them to improve their sectoral outcomes. One such opportunity arises from correctly interpreting the perceptions and misperceptions of the opposing negotiator.

The symmetry of the negotiating process provides the same opportunities for all negotiators (be they of weak or strong states) to apply the requisite skill of understanding how an opponent perceives an issue and of then exploiting that knowledge to one's advantage. This skill is an issue-specific resource which may be more easily applied by weaker states in some negotiations than others. In the 1988 aviation negotiations between Australia and the U.S., for instance, the Australian negotiators correctly perceived that U.S. negotiators would eventually give ground on the capacity issue in order to obtain a liberal agreement which would enable U.S. carriers to expand their services on the trans-Pacific routes.

Ideas and perceptions are helpful in explaining policy choices made in the policy-making process. Ideas have been important in terms of their influence in shaping the international trade regime. GATT's pursuit of liberal trade has provided an opportunity for Australia to use that international forum to seek the removal of U.S. protectionist measures towards an improvement in its trading outcomes. The institutionalisation of the liberal idea within the laws and bureaucracy of the U.S. has helped to provide a more
receptive and influential U.S. audience (drawn from those state and societal actors supporting free trade) to Australian arguments as to the domestic costs of U.S. trade policies as well as Australia's self-promotion as a relatively lightly subsidized trader.

Perceptions can also be an important factor in both domestic and interstate bargaining. In interstate negotiations, the perceptions of an opponent can be used by a weaker state to exploit opportunities and advance its interests.

Undoubtedly there will be occasions where ideas and/or perception will be important. However, the extent of their relative influence in policy-making may be hard to judge given that they remain factors which are difficult to measure. [Odell, 1990, 152] Understanding the contribution made by either ideas or perception to policy-making is also complicated by the fact that they are factors which should not be considered separate from the influences of state actors and institutions and societal actors upon policy-making. These non-power considerations constitute a supplementary perspective which recognizes that how individual policy-makers see their policy-making environment and the particular policy problem before them really does matter.

Conclusion

Each of the explanatory approaches considered makes some contribution to understanding Australia's trade policy-making towards the U.S. However, each explanation is, on its own, underdetermining in that not one of the approaches is sufficiently comprehensive as to fully explain trade policy outcomes.

An explanation must take us beyond either deductive systemic or inductive society-based approaches. This study invites the conclusion that a comprehensive approach can be constructed by examining elements of both the state-centred and society-centred explanations, while not ignoring the influence of international factors upon state and societal actors. The approach adopted holds that state actors and institutions constitute the principal explanatory variable with which to understand Australia's trade policy-making towards the U.S. Societal and international influences, while important, are of lesser explanatory significance.
State actors, as representative of the Australian state, are charged with responsibility for activating the state structure. They are instrumental in the formulation and implementation of Australia's trade policy and in bargaining with other state actors. State actors have particular policy objectives, expertise and information which they bring to the policy-making process. The role of Australian state actors within this process is enhanced by the fact that their role is performed within a Westminster-style political system which provides few direct opportunities for societal-actor involvement in the process.

The institutions of the Australian state condition the access that societal actors have to the policy-making process while state actors, acting through these institutions, filter societal-actor demands. In this way, state actors and historically-determined state institutions can influence the nature of the societal demands which are made upon the state. The societal actors, understanding this conditioning process, shape their demands so as to take account of the likely institutional responses. Only over a long period of time can important societal actors contribute to the historical experience of these institutions and thereby shape their nature.

Societal actors involved in Australian trade sectors bring to the policy process expertise and information gained from direct involvement in the world markets for the products in which they trade. As well, societal actors can be effective in either marshalling electoral support for or causing electoral harm to state actors. The societal actors use these resources to secure access to the policy-making process and influence state-actor policy choices and the strategies adopted in interstate bargaining for improved outcomes. There is some resultant accommodation of the state actors' need for societal-actor support and the societal actor demands for state action. However, the state actors and institutions perform the principal role in the policy-making process with societal-actor demands, conditioned as they are by state institutions, forming a less important component.

Australian trade strategies to improve trade outcomes, while decided by state actors, reflect the input of societal actors as well as that of state actors. The Australian government's approach to the U.S. administration over the implementation of its Export
Enhancement Program, for example, is partly explained by how the AWB evaluated the effects of that program on Australia's traditional wheat export markets. In the case of sugar, how the CSR viewed the diminishing import sugar market in the U.S. has helped determine the Australian government's approach to the U.S. import quota.

These strategies must, however, be responsive to those international developments considered by Australia's state and/or societal actors as having an effect upon Australia's trade interests. These international influences upon Australian trade policy-making, are felt either directly by the state as a result of Australia's involvement in the world economy, or indirectly as transmitted through the demands of societal actors trading on global markets.

State actors are responsible for bargaining bilaterally with the U.S. as well as multilaterally with other state actors within international forums such as the GATT. These international negotiations can act as an avenue through which international influences can affect the strategies Australia adopts towards improving the outcomes from its trade with the U.S. The process by which Australia negotiates with other states is, however, a two-tier one as state actors are simultaneously involved in domestic bargaining with societal actors. This domestic bargaining is necessary not only to gain domestic compliance with internationally agreed outcomes but it also acts as the means by which domestic sectorally-specific concerns are introduced into the policy-making process.

While international developments and their perceived effect upon Australian trade interests must be taken into account by Australian state and societal actors, they do not constitute a critical explanatory variable but rather an exogenous factor in the devising of Australia's strategies to improve its trading outcomes with the U.S.

Likewise, cognitive factors such as the beliefs and perceptions of principally state, but also important societal, actors are capable of affecting strategies adopted in international negotiations and must be accorded some, albeit peripheral, importance.
The Plan of the Study

The Chapters that constitute this study set out, at a general level, to explain how Australia has sought to improve its trade outcomes from its bargaining with the U.S. Australian trade policy-making towards the U.S. has been examined in terms of the bargaining strategies adopted within the approaches, be they bilateral and/or multilateral, made towards the U.S. within particular trading sectors.

The primary purpose of this study is to give an account of how Australia has sought to bargain with the U.S. for improved returns in each of five trading sectors over the 1980s; the problems Australia has encountered in each; and the policy choices made and strategies adopted to try and overcome them.

The study's principal contention is that Australian trade policy-making towards the U.S. to improve outcomes is best explained by reference to a bargaining relationship found within each trade sector. Within each sectoral bargaining process, Australian state actors have devised strategies which have been influenced by the nature of the U.S. policy and policy-making process; the Australian domestic bargaining process between state and important societal actors; and, to a lesser extent, prevailing ideas and the perceptions of the negotiating parties.

The organization of the study is arranged according to the trade sectors that are its subject. Within each of the chapters dealing with a trade sector, the nature of the U.S. industry programs and policies and the problems and difficulties that these pose for Australian exporters are initially considered. This is followed by the Australian policy-making process in each of these sectors as well as the approach taken to improve outcomes in each of these trading relationships. This chapter, reviewing important theoretical arguments, comprises the first of the study.

Chapter 2 is concerned with the political economy of Australian agricultural trade policy-making towards the United States. In particular, the chapter examines how Australia has bargained for an improvement in its trading outcomes in each of the wheat, sugar and beef sectors over the 1980s.
This chapter initially considers the nature of U.S. agricultural trade policies and policy processes in each of the three agricultural sectors and addresses the issue of why U.S. policies have continued to be generally protectionist. This is followed by an examination of Australia’s agricultural trade policy-making in each of the three sectors and discusses the extent to which the domestic bargaining process has facilitated or hindered Australia’s bargaining with the U.S. The chapter’s final section deals with the bargaining strategies adopted by Australia within the general approaches taken (be they bilateral and/or multilateral) to improve its agricultural trading outcomes.

Chapter 3 deals with the political economy of Australia’s steel trade policy-making towards the U.S. and forms the only manufacturing industry study. U.S. steel trade policies have been highly protectionist over the period of the 1980s and early 1990s and this chapter initially details the nature of these policies and their programs as well as the parts played by U.S. state and societal actors in determining these policies.

The second section of this chapter considers developments in Australia’s steel policy-making over the 1980s. The focus is upon the particular dynamic of state-societal actor relations in the making of Australian steel policy produced from the dominance of one company, BHP, in Australia’s steel export trade and the impact this has had upon Australia’s bargaining approaches to the U.S. This is followed by an examination of these bargaining approaches with particular attention to the strategies adopted to overcome the difficulties encountered by Australia in seeking to increase its share of the U.S. steel import market.

Chapter 4 is devoted to the political economy of Australia’s dealings with the U.S. over international aviation (passenger transport) rights. After a brief discussion of postwar and more recent international developments, the first section considers the U.S.’s pro-competitive policy as it has developed amidst domestic U.S. deregulation and global liberalisation in air services over the past decade. The close relations between state and societal actors in U.S. international aviation policy-making is then examined with particular attention to how these have determined both U.S. policy in international aviation and its approach towards negotiations with Australia.
This chapter also covers the respective roles of Australian state and societal actors (particularly Qantas Airways) in the making of international aviation policy with particular reference to how the changing nature of domestic bargaining in this sector has affected Australian bargaining strategies towards improved outcomes from Australia’s aviation negotiations with the U.S.

Finally, against the background of the latest formal round of Australia-U.S. negotiations and the problems which have developed since those negotiations, chapter four discusses those bargaining strategies adopted by Australia and applied within the formal aviation negotiating sessions, its bilateral approach to the U.S., and/or its multilateral approach towards an improvement in Australia’s outcomes from its aviation services trade with the U.S.

Chapter 5 concludes this study and summarizes the nature of the bargaining processes in each of the five sectors reviewed of Australia’s trade relations with the U.S. Concerned at the differential power-capabilities between Australia and the U.S., Australia has developed strategies within each bargaining process by which it has sought to mobilize sectorally-specific resources to either take advantage of opportunities or counter problems within each sector and thereby improve its trading outcomes.

In thus summarizing Australia’s bargaining with the U.S., and those strategies applied towards an improvement in sectoral outcomes, this chapter seeks to draw a composite picture of Australia’s trade policy-making towards the United States.
NOTES

1. Australia has a two-to-one trade deficit with the U.S. In 1990 for instance, Australia’s imports from the U.S. amounted to US$9,261 million while its exports to the U.S. only amounted to US$4,275 million. [IMF, Direction of Trade Statistics, 1991]

2. The U.S. supplies one-fifth of Australia’s total foreign investment making it the largest foreign investor. In terms of investment flows, it should be noted that Japan replaced the U.S. and Britain as the major source of foreign funds in the late 1980s.

3. A realist definition of rationality holds that states act rationally when they have consistent, ordered preferences and when they calculate the costs and benefits of all alternative policies in order to maximize their utility in the pursuit of power. [Keohane, 1986, 194]

4. As Kenneth Waltz has noted, while each state arrives at policies and decides on actions according to its own internal processes, its decisions are shaped by the very presence of other states as well as by the interaction with them. The situation in which states act and interact constrains them from some actions, disposes them toward others, and affects the outcomes of their interactions. [Waltz, 1986, 52-53]

5. Robert Axelrod and Robert Keohane define cooperation as occurring when actors adjust their behaviour to the actual or anticipated preferences of others. It is thus not to be equated with a state of harmony between actors. [Axelrod and Keohane, 1986, 226]

6. Stephen Krasner has defined a regime as being a "set of implicit or explicit principles, norms, rules, and decision-making procedures around which actors' expectations converge in a given area of international relations." [Krasner, 1983, 3]

7. Many writers dispute the validity of the term "sensitivity interdependence" arguing that it should rather be referred to as "mutual sensitivity". See D. Baldwin, 1980, for a review of this dispute.

8. The power balance exhibited by a relationship of asymmetrical interdependence can also, of course, be transmitted through the process phase of the negotiations and influence the outcome.

9. The advantage to the stronger power in the interdependent relationship may, of course, still appear strongly in the determination of bargaining outcomes. For example, it may be exhibited in the stronger state’s ability to demand high and concede little in bargaining with the weaker state while the latter may be forced to compromise many of its objectives and settle for a less than satisfactory agreement. [Spector, 1978, 64]

10. Issue-specific resources may include such matters as the negotiators’ skill and the level of commitment that each party has to a resolution of the matters at hand. William Habeeb has referred to three important elements of issue power which may assist a weaker state against a stronger one in negotiations: they are its level
of commitment, range of alternatives and degree of control over the negotiations. [Habeb, 1988, 130]

11. Harrison Wagner makes the distinction between what he refers to as unexploited market power and unexploited opportunities to trade economic resources for political concessions. [Wagner, 1988, 473-4]

12. It is acknowledged, however, that the less dependent state will be able to make bargaining concessions at lower cost than the more dependent state.[See Keohane and Nye, 1987, 734; Wagner, 1988, 468]

13. Helen Milner has expanded on these domestic responsibilities and gives three reasons why the domestic political process will be important for central decision-makers as they seek cooperation through international bargaining: understanding domestic politics will tell us how preferences are aggregated and national interests formed; help to explain the strategies adopted to realize goals; and remain necessary for domestic ratification of international agreements.[Milner, 1992, 493]

14. As Charles Lipson has argued, "(state) choices are typically the product of politically mediated coalition bargaining" and this process will affect the ability of the state to devise desired strategies.[Lipson, 1984, 10]

15. Axelrod and Keohane make reference to what is termed "blackmailing" (as contrasted to "backscratching"), which implies a threat from one actor (read state) to another, as a form of issue linkage.[Axelrod and Keohane, 1986, 240]

16. Characteristics of issue areas could be influential through the location of decision-making. This may, in turn, affect the fortunes of societal actors; by affecting the interests that particular groups have in the policy decision (they may be direct and obvious in some while indirect and obscure in others); and through the differential incentives for collective action by societal actors across issue areas.[Ikenberry, 1988, 236-7]

17. As David Lake has argued, state actors in the foreign policy field have sufficient autonomy to mobilize latent or previously neutral groups into the political processes which can offset entrenched interests.[Lake, 1988a, 57]

18. In the area of international trade, Stephen Krasner has argued that the structure of this trade is affected by the states being "locked in by the impact of prior choices on their domestic political structures."[Krasner, 1976, 341]

19. Peter Hall's definition of institutions is used here being formal rules, compliance procedures, and standard operating practices that structure the relationship between individuals in various units of the polity and economy. [Hall, 1986, 19]

20. As Joanne Gowa has argued, political institutions establish the markets for political goods (such as protection) and it is these markets which determine whether the political good will have a public, private or mixed character in terms of availability for private interest groups. [Gowa, 1988, 27-28].
21. David Lake defines state structure as the distribution of authority within a state which is understood by reference to the codified laws and institutions of that state. [Lake, 1988b, 38]

22. Wendy Hansen has referred to what she sees as a self-selection process undertaken by industry groups in deciding whether to seek industry regulation or protection from the United States International Trade Commission.

23. The Australian Industries Commission, for example, performed an important role in the 1980s in calling for the reform of certain industry policies and practices.

24. G. John Ikenberry has developed a conceptual framework which classifies adjustment into both international and domestic on the one hand and offensive and defensive on the other.[Ikenberry, 1986]

25. It should be noted that in pursuing its economic reform agenda over the 1980s, the Australian government was prepared to make only the most limited exceptions as to industry support and assistance with respect to these primary industries.

26. This study is not concerned with group theories which refer to the social group or class and the conflict between them within the polity. Confining the analysis to interest groups would invite, as Ikenberry has argued, ad hoc and ex post facto statements derived from the results of inter-group competition for influence.[Ikenberry et. al., 1988, 8]

27. The classification of a state as either strong or weak is problematic. As Gourevitch has pointed out, even a "strong" state will require the support of some significant societal actors in order to pursue its preferences into policy. [Gourevitch, 1986, 238]

28. Ruggie has extended this analysis to argue that the hegemonic form of state/society relations (or lack thereof) that prevails at any time constitutes an attribute of the international system and can thus be used as a systems-level explanatory factor.[Ruggie, 1986, 147]

29. As Mark Kesselman comments, Gourevitch does not adequately explain why mediating institutions (such as representative associations) are not more important in determining how economic policy is made. Also cited is the relative unimportance ascribed by Gourevitch to coalition formation and political outcomes of what Kesselman refers to as non-market-generated collective identities (such as region, religion, ethnicity and gender).[Kesselman, 1992, 654]

30. While transnational actors have been included within this categorization of societal actors, the impact of an individual state or of the 'historically shaped domestic structures' upon them, will understandably be less for these transnational actors than for a societal actor operating solely within its country of domicile.

31. Gowa refers to Mancur Olson's observation regarding collective action [Olson, 1965] that rational individuals will seek to 'free ride' on the contributions of others in the group and that, without certain countervailing conditions, the collective good will, as a result, be unlikely to be provided.
32. It should be noted that societal actors are also constrained in the influence they can bring to bear upon the policy-making process by the need to compete with other societal actors for the attention of state actors.

33. In each of the wheat and sugar sectors, a dominant societal actor exercises monopoly export rights in respect of Australian production. Likewise, BHP is the sole Australian steel exporter and the AMLC has the rights to sell Australian beef overseas. In each sector, this particular market position has increased the leverage of each of these actors in bargaining for influence in Australia’s trade policy-making.

34. See Bhagwati for a brief account of the intellectual antecedents of postwar liberalism in U.S. trade policy. [Bhagwati, 1989]

35. Keohane and Nye have argued that the norms and principles of international regimes can be internalized by important groups and become part of the belief systems that filter information. [Keohane and Nye, 1987, 751]

36. Goldstein provides an illustration of the process used by American industry to seek qualifications to the U.S. liberal trade regime. [Goldstein, 1988, 188-209]

37. One recent example was when Australia and a number of other states took the U.S. sugar policy before a GATT dispute panel. While the claimants won, the U.S.’s response with a tariff-quota program served the same protectionist purpose as the previous import quota.

38. Calls for ‘free trade’ are now matched in the U.S. by calls for ‘fair trade’ while there is also no reduction in the provision of mechanisms to shield domestic producers from global market effects. Liberal trade ideas must coexist with mercantilist ideas (as well as institutions) from the pre-liberal era.

39. As part of this strategy, there have been a number of important studies (by either Australian Government agencies or industry bodies) as well as a numerous Ministerial meetings and trade delegations which have been used to promote the idea of liberalized trade.

40. It should not be assumed, however, that because the U.S. Administration supports multilateral reform in certain sectors more strongly than in others that this has necessarily resulted in reform of those programs.

41. John Gerard Ruggie has coined the term "embedded liberalism" to describe this institutionalisation. [Ruggie, 1982]

42. Perceptions are here considered as the product of an individual’s beliefs, values and general ideological standpoint.

43. While it is beyond this study to consider elite theory in any detail, it is the perceptions of the powerful, be they state or societal actors, that matter and they can be expected to act in terms of what they think are their interests.[Domhoff, 1990, 113]
44. John Odell has pointed out the dangers of any cognitive perspective which fails to appreciate that regular patterns of behaviour may well correspond to interests objectively defined. [Odell, 1990, 152]
POLITICAL ECONOMY OF AUSTRALIA'S AGRICULTURAL TRADE WITH THE UNITED STATES

Introduction

The political economy of agricultural trade is only now becoming a focus of study for political scientists. Previously considered chiefly if not solely by economists, they tended to ignore some of the important (notably political) determinants of trade relations, be they multilateral or bilateral. Australia's agricultural trading relationship with the United States, like its general trading relationship, has suffered from the same level of neglect and is long overdue for serious consideration by political scientists as well as economists.

The study focuses upon the bilateral relationship, or rather three bilateral relationships in the three agricultural sectors of wheat, sugar and beef. This study is important not only because these rural exports are significant to Australia's balance of payments, but because of what they tell us about the U.S. instruments of protection and the U.S. policy-making system generally. Of these three bilateral relationships, two involve a direct import/export relationship while in the third, wheat, Australia and the U.S. are direct export competitors on the world market. U.S. agricultural policies and support programs in each of these sectors have had an impact upon Australian trade outcomes. In the case of sugar and beef this has been direct and immediate as the policies have acted to limit Australian exports to the U.S., while the U.S. wheat support policies have affected Australia's export competitiveness in third country markets. In all cases, Australia has experienced the indirect effect of these U.S. agricultural policies on world market prices.

Australia's agricultural trade with the United States has in the past decade, as always, been subject to the problems of U.S. protectionism: import politics as well as export market access on the world market. This in itself does not state anything that has not already been acknowledged by both parties. However, the extent to which a weaker state such as Australia is able to influence U.S. agricultural policy-making and bargain for an
improvement in sectoral, if not general, trade outcomes, requires serious analysis to take us beyond either the naive optimism or defeatist pessimism which has marked so much of the comment in this field.

The agricultural trading relationship between the two countries (as exemplified by these three sectors) of the past decade must be considered against the background of what has been happening in the world market for these agricultural commodities. The world market has become even more corrupted by attempts by countries or trading groups (such as the European Community (EC)) to resist and delay adjustments that are required for them to remain competitive. This agricultural protectionism has taken many forms and the U.S. has not been reticent in devising domestic support structures to protect particular agricultural sectors.

The 1970s saw a boom in agricultural trade and major producers and traders such as the U.S. responded by providing increased price supports. When the boom collapsed in the early 1980s and production was found to have far outstripped demand, stocks began to pile up and the support costs faced by certain countries soared. To help alleviate this problem, such countries intensified the battle for world market share through the provision of export subsidies. To prevent a flow-on of the fluctuations from increasingly volatile markets, countries also imposed quantitative restrictions and other non-tariff barriers to imports into their own market. Such efforts at adjustment-avoidance by the major players in agricultural trade have produced nothing short of a crisis in the world market for a number of commodities upon which Australia has relied for a healthy balance of payments. Agriculture has been ignored in successive trade liberalization Rounds of the General Agreement for Tariffs and Trade (GATT) and has only received serious consideration in the latest Uruguay Round of talks. This Round remains, after nearly seven years, stalled on the very matter of agricultural reform. The Blair House Accord of November 1992 may still succeed in breaking the deadlock but at the time of writing it is some doubt whether it really constituted a breakthrough.

The agricultural trading relationship between Australia and the U.S., while a part of this international crisis cannot, however, be understood simply in terms of what has happened on the global markets. In seeking to discover what has caused particular
trading outcomes, it is necessary to examine the trade policy-making structure and processes within each state. Trade policy is as much industry policy as it is foreign policy. As eloquently stated by two former influential Washington insiders, "nothing is more domestic than international trade policy." [Schultz and Dam, 1977, 133] It is thus principally to the domestic determinants (be they political or economic) of policy that one must turn in the search for causation.

This paper is divided into four sections. The first will consider U.S. agricultural policies in each of the wheat, sugar and beef sectors, the instruments of protection that they have provided, and their impact upon Australia's trading outcomes. The second section will examine the U.S. agricultural policy-making system and the difficulties this system has presented for Australia as either an exporter to the U.S. or an export competitor on the world market. The third will consider the Australian agricultural policy-making system, briefly considering Australia's policies in each of the sectors and, at greater length, discussing the roles of both state and societal actors in the making of Australian agricultural trade policy. The final section will seek to link the previous parts of this paper in a discussion of the approaches Australia has made, either bilaterally or multilaterally, to improve sectoral outcomes in its trade with the U.S.

U.S. Agricultural Trade Policies

U.S. policies in the three sectors of this study have represented various forms of state intervention in their respective agricultural commodity markets. While similar to previous U.S. policies, such as those of the 1930s, the domestic and international environments of the 1980s and early 1990s have produced problems of a magnitude not experienced hitherto.

The intent of the policies has been to isolate the U.S. producer from the world market signals and thereby separate the international and domestic markets. In each sector, the policies have performed this role by providing income support to farmers through a form of market price support. This has been the case whether the policy had been export-assisting (as with wheat) or import restricting (as with sugar and beef).
Where price support has been provided for wheat growers through a program of loan rates, target prices and deficiency payments, the sugar program has kept such provisions inactive through the use of an import quota. The beef program, like that of sugar, has made use of an import quota (calculated by reference to a formula) in order to restrict imports to the U.S. and thereby provide artificial price stability for U.S. producers. Foreign exporters of beef to the U.S. have also been induced by the program to enter into ‘voluntary’ export restraint agreements in order to maximise their returns from their quota entitlements.

U.S. wheat policies have also sought to indirectly provide income support to wheat growers through export assistance measures to enhance global market share. The Export Enhancement Program (EEP) has performed this role and has had both direct (by targeting Australian markets) and indirect (by placing downward pressure on the world market price) effects upon Australia as an export competitor.

Wheat

Australia and the United States are among the big five exporters of wheat on the world market. However, as Table B shows, each country has produced and exported markedly different quantities of wheat. Thus, the impact of each directly upon the global wheat trade and indirectly upon future global production has also been quite different. The policies of the U.S., by far the stronger player in the global wheat market, have had a greater impact upon Australia than has been the reverse.

Loan rate and Target Prices

The current US wheat support program establishes a market price floor by means of a loan rate. This loan rate is the price paid to farmers who placed wheat in storage near harvest time. These were called nonrecourse loans due to the fact that farmers could either repay the loan and sell the commodity on the market, or turn the commodity over to the Commodity Credit Corporation (CCC) in payment for the loan plus interest. The years 1976-1977 saw an increase in the loan rates with the belief that the decline in real prices was not likely to persist beyond the mid to late 1970s. The 1981 Agriculture and
Food Security Act was also enacted on the premise that there would be a long-term increase in commodity prices.

In the early 1970s, another step in achieving the separation of price from the income support received by wheatgrowers was made with the provision of target prices which did not necessarily reflect world market prices. This separation was secured through the provision of ‘deficiency payments’ to farmers. These payments were to be used to supplement what farmers received from the sale of their wheat on the market. In general terms, these payments were sufficient to guarantee U.S. producers the target price (the payments were based on U.S. average prices rather than the actual price received by each producer). The 1977 Food and Agriculture Act made what was to be a serious error when it based deficiency payments on the levels of current production rather than on allotments (target price levels were already above market prices for wheat).

Production Control

The late 1970s saw a fresh attempt at controlling production through acreage control. The acreage set-aside, as it became known, aimed to provide market prices with a greater role in initial planting decisions. These set-asides required that farmers idled a fraction of their land (usually 10-20 percent) in order to qualify for both deficiency payments and CCC loans.

Another attempt at price stabilization through supply control was introduced in the form of the Farmer-Owned-Reserve (FOR) by the Carter Administration in 1977. This program, which involved subsidy payments by the government for storage of grains by farmers, encouraged stockholding under government control but farmer ownership. The government set a minimum price (based on the CCC loan rate) which the farmer received as a loan for the stored wheat. This loan was for three years within which time the farmer had to agree not to redeem the grain until the market price had reached a release level established by the government.

While designed to provide greater stability for the U.S. producer, the floor price in the FOR became, as one senior agricultural researcher has stated, a means by which U.S.
producers were able to receive a price higher than those guaranteed by the loan rate. [Gardner, 1990, 37] Effectively acting as a buffer stock, the FOR, along with the loan rate, helped to place a floor under the world market price thus protecting U.S. wheatgrowers. In so doing, the FOR helped to support U.S. prices for wheat at a time when they were falling below target prices.

The FOR, while successful as a direct attempt to cope with the volatility of U.S. domestic farm prices and incomes, gave the wrong signals to producers when the world market deteriorated in the early 1980s. This program, in seeking to provide stability in prices and supplies, gave undue confidence to US growers in terms of both the outlook for the world wheat market and investment in grain growing.[Roberts et. al., 1989, 24]

This flexible program of support was developed in the 1970s, a period of increased growth in commodities production in response to increased world demand. For example, total U.S. farm production rose by 32 percent during this period with the value of agricultural exports rising from less than US$7 billion in 1970 to US$20 billion in 1980. As well, the U.S. net trade balance in agriculture over the same period went from under US$2 billion to over US$15 billion.[Franklin, 1988, 34] The program was able to deal with great demand variability but was not equipped to handle the contractionary global demand which was to appear by the early 1980s.

The 1980s proved to be quite different for all U.S. agricultural commodities. It was initially believed that world market demand would sustain the increased production capacity which had been generally encouraged by both the global economic conditions of the previous period as well as by the support programs which had been established. Even the 1981 Agriculture and Food Act which could have provided better signals was framed in the expectation of continuing high inflation and high market prices. This Act mandated what proved to be high and inflexible target prices and loan rates and these applied for the entire four years of the Act's life. This had the effect of unilaterally firming up world prices and providing an incentive for foreign producers (be they efficient or otherwise) to expand their exports.
In the early 1980s, the U.S. faced a worldwide recession together with higher production by countries which had once been heavy importers of U.S. produce. Other macroeconomic conditions which faced the U.S. were the strengthened U.S. dollar relative to other countries and fiercer foreign competition. The result was that many highly-leveraged farmers found themselves trapped by declining land values, heavy debt payments and low commodity prices. The high loan rates had made market prices artificially high due to U.S. producers having been encouraged to forfeit crops to the government rather than take lower market prices. The attempts at supply control, such as area diversion and set-aside, had overall a limited effect in holding down production.\textsuperscript{48}

With world demand having fallen in the early 1980s, the internal U.S. support prices had continued to rise. U.S. stocks increased further and the increasing gap between world prices and internal prices widened making large deficiency payments necessary. More importantly, this made U.S. wheat exports uncompetitive for the very fact that U.S. domestic production in being cut to prop up the world price meant that it was providing less competition for foreign producers.[Paarlberg, 1988, 32]

Wheat policy was debated throughout the early 1980s as the U.S. administration sought to correct the effect of the 1981 legislation based as it was on false assumptions as to demand and supply. In 1983 a Payment-in-Kind (PIK) program was introduced. The PIK prescribed that in return for reducing acreage, farmers would be paid in kind a high percentage of their normal yields\textsuperscript{49}. While this program did have a significant impact upon crop production, it was unable to eliminate excess productive capacity.

The policies which had been implemented in the early 1980s had had a mixed effect by both encouraging and discouraging the production of wheat in the US. The 1985 Food and Security Act, which introduced a more market-oriented perspective, corrected the mistakes of the previous legislation by seeking through its new policy mix, to emphasise the subsidization of exports rather than the control of production. While including the same basic tools as the 1981 Act such as nonrecourse loans, deficiency payments and voluntary production controls, the changes brought about by this Act were to have a profound effect upon Australia and other wheat exporters. The most important change
was the lowering of the loan rates and a closer linking of these with world prices. [Love et. al., 1986, 143] Target prices for 1986 and 1987 were frozen and then gradually lowered so as to protect farmers while export markets were won back through the use of ‘marketing loans’.

**Export Enhancement Program**

The 1985 Act introduced a new provision called the Export Enhancement Program (EEP). This provision required that at least US$1000 million worth of government-owned subsidies were to be used to improve US competitiveness and to counter the ‘unfair’ trading practices of other countries.

Directed primarily at the EC, EEP prescribed that an additional US$110 million (in cash or commodities) was to be expended each year from 1986 to 1988 and then US$325 million per year in 1989 and 1990 to help counter the use of subsidies and other unfair trading practices. The EEP has operated as a direct export subsidy program and apart from sheltering U.S. growers from falling world wheat prices, has effectively contributed to the decline in world prices by pushing additional wheat onto the world market at less than realistic prices. With the slow-down in import growth on the world wheat market, this policy (together with that of the EC) has brought a disproportionately higher burden of adjustment upon countries such as Australia, whose growers are exposed to the volatile world market (see Table C for Australia’s export wheat prices). [Miller, 1987, 24]

As a reaction to previous U.S. policies and economic conditions, EEP has been specifically aimed at simultaneously clawing back market share and reducing stock accumulation. EEP has acted as an ‘in kind’ subsidy program with the CCC making cheap foreign sales possible by free ‘bonus bushels’ being given to U.S. exporters out of surplus stocks.51

The effect of the program on the non-targeted markets has depended upon both the extent to which supplies of the specific commodity to the market as a whole have been increased as a result of the stock release and upon the price discrimination effect. [Roberts et. al., 1989, 213-214] While the stock release has, ipso facto, lowered
market prices, that effect has itself been reduced by the price discrimination between EEP and non-EEP markets. How important this discrimination has been has depended upon how effective the separation was between EEP and non-EEP markets. 1987 and 1988 saw large EEP sales of wheat by the U.S. and using 1987 as an example one can see from Chart A that the average Australian export value declined generally in line with the fall in average U.S. export value. In other words, the price discrimination effect of the EEP has had a profound impact upon the value of Australia’s wheat exports.

U.S. competition for those markets in which Australia has had a traditional and sizeable (and relatively non-subsidized) market share has become intense over the late 1980s and early 1990s. A good example of this competition occurred in 1988 when the U.S. took Australia’s wheat market in North Yemen. The U.S. saw that its US$145 a tonne might not compete successfully with Australia’s US$156 offer and rushed in with a US$18 a tonne EEP subsidy dropping its price to US$127.[Cribb, 1988, 1,2]

The 1990 Farm Act: More of the Same

The 1990 Food, Agriculture, Conservation and Trade Act of 1990 (the Farm Act) continued, with some adjustments, the agriculture support programs instituted in the 1985 Act. It sought to provide greater planting flexibility for U.S. farmers and to assist their adjustment to increased reliance on the market and less on government payments. However, there was little of comfort for Australian growers as the Act continued the EEP program. As the then U.S. Agriculture Secretary Yeutter stated, the Act sought to fundamentally continue the market-oriented approach of the 1985 Act through aggressive export assistance programs.[Clayton Yeutter, 1990]

The Clinton Administration has continued the previous administration’s policy line on the EEP. This has been revealed in a recent dispute between Australia and the U.S. over expanded EEP sales where U.S. Agriculture Secretary Mike Espy stated that the "U.S. reserves the right to be more aggressive on export programs and in securing an expanded market base."[Stutchbury, 1993c, 6] This was reflected in the recent decision to use EEP to subsidise the sale of 32 million tonnes of wheat to 30 countries in the 1993-94 year.
Australia is not only concerned at the immediate loss of sales from the U.S.'s subsidized competition, but also at the encouragement which such subsidization has given to other wheat producers, especially the EC and Canada, to increase their own support. There are also long-term effects of this U.S. subsidization which have concerned both Australian growers and policy-makers. One such effect was the 'loss of presence' of Australia in those established markets lost to US exports and the difficulty and expense involved in reestablishing a place in those markets.

Another long-term effect has been the move of Australian farmers out of wheat growing into other commodities or into other occupations because of the depressed prices or loss of markets which have been experienced over recent years. Reduced plantings by Australian farmers have often followed on from lower world wheat prices as they have sought to adjust to changed world market conditions. According to the Australian Wheat Board, the fact that Australian wheat production, 13.4 million tonnes in 1990-91, was below the 10-year average of 14.1 million tonnes was because Australian growers had reacted not only to low world wheat prices but also to what seemed a difficult outlook for the forthcoming season.[Australian Wheat Board, 1991, 10]

Sugar

The U.S. sugar program has been, politically, the most contentious program considered in this study. Sugar has, for some time, been a politically sensitive U.S. import access issue with U.S. sugar policy (and its instruments of protection) having been the direct result of the efforts of domestic U.S. producer groups to seek to insulate themselves from what has been the most volatile of world commodity markets.

While only a small proportion of the world's sugar has actually been freely traded on that market (the great bulk of sugar being either consumed domestically or subject to special trade arrangements or bilateral agreements), two important facts serve to enhance Australia's vulnerability as an exporter of sugar to the United States. The proportion of sugar the U.S. has imported from Australia may have been considered insignificant by the U.S. but has certainly not been considered so by either the Australian government or sugar industry. Secondly, Australia has exported something like 80 percent of its
production and has been the trader most exposed to the world market price. For example, as Tables D and E show, in 1990 Australia exported about 2.7 million tonnes of raw sugar out of a total production of 3.3 million tonnes. While in 1990 only about 6 percent of Australia’s sugar exports went to the U.S., it has been liable to be affected by any diminution of the U.S. import quota because of its effect on both access to the U.S. domestic market and upon world prices. While the U.S. import market amounts to only 5 percent of total world sugar production, its significance lies in the fact that it is largest ‘free’ market for the trading of sugar.

While the present U.S. sugar program and its mechanisms of protection date from 1981, its genesis is to be found in legislative developments going back to 1934. To date, 1974, 1975 and 1976 have been the only years where support for producer groups was suspended because of high world prices. Support was reintroduced in 1977 in response to falling world prices, providing loan rates and a non-restrictive global quota which remained in this form until 1982.

Sugar Support Programs of the 1980s

In the Agriculture and Food Act of 1981, the import tariff was increased and the import fee was allowed to vary so as to support domestic production. The current program, as provided for in this piece of legislation was a price-support-loan program, a defined minimum support price for raw sugar cane, and a market stabilization price (MSP).

The year 1982 also saw the introduction by U.S. President Reagan of an emergency quota program to limit imports. This sought to prevent the substitution of cheaper imported sugar to replace the domestic product which would then have to be sold to the government at the higher price.[Hoff and Lawrence, 1985, 26] The Agriculture Secretary was given authority to determine minimum quota levels and quota periods. Provision was also made to keep the program at minimum cost to the government with a requirement that it be self-supporting and not require federal budget expenditure.

The 1985 Food and Security Act extended the mandatory support provided in the 1981 legislation through to 1990. Congress specified that the loan rate not fall below 18 cents
per pound of sugar. These nonrecourse loans, which have operated in like fashion to those for wheat growers, have remained the principal device for the operation of the program and default has been prevented by keeping the domestic market price at least as high as the MSP. This MSP as provided in the 1985 Act consisted of the loan rate (18 cents per pound), the cost of shipping from Hawaii to the mainland United States (US$2.97 cents per pound), interest costs (US 0.63 cents per pound) and a "marketing incentive" of US 0.2 cents per pound. The total MSP has been a fairly stable figure and for the 1988/89 crops has been calculated at US$21.8 cents per pound.

The MSP, which has been periodically set by the US Department of Agriculture (USDA), existed to provide stability for producers against the volatility of the world market and the much lower world prices which have been more the norm than the exception. Unofficially, the MSP has represented the price at or above which producers have been more likely to sell in the market place rather than forfeit their sugar to the CCC. [USDA, 1989, 10] For most of the 1980s, the U.S. market price (the MSP) averaged in excess of 21 cents per pound compared to a world price average of about 7 cents per pound. [Womach, 1989, 2] The difference between the US domestic price and the world price over the past three decades is shown in Chart B.

Sugar Import Quota

The centrepiece of the program has been an import quota which has been adjusted, by reference to domestic supply and demand, in order to maintain a high price for sugar. As shown in Chart C, the loan rate mechanism operated in such a way as to stimulate domestic production. The import quota has been instrumental in limiting the supply of sugar coming on to the U.S. domestic market, effectively preventing the sugar program from becoming a cost to the U.S. budget.

The import quota has only been available to 39 exporters who have shipped sugar to the U.S. over some period of time.56 Australia has been the only developed country among these exporters.57 While these countries have enjoyed high quota rents during the period of the program, the total ‘pie’ of the quota has been diminishing, thus shrinking available rents.58 Where in 1982-83, the total rents stood at US$650 million, by 1987-
88, they were estimated at being only US$184 million. [Mehra, 1989, 7] Where in 1976-77, the U.S. was the largest sugar importer, (importing 5.5 million tonnes of sugar, 20 per cent of world imports) sugar imports have been slashed by 80 per cent over the period of the 1980s and had fallen to 1.2 million tonnes or 4.3 per cent of world imports by 1985-86.[Wong et. al., 1989, 51] By the end of the decade, the quota had been further reduced and was set at less than 1 million tonnes.

Australia has maintained approximately an 8 per cent share of the quota over the period of the 1980s and early 1990s. Unlike other commodity issue areas, Congress has had no problem in using the sugar quota as a political tool which has meant that a quota-share reallocation in support of foreign policy goals has remained a real possibility. [Womack, 1989, 3] With Australia holding a relatively sizeable share of the overall quota and being the only developed country exporter, it has constantly faced the possibility that it would lose its quota entitlement, possibly in a reallocation favouring Caribbean exporters.

The U.S. sugar program has effectively provided protection for other U.S. sweetener producers, notably those who produce high fructose corn syrup (HFCS). The cost of production for these producers is less than that for sugar and they have been able to undercut the sugar price and thus rapidly expand their market share over the 1980s. Sugar’s share of the total U.S. sweetener market fell from 79 per cent in 1970 to 41 per cent by 1988.[Wong et. al., 1989, 51] In terms of sheer volume consumed in the U.S., where sugar has declined by over 25 per cent over the period of the 1980s, HFCS has increased over seven fold.[CSR, 1987, 63] The import quota holders are the principal victims of this effect of the sugar program’s operation. The pressure placed on the U.S. sugar industry by the successful development and marketing of the alternative sweeteners has been translated across into a diminution of the total import quota share.

**Beef**

The U.S. has been both the largest producer and importer of beef and in 1990, produced 10,465,000 tonnes of beef while also importing 355,200 tonnes. Imports thus accounted for only a very small percentage of the total amount of beef consumed in the U.S.
Australia has been the most important exporter of beef into the U.S. and its share of imports accounted, on average, for about half of the total imports over the 1980s. As shown in Table G, this share amounted to 60 percent of total imports in 1990. Australia exports about 50 per cent of its total production and of all its export markets, the U.S. has remained the most significant (in 1990, Australia produced 1,677,100 tonnes of which 988,500 was exported, 349,093 tonnes going to the U.S.). While the importation of beef has been important for the U.S., the proportions as indicated by Tables F and G show that the trade has been nowhere near as significant for the U.S. as it has been for Australia and other exporters.

The relationship is further complicated by the fact that the U.S. has also been an exporter of beef and has competed with Australia for access to third markets, particularly in Northeast Asia.60 This study has, however, only been concerned with the nature of U.S. beef import politics, its impact upon the Australian beef trade into the U.S. and the approach taken by Australia to improve its beef trade outcomes.

**Meat Import Laws**

The protective mechanisms for the US beef industry, as in the case of wheat and sugar, have aimed to provide artificial price stability in the U.S. domestic market even if the result has been increased volatility on the world market. Since 1964, the importation of beef into the U.S. has been governed by a Meat Import Law (MIL). This Act directly linked imports of fresh, chilled or frozen cattle meat (and goat and sheep meat other than lamb) to the level of domestic production of this meat. This was done by means of a quota which was invoked if the estimated annual import level exceeded 110 per cent of the adjusted base quota for a particular year.61

The 1964 formula, while responding to U.S. producer concerns, proved incapable of providing the hoped-for solution. The first three years of the Act’s operation saw imports remaining below the trigger point for the imposition of quotas and while no quantitative restrictions were imposed, domestic U.S. cattle prices continued to fall. Revision of the Act was called for but not made as imports were successfully restrained over the next decade. The President negotiated formal voluntary restraint agreements
(VRAs) with exporting countries in the years that quotas were imposed and then lifted, as well as in those years when no quota was proclaimed. In 1976, the U.S. negotiated quantitative import restrictions with Australia and New Zealand (these were circumvented by reprocessing in Puerto Rico).

The late 1970s saw the return of bad times for U.S. cattle producers as a result of overexpansion, rising production costs and a decline in U.S. domestic meat consumption. Foreign meat imports were again targeted and U.S. producers voiced their frustration as to the way the 1964 law was working, or rather not working. Presidential support for a change to the law was not automatic and success only came after the original proposal was amended. The result of these industry efforts was the 1979 Meat Import Act.

The 1979 Act amended the 1964 law in two important ways. The first and most important was the inclusion of a countercyclical factor in the determination of the amount of the quota for any given year. This factor was the amount of meat which reflected the slaughter rate of cows or the per capita supply of domestic cow beef. The formula under this Act used a base quantity being the average import level for the years 1968 to 1977 (see Figure D). Each year, the Agriculture Secretary has modified this to take account of the production adjustment factor (being the estimate of total U.S. red meat production for the current year) as well as the countercyclical factor. In effect, the countercyclical factor sought to correct the tendency in the operation of the production factor to allow imports to exaggerate the price effects of the domestic U.S. cattle cycle by increasing imports during the liquidation phase of the cycle when beef supplies were already plentiful.[United States Department of Agriculture, 1985, 2]

The other important way in which the 1979 law amended its predecessor was in terms of presidential authority. The 1979 law stipulated quite explicitly a formula to be used to decide the allowable level of imports for any year and did not allow for the exercise of a presidential discretion other than just a limited authority to suspend quantitative restrictions. This could only be exercised if the countercyclical factor was 1.0 or greater, meaning that there were limited domestic cow-beef supplies. The limited authority only related to times of national emergency, where there was either a shortage of meat or when it would be in the national security interests of the U.S. to suspend the quota.
While the above limits applied in the 1964 law, the 1979 Act required that the President publish a statement of intent to lift the import limitation in the Federal Register and allow a 30-day comment period before the action could become effective. This effectively provided an opportunity for the U.S. industry to protest and pressure a change from the administration.\textsuperscript{63} [Conable, 1980, 5]

**Voluntary Export Restraint Agreements**

The voluntary restraint agreement (VRA) was the other U.S. trade policy instrument which affected Australia's beef trade with the U.S. Once U.S. beef imports look like exceeding the trigger level\textsuperscript{64} in any given year, Australia and other exporters were required to negotiate a VRA, thereby restricting their imports so as not to have their exports otherwise reduced by the implementation of some other protectionist device such as a tariff. The beef VRA has the advantage of protecting the domestic producer while at the same time maintaining a free trade posture for the importing country, because technically it was the exporting country which restricted the trade. [Allen, Dodge and Schmitz, 1983, 293]

VRAs were only negotiated (after an exchange of letters between the U.S. and the exporting country) when the U.S. government had reason to believe that imports for the coming year would exceed 110 percent of the adjusted base quantity under the Act. The making of these agreements meant that the U.S. government, for the most part, could avoid having to impose and administer formal import quotas. Under the VRA, the incentive for exporters was that total access was increased by 10 percent over the quota level which would otherwise have applied. The agreements also enabled exporters to capture the tariff (export tax) equivalent rents which would otherwise have accrued to the beef importing sector.[Dewbre and Harris, 1985, 1]

Since the 1979 law came into effect, the import quota and the VRA have generally been considered successful policy instruments in holding down the level of beef imports into the U.S. The tight beef quota inducing Australia to sign a VRA has had a price-depressing effect upon Australia's U.S. sales\textsuperscript{65} and acted as an administrative irritant in the selling of Australia's beef (by having to suddenly withhold beef from the U.S.
market till the following year). However, more importantly, the flow-on effect of the U.S. quota on the value of Australia's shipments to other countries (such as Japan) has been deleterious. Should the U.S. import quota not satisfy U.S. producer concerns, then they can be expected to seek to restrict imports further by other less direct means. Potentially, the most important of these would be tighter inspection standards and labelling (at the retail stage).

U.S. Meat Inspection

Soon after the adoption of the 1979 MIL, imports from Australia were found to be adulterated with, on one occasion, horsemeat and, on another, kangaroo meat. This added to pressure from U.S. cattle producers which resulted in an amendment being included in the 1981 Agriculture and Food Act requiring that all imported meat be subject to the same tests as those required for domestically-produced meat. As well, foreign meat has been required to undergo tests for species verification and compliance with Food and Drug Administration tolerance levels for chemical and drug residues.

These requirements have operated in like manner to nontariff barriers on the importation of beef into the U.S. While meat inspection may be primarily a health issue, disputes over drug and chemical residues in imported beef have been capable of being also considered trade issues. The U.S. rejection of Australian supplies of beef in 1987 was one such case of a health issue turning into a health and trade issue. While Australia took the health aspect of the issue seriously, as evidenced by an intensive testing program, it also considered that the action was partly motivated, at least on the part of the U.S. cattle producers, by a desire to restrict imports. As evidenced by the more recent hormone dispute with the European Community, U.S. beef producers are also capable of seeing meat inspection issues as trade issues.[National Cattlemen's Association, 1989, 2]
United States Agricultural Trade Policy-Making

To understand the nature of the U.S. agricultural policy-making process it is necessary to consider the nature of the interactions of the various important state and societal actors within the context of the U.S. political institutions. While this dynamic policy process has operated in similar fashion for each of the three agricultural commodities considered, there have been important differences between the sectors.

Role of the Congress

The U.S. Congress has been the most important of the political institutions involved in agricultural trade policy-making. Despite the fact that agricultural producers constituted a very small proportion of the total workforce and have provided a fraction of the Gross National Product, many more than just the congressional representatives sent to Washington by farmers have felt some affinity for farming interests. This has much to do with the perceived importance of farming in the food and fibre sector and the importance of this sector to the U.S. economy; concern for the struggling farmer; and the myth of the family farm.

The importance of Congress' role has derived from the nature of both the U.S. political system and the policy making 'system' in Congress itself. The divided system of government in the U.S. has meant that both the executive and the legislature share policy-making functions. With some exceptions, each institution has been able to assert itself in any policy-making field as it so wished.

Congress' direct and extensive involvement in wheat and beef trade policy-making has been very much a result of the fact that both commodities have been grown extensively throughout the U.S. Figure A outlines the extensive U.S. wheat growing areas, from which the conclusion could be drawn that many congressional representatives have a direct interest in the well-being of that industry. Likewise, with cattle herds found throughout the U.S., many congressional representatives must take into account a beef-growing constituency. Cattle growing has been an important component of the farm economy as a whole with sales of cattle having accounted for 20 percent of total receipts
from farm marketing in 1987. [National Cattlemen's Association, 1989] Sugar, on the other hand, has been produced, by using either cane or beets, in only 17 states in the U.S. [see Figure B] Congressional attention and support for the sugar program has been more the result of well-placed and influential members of Congress, the nature of the program itself, as well as effective lobbying by societal actors.

All producer interests have been assisted in their efforts to influence congressional decision-making by the fact that they have usually been more organised than those who have opposed their support programs. Consumers and taxpayers have generally suffered (either directly or indirectly) from producer support programs. However, they have found it difficult to capture congressional interests unless more widespread economic and budgetary concerns were involved.

The nature of the congressional system has, however, been more important to this study than the fact that many congressional representatives have been sympathetic to agricultural producers. Given Congress' (and especially the House of Representatives') closeness to the electorate (with elections every two years) and its essentially insular and parochial nature, it is not surprising to find that the operation of the system has served well the interests of agricultural industry groups. If the industry groups have had local, regional or state-based structures as has been the case with beef and sugar, (which may or may not have been part of federal industry structures) then these organisations will also have been able to use their influence upon the representatives 'back home'.

The responsiveness of congressional representatives has been reinforced by the fact that party discipline in the Congress has been much looser than in countries such as Australia which have operated under the Westminster system. Another feature which has assisted societal actors has been the representative design of the U.S. Senate (two members elected from each state). This has provided an inbuilt bias towards rural communities providing agriculturally-oriented states with a greater say than if there had been equal representation.

The most important element of Congress has been the committee system. Particularly since the reforms of the Congress in the 1970s, which saw a greater dispersion and
decentralization of decision-making, the committees and especially their subcommittees have had a decisive impact upon policy-making. The reformed structure of Congress, providing as it has greater freedom of operation for subcommittees and their chairpersons, has facilitated the rise of commodity groups. These groups have been able to focus their attention on individual congressional representatives and/or make submissions to hearings of both full committees and their subcommittees. Individual commodity programs were usually not considered in detail in forums other than that of the particular commodity subcommittee (and then only if the program was politically contentious).

It has been at the authorization stage of congressional deliberations that most congressional activity has occurred and where outside interests have most keenly sought to influence Congress’ policy-making role. The Senate and House Agriculture Committees have dominated this activity: Greater specialisation within the committee system has meant that legislation on particular commodities has been virtually written in subcommittees. As a recent Australian study has pointed out, the narrower focus allowed these subcommittees may well have resulted in support policies being adopted for some commodities without account being taken of other related agricultural commodities or issues.[Roberts et. al., 1989, 159]

The agricultural committees have had a somewhat broader perspective than that of their subcommittees but they have also been heavily represented by members of Congress sympathetic to both general and particular farming interests. As with the chairman of the House Agriculture Committee, Representative (Kika) de la Garza, a strong supporter of the sugar program, those ‘running’ these agricultural committees and subcommittees have often had certain producer interests as important constituents. In something of a symbiotic relationship, a representative could be expected to support a particular commodity program in return for political assistance and support. However, this should not be overstated, especially so far as the Senate committees have been concerned. As a recent analysis of the role of former Senate Agriculture Committee Chairman Patrick Leahy found, there has always been some latitude available to a chairperson to pursue policy directions not necessarily in line with those desired by the major commodity groups. [Cloud, 1989, 2116]
Another aspect of the congressional process which has assisted commodity groups has been the practice of dealing with more than one commodity in the one omnibus trade bill. This encouraged commodity groups to make bargains and trade-offs with other groups in order to secure sufficient support to counter those representatives or senators advocating a fundamental change or removal of the support program. Sugar has been more successful than wheat in using this process to avoid serious amendment to its program. Where wheat interests saw production control measures included in the 1985 farm bill with further measures introduced in the 1990 farm bill to make planting more market-oriented, sugar interests avoided having their program changed except for the proviso that it could not become a 'cost to the budget'. The beef program has been less protectionist than the wheat and sugar programs, and with the strong support enjoyed by cattle interests in relevant agricultural committees and subcommittees and on the floor of the Houses, the MIL has avoided change in the farm bills of the past decade.

The two important congressional trade committees, the House Ways and Means Committee and the Senate Finance Committee have also been directly concerned with the commodity support programs and agricultural policy generally. These two committees have been involved at the appropriations stage of congressional deliberations having been more directly concerned with the cost of commodity programs and in exercising oversight over the likely effects of the trade measures (such as quotas and VRAs) which have been incorporated in these programs. The members of these committees have not, as a rule, been as close to the producer interests as have been the agriculture committees and have not been as susceptible to industry influence. However, as a senior staffer of the Senate Finance Committee Chairman pointed out when interviewed, these trade committees have performed their oversight role in consultation with the Agriculture Committees of each House.

Congressional representatives supporting sugar and beef interests, through the particular trade measures contained in their support programs, have been able to prevent each of them from becoming a ‘cost to the budget’. This has strengthened their bargaining position when seeking the support of other congressional representatives during farm bill deliberations. Given that the wheat export subsidy program has been a much more transparent form of support, wheat program supporters have not been able to prevent the
program from being considered a cost to the U.S. taxpayer. As a result, the program has experienced some amendment.

Role of the Executive

Despite the recent increased assertiveness of the Congress in agricultural trade policymaking, the executive has continued to perform an important role in both the formulation and implementation of agricultural trade policy. During the 1980s, this has been a weaker role partly because of Congress’ increased attention to agricultural issues (such issues were considered essentially domestic issues and drew less attention from the executive) and partly because the executive’s discretion to act in implementing agricultural support programs has been reduced.

However, the executive has maintained an important position in agricultural trade policymaking. Not only has the executive been charged with the responsibility for acting as the national government in ‘the national interest’ broadly defined, but has also been the organ of government responsible for the implementation of agricultural programs. Through its bureaucracy, the executive has had access to much detailed information and analysis which has placed the administration in a strong position to influence domestic farm programs and agricultural trade policy generally. However, as one Washington-based agriculture consultancy has stated, the executive does not seem to have taken its role in agriculture as seriously as has the Congress.[World Perspectives, 1988, xvii] Agricultural issues were considered primarily domestic issues and the executive, operating at a greater distance from societal actors than the Congress, has thus not felt obligated to give the issues the same high level of attention.

Formally, the executive’s role in agricultural trade policy-making was conducted through an interagency coordination process (see Figure C) between various departments and agencies of government. While this process was not subject to the immediate impact of societal actors, it has not been immune to their influence in either the formulation or implementation stages of policy-making. The interagency process has been a cooperative and coordinating framework for the making of policy within the executive
branch. However, relations between agencies on agricultural trade issues have, on occasion, been as competitive as they have been cooperative.

The formal interagency coordination process has the President at its head with him or her chairing the Economic Policy Council (EPC). However, it was just below Cabinet level that the interagency process was really seen to be in operation. With agricultural trade policy considered very much a part of U.S. trade policy, a Trade Policy Review Group (TPRG) chaired by a Deputy U.S. Trade Representative (USTR) was the body which handled the coordination of executive policy in this issue area. This committee met regularly (often dealing with issues brought to its attention by its subordinate staff committee, the Trade Policy Staff Committee (TPSC)) and aimed to both gain an administration-wide consensus and reduce the number of matters coming before the EPC.

The executive, through this policy-making framework, has been unable to significantly influence the type of wheat, sugar and beef commodity programs produced. In the case of wheat, the Reagan Administration failed to address the problems of U.S. farmers in the first four years of the 1980s and then when the Congress overreacted and brought in programs such as EEP, the Administration found itself forced to acquiesce in order to secure passage of a budget package. The executive has subsequently found the EEP to be a useful weapon to both combat the EC and expand wheat exports and, as in the case of the September 1992 decision by President Bush to provide an extra US$4 billion for the program, to garner support amongst U.S. farmers.[Blight and Oxley, 1992, 19] A development of particular concern to Australia has been the executive’s willingness to use EEP to export U.S. wheat into new markets where the EC has not been a major exporter. The Bush Administration’s decision to use the subsidies to export to the new markets of Pakistan and South Africa in September 1992 has been followed by the Clinton Administration’s decision in June 1993 to use EEP against Canadian wheat exports to markets such as Mexico.[Armstrong, 1992, 3; Stutchbury, 1993c, 6]

In the case of sugar, the executive has appeared even more powerless to withstand protectionist pressure. Neither the Reagan nor Bush Administrations considered that the sugar program made much economic sense. However, the executive did not move
decidedly against the program over the 1980s or early 1990s and the Clinton Administration has likewise been unwilling to move substantially in the direction of reform of the program. This has been partly because of the need to have budget packages passed by the Congress and the fact that the sugar lobby within the legislature has sufficient strength to derail administration reform proposals (such as occurred in the 1990 farm bill). As well, the executive has acknowledged that the program has provided some stability to the sugar producers, albeit at great cost.

The beef program has also been able to avoid executive-sponsored tampering for much the same reasons. However, even more so than in the case of wheat and sugar, the beef program’s instruments offered little scope for the exercise of executive discretion. The executive has remained unhappy with the operation of the MIL and the limited flexibility provided to the executive and its agencies to moderate the program’s effects upon particular countries during implementation. The non-controversial nature (that is, within the U.S. domestic polity) of the program has weakened the executive’s hand in dealing with the Congress on this issue.

The principal cabinet department responsible for agriculture has been the Department of Agriculture (USDA). This mega-department has performed many functions within the agriculture portfolio. As well as being the primary body for the development of agricultural policy and the administration of government programs, the USDA has had a key role in the promotion of U.S. agricultural exports and the administration of import quotas. The USDA has administered its policy and programs in a very bureaucratic manner, ever conscious of the need to protect its general constituency, the American farmer. While it was not always so closely aligned to the farmer as it was in the 1980s, the USDA has consistently pursued a conservative policy line.

The USDA has held a powerful position within the U.S. wheat market and as a consequence, on the world market. This has drawn concern from quarters within the Washington establishment. Carol Brookins, an agricultural consultant, has argued that while USDA officials have believed that they have been really only following the grains market, the amount of grain that the USDA has managed, together with its management of the U.S. price system has meant that it has been leading the (world) market in some
Wheat programs provided the Agriculture Secretary with a good deal of discretion thereby providing the Department with further control over both the supply and price of the commodity. According to officials of the Australian Wheat Board (AWB), the USDA has itself performed many of the functions of a wheat marketing authority for U.S. wheat growers. [Interviews with AWB officials]

The USDA has also taken the chief role in the implementation of Congress’ sugar policy. According to officials from other U.S. government departments, the USDA has, in practice, taken over full responsibility for sugar policy from the interagency Sugar Working Group. As with wheat, the 1985 Act enhanced the USDA’s power by giving it responsibility for implementation of the ‘no cost to the budget’ sugar program. In the late 1980s, the USDA was content to use the sugar import quota mechanism (the USDA had the responsibility for making the final estimate of sugar imports) to meet its objectives of protecting producers’ incomes and avoiding the direct use of subsidies. [Lopez, 1989, 29]

The USDA, while initially opposed to the beef program’s MIL because of its U.S. market distortions, has come to accept the law because it has satisfied the demands of the cattle industry while representing a low level of protection. The MIL, as in the case of sugar, has provided a key role for the USDA in the implementation of the import quota.

The U.S. Trade Representative (USTR), formally the President’s chief agricultural trade policy advisor, was established as an agency within the Executive Office. The office of the USTR has acted as something of a ‘trade broker’ between the branches and agencies of the executive and has been influential, despite its relatively few resources (it has only about 300 staff), because of its central, coordinating position. The office of the USTR has been more concerned with export than import issues. While wheat has thus been given more attention than sugar and beef by this agency, each of these commodities has been formally considered by the TPRG, chaired by a Deputy USTR, and by its subordinate officials committee, the Trade Policy Staff Committee (TPSC). The USTR, through its coordinating role, has been very much involved (through the interagency process) in deciding executive policy on wheat and beef. However, the USTR has a
lesser role in the case of sugar given that the USDA has taken almost sole charge of sugar policy.

Other U.S. executive departments have been less involved in policy-making than the USDA or the USTR. The most important of these has been the U.S. Treasury which was involved both generally, in its Secretary's role as the President's chief economic advisor, and in the implementation of particular commodity programs. Dominated by ideas of economic rationalism and free trade, Treasury has disapproved of the support programs which have been established for wheat, sugar and beef. As to the wheat program, instruments such as the EEP have been so strongly supported by industry and influential members of Congress that despite its budgetary costs, Treasury has been powerless to secure a significant amendment to the policy. So long as the sugar program maintained its 'no cost to the budget' status, it has also been able to avoid close Treasury scrutiny. This has also been the case with the beef program where the costs are likewise less than transparent.

The State Department has also occasionally become involved in agricultural policy-making. State has been a more outward-oriented department (being generally more sensitive to the needs and demands of other states) and this has contributed to its weakness in this area of policy-making. Australia and other countries which have been adversely affected by the U.S.'s distortionary policies in wheat, sugar and beef, have found the greatest sympathy and support from this Department. State, however, has lacked a domestic constituency of any note and as one senior State official noted, when interviewed, State's overall influence in agricultural trade policy-making has been weak. Domestic U.S. agricultural interests (and the programs they have supported) have had a tendency to be inflexible allowing little opportunity for changes to reflect problems experienced by other states.

Of the three commodities, State has been more likely to become directly involved on sugar policy because of human rights and other foreign, usually political, policy issues. In the case of sugar, this would have had more to do with quota allocations enjoyed by certain Caribbean and Pacific countries than with Australia's position. Generally, on
all commodity issues, State has exercised little more than a watching brief over the operation and effect of the programs.

Apart from a few minor exceptions, the executive’s position has been a relatively weak one. Executive agencies, especially the USDA, have retained an important position in agricultural trade policy-making but with the congressional tendency (of the 1980s) to reduce their freedom of manoeuvre, their capacity to moderate the effects of the programs (assuming that they so desired) has been severely constrained.

Role of U.S. Societal Actors

Societal actors (especially industry groups) and their lobbyists have been highly influential in the making of U.S. agricultural trade policy-making. The level of their influence has owed much to the importance of Congress in the making of agricultural trade policy and to the openness of the congressional system. To a lesser extent, the relatively open and diffuse nature of the political system has meant that executive agencies have also been affected by the influence of societal actors, especially if they have formed an important part of an agency’s domestic constituency. There are advantages and disadvantages for policy-makers in such a system. As one senior USTR official noted in an interview, while industry groups can certainly make matters more complicated for policy-makers, when they are behind you, they can be a powerful force in your interest.

Influence by these groups has never been solely by the placing of ‘a word in the right ear’, but has also involved the payment of large sums of money by way of political campaign contributions. Recently, this has been regulated by the introduction of political action committees (PACS) through which private organisations have directed their funding to congressional representatives’ campaigns. Such financial support, of course, has depended on the individual representative’s positions on particular issues.

In the U.S., some societal actors have operated at the level of general agricultural trade policy-making while others have represented specific commodity interests. Five general agricultural organisations have accounted for varying views (from conservative to
liberal) as to the level and type of assistance which farmers, and rural interests generally, should receive from the government. The most important of these have been the National Farmers Union and the less protectionist American Farm Bureau Federation. All such organisations were generally supportive of the wheat, sugar and beef support programs because of the benefits they brought to their members. This does not mean, however, that they believed such programs could not be improved upon and made more efficient. Viewing agriculture as part of the larger U.S. economy, representatives of these organisations have been prepared to acknowledge, in interviews, that while they supported the programs, the adjustment process (by which each program has provided income support) should be examined to see if producer costs could be reduced.

The specific commodity groups are of greater importance to this study. In each of the three commodity areas examined, powerful industry groups have been instrumental in securing and maintaining support programs. With respect to the wheat program, two important groups operated in Washington: the U.S. Wheat Associates and the National Association of Wheat Growers (NAWG). These national confederations, deriving their strength from their state and regional representation, were instrumental in lobbying Congress to bring in legislation in the mid-1980s which provided both domestic price support and assisted U.S. wheatgrowers to claw back lost market share.

More than the wheat or beef programs, the sugar program has owed its continued existence to the constant influence of a coalition of producer interests. This political and economic coalition has consisted of both sugar and cane growers and producers of sweeteners, especially High Fructose Corn Syrup (HFCS). As beneficiaries of the sugar program, they owed their relationship very much to the success of this program. These producer interests have been astute at marshalling arguments in support of the program and have employed experienced lobbyists to present arguments which have ranged from the domestic campaign that sugar is 'nature's own sweetener' to references to the EC's corruption of the world sugar market. Their campaigns have been based very much on a 'its's who you know' approach to securing support.[Arvidson, 1985, 97] Informal contact was regularly maintained by these lobbyists with members of Congress on the Agriculture Committees and its subcommittees and with government officials.
(predominantly in the USDA) on the Sugar Working Group. The general farm organisations, while not wholeheartedly supportive of the program have, all the same, argued its importance for the sugar producer. Paul Drazek of the American Farm Bureau Federation, for example, has argued that while it was not a satisfactory program, it did act to minimise the damage which the EC’s program was doing to U.S. producers. [Drazek, 1985, 22]

The beef support program was, like the sugar program, the product of industry influence in the policy-making process. The MIL came into existence as result of pressure upon Congress from the National Cattlemen’s Association (NCA). A senior NCA official, when interviewed, stated that despite the fact that the U.S. exported as well as imported beef, the NCA was a domestically-focused rather than a trade-focused organisation. Officials of the NCA sought to maintain the program by keeping in touch regularly with particular members of Congress (particularly if they were members of the relevant committees and subcommittees) and with government officials in the Livestock Group of the Dairy, Livestock and Poultry Division of the USDA.

Apart from the opportunity afforded societal actors to influence policy-making through their submissions to and evidence before congressional hearings and through more informal channels, they have also had formal opportunities to influence executive policy-making. The executive has conducted public hearings, through its various interagency committees, where societal actors were invited to present evidence. As well, the executive has consulted industry groups through a three-tiered system of advisory committees, managed by the USTR in cooperation with the Departments of Agriculture, Commerce, Labor and Defense. The most important of these committees is the Presidentially-appointed Advisory Committee for Trade Negotiations (ACTN) which advises the government on overall trade policy issues. Below this, an Agriculture Policy Advisory Committee (APAC) is one of eight committees of officials (with commodity-specific subcommittees) which advise on how trade issues affect specific areas; and at a third level, an Agricultural Technical Advisory Committee (ATAC) advises on technical and sector-specific issues. About one third of all trade-related committees have been of relevance to the agricultural industry groups. [World Perspectives, 1988, 135]

Within both the executive and congressional arenas of agricultural trade policy-making,
societal actors (especially from the agricultural industries) have been provided with ample opportunities to contribute to, if not to influence, policy outcomes.

Another formal mechanism available for industry involvement in policy-making has been through the lodging of a formal complaint with the International Trade Commission (ITC) against a foreign competitor. Recent legislative amendments have opened up this avenue of redress further, making it more difficult for the executive to avoid acting on complaints against foreign interests.[Bhagwati, 1989] Agricultural producer groups have not felt the need to use this avenue of redress given that they have been generally successful in gaining the type and level of support desired through the exercise of direct political pressure.

Wheat, sugar and beef producer interests have preferred to use their own organisations rather than independent lobbyists in Washington. Wheat (for example the U.S. Wheat Associates or the NAWG), sugar (for example, Florida Sugar Cane League and the Rio Grande Valley Sugar Planters’ Association), and beef (the NCA) interests all saw the major portion of their responsibilities to have been both the monitoring of policy developments (be they from Congress or the executive), and lobbying to ensure that such developments would not harm their commodity support programs.[Interviews]

Against these producer interests, there were societal actors which opposed these commodity support programs and had competed for influence both on Capitol Hill and within the bureaucracy. While wheat growers have not faced any significant opposition from other societal actors within the U.S., the sugar program has been openly challenged by powerful industry interests. The strongest opponents of the sugar program have been the industrial sweetener users who have effectively organised themselves into the Sweetener Users Association.74 These industrial users, who have argued against the program on efficiency grounds, have believed that the program would soon require federal funding which (given the influential opposition to such funding in Congress) would bring about the dissolution of the program’s political support. [Hammer, 1989, 39]
Interests which have opposed the beef program have, like their counterparts in the sugar policy debate, had no success in reforming the MIL. The American Meat Institute (which has represented processors and packing interests) and the American Meat Importers Council (which has had a close relationship with major exporters such as Australia and New Zealand) have complained vigorously to the U.S. government about the difficulties and distortions caused by the operation of the MIL. While unable to muster sufficient support in the bureaucracy or the Congress to secure an amendment to the Act, they have constituted a ready-made domestic constituency with which foreign exporters have periodically joined so as to pressure for a reconsideration of the law by Congress.

Within the U.S. agricultural policy-making process there has existed, for each of the commodities studied, something of an ongoing debate over the nature and effects of the particular support program. To date, producer interests have been able to command sufficient support both within Congress, and less importantly within the relevant executive agencies, to secure maintenance of their programs. Other opposing industry interests have been weaker by comparison and have found that while ideas of efficiency, free trade and fair competitiveness have a certain appeal (more so with executive officials than with congressional representatives), these have not had sufficient currency to overcome the structural and process-related advantages the policy-making system has granted to the producer interests.

**Australian Agricultural Trade Policy-Making**

Despite some successful attempts at diversification, much of Australia’s agricultural trade policy-making must inevitably focus upon how well its agricultural industries have been faring in overseas markets. Wheat, sugar and beef have continued to be important sources of Australia’s export revenue over the 1980s and into the 1990s. Policy-making in wheat, sugar and beef has been export-oriented given the very high export proportions of Australia’s production of each. It is, thus, not surprising that the trade outcomes for each sector have been amongst those most keenly watched by Australian agricultural trade policy-makers.
Role of Australian State Actors

Australian agricultural trade policy-making, in contrast to that practised in the U.S., has been dominated by government. Reflecting a more regulatory political culture; Australia’s trade policy, driven as it has been by state actors, has been as much about securing the appropriate macroeconomic settings for the general enhancement of trade as it has been about removing any impediments to the development of the export potential of each of the agricultural sectors. The joint May 1988 Statement by the Minister for Primary Industries and Energy and the Minister for Resources indicated the replacement of the old commodity policy approach and, emphasising market access, considered agricultural industry sectors a part of the larger economy. [Department of Primary Industries and Energy, 1988]

Agricultural policy has been made over the 1980s against a background of a floating Australian dollar, deregulation of the capital market and an overall attempt to make Australia’s agricultural industries more competitive through, primarily, the removal of regulatory barriers to the efficient production and handling of exports. Executive control of the policy process has meant that difficult decisions in terms of reducing protectionist supports to agricultural industry have been able to be implemented without acceding to industry pressure. The exception to this has been the sugar industry which, principally through its special relationship with the Queensland government, has managed to resist some of the pressures for reform coming from the Australian government. Policy in respect of all three commodities has recognized the importance of the commercial market and that attention must be directed to world market prices. In the case of wheat and sugar, previously important international agreements have no longer been considered of any relevance to Australia’s trade prospects.

With executive control of the policy process has come an enhanced position for the federal bureaucracy. Two departments have been principally responsible for agricultural trade policy-making with respect to the U.S. While their roles in agricultural trade policy-making overlap, there are discernible differences in their approach to the issues. The Department of Foreign Affairs and Trade (DFAT) has handled agricultural trade policy towards the U.S. in a broad brush approach rather than with respect to specific
commodities and their problems. It has been more concerned with both bilateral political and economic relations (through an Americas and Europe Division) as well as with Australia’s negotiating positions within the Uruguay Round of multilateral trade talks (through the Multilateral Trade Division). Officers from these divisions have consulted societal actors through tripartite mechanisms. However, an Economic and Trade Development Division has also been charged with the responsibility for "safeguarding and increasing Australia’s access to overseas markets for commodity...exports..." [Department of Foreign Affairs and Trade, 1989, 64] Responsibilities of this division have included the provision of economic and statistical analysis to the government.

The other important federal agency is the Department of Primary Industries and Energy (DPIE). Responsibilities within DPIE have been divided chiefly on a commodity basis: Crops Division has dealt with wheat and sugar while the Pastoral and Livestock Division has handled beef issues. An International Relations Branch has also considered multilateral and bilateral developments insofar as commodities have been concerned. As the ‘line’ agricultural department, DPIE has been closer to private industry than DFAT and has consulted industry more regularly. A 1987 reorganisation saw DPIE given the export promotion function with respect to agricultural issues and while DFAT has been primarily responsible for conducting both multilateral and bilateral negotiations, there is little doubt that DPIE has been directly and constantly involved.

Another important facet of DPIE’s activities has been performed by its research arm, the Australian Bureau of Agricultural and Resource Economics (ABARE). This bureau has been at the forefront in analysing both the domestic cost, and distortions to the international trading system, of the domestic support policies of the major agricultural traders. ABARE has been given sufficient autonomy to enable it to produce objective, economically literate and well-argued analyses.75

While relations between DFAT and DPIE were perceived to be generally cordial and cooperative, there has been some tension between the agencies. This would come as no surprise given that they have effectively shared the agricultural trade responsibility. Concern was expressed by officials as to the drawing of demarcation lines between the responsibilities of each and some disquiet was expressed by DPIE officials that DFAT,
in leading on trade negotiations, would often fail to take sufficient note of DPIE's information and expertise on commodity matters. [Interviews with DFAT and DPIE officials]

The role of government in the making of sugar policy has been complicated by the fact that the Queensland government has also been statutorily involved in policy-making. Almost all Australian sugar is grown in that state and there has always existed a close relationship between the state government and the industry. The Queensland government has exercised regulatory functions through the Queensland Sugar Corporation (which replaced the Australian Sugar Board in April 1991) with the corporation having the statutory right to acquire all sugar produced in the state of Queensland and the authorization to purchase sugar produced in the neighbouring state of New South Wales.  \(^{76}\)

Apart from regulation, there has not been a record of financial assistance to the sugar industry. Much of this regulation disappeared in 1989 (except notably that relating to production) with the removal of the embargo on imports and the introduction of a programme of tariff reductions.  \(^{77}\) While the Australian government has retained the right to grant export licences, it has had little other power and its efforts to seek a coordinating role through a (national) sugar council have been rejected by the industry and the Queensland Government.

Even the Queensland Labor Government, elected in late 1989, while creating the Sugar Corporation and a new Tribunal and Policy Council, has not been prepared to move further on deregulation than that instigated by the Australian government in 1989. It has remained well aware of industry sensitivity to the changes that have already occurred and seems to believe that any further changes must come from the industry.

**Statutory Marketing Authorities: Wheat and Beef**

The Australian Wheat Board (AWB) has been given the sole responsibility to market Australia's wheat overseas. While legislative changes in 1989 included, amongst other changes, the loss of the AWB's domestic monopoly, the export monopoly has
remained.\textsuperscript{78} This form of regulation has been criticised as providing a centralised buying and selling agency and thus a trade barrier within the world wheat market.\textsuperscript{99}[Hathaway, 1983, 446] The AWB has countered that growers get only what the market place will pay and that, with the disappearance of the Australian government’s price underwriting guarantee, there has been no government support.

The beef industry has had less regulation than either wheat or sugar due to a non-interventionist approach by the Australian and state governments. The industry’s geographical spread has taken it, like wheat, beyond the regulatory powers of state governments and with generally good world market prices, it has not had to call upon the Australian government for assistance. However, a steep decline in prices after 1974 forced the industry to seek government assistance in terms of marketing and one result was the formation of the Australian Meat Livestock Corporation (AMLC) in 1977.\textsuperscript{80} Another response in 1977 was the introduction of a direct subsidy scheme for beef producers. With the revival of prices, this scheme was phased out and, apart from drought assistance in 1982-83, the industry has remained unsubsidized and only a little regulated.

The AMLC, as the umbrella industry body, has been the only form of regulation or direct assistance to the beef industry. It has performed a similar role to the AWB in providing market intelligence and analysis. Unlike the AWB, the AMLC has not actually exported the commodity, but rather has provided the licences on behalf of the Australian government.\textsuperscript{81} The AMLC has, however, operated similarly to the AWB and has effectively controlled the export of Australian beef.

In terms of government regulation and assistance, the picture across the three sectors (and agriculture generally) has been somewhat mixed. The main form of assistance during the 1980s and early 1990s has been that of regulation to assist Australian industry to market its product internationally. Measures have been put in train to remove all tariff support for the commodities and to make growers respond more to market signals. The Hawke Government acted, through such moves as the floating of the exchange rate and the deregulation of the financial sector, to link the external and domestic markets much more readily. These macroeconomic changes have had a profound effect upon
commodity producers (as in the wheat, sugar or beef sectors) who have traditionally exported the great bulk of their produce. In interviews, analysts of export industries have, however, complained that in the late 1980s and early 1990s, the Australian government had not always got it right and had often sent the wrong macroeconomic signals to these industries.

Role of Australian Societal Actors

The involvement of societal actors within the Australian agricultural trade policy-making process has been largely confined to industry groups and this has been conducted through a number of channels. One has been, indirectly, through representation on statutory authorities such as the AWB in the case of wheat, on the Queensland Sugar Corporation, and the AMLC for beef. Another has been through their commodity organisations which have operated both independently as well as through the National Farmers Federation (NFF), the peak farming organisation. These are the Grains Council of Australia (GCA), the Queensland Cane Growers Council (QCGC) and the Cattle Council of Australia (CCA).

In contrast to the U.S. system of government, Australian societal actors must direct most of their lobbying efforts to the executive, the Australian government. Any lobbying of Members of Parliament, either in their individual capacity, as members of particular political parties or (to a lesser extent) as members of parliamentary committees, has been principally to seek to further their influence over government policy. In the case of sugar trade policy, lobbying by the industry on all matters (including regulation and support), except the Australian government’s tariff reduction programme, has been directed toward the Queensland government.

The AWB and the AMLC which have provided most of the market intelligence and analysis as to Australia’s wheat and beef trade respectively, have become inevitably involved in the policy-making process. Apart from their statutory requirements to report to the responsible Minister, the Minister for Primary Industries and Energy, these authorities have been regularly consulted by officials of DPIE. Each has industry representation and has provided marketing assistance to growers. This closeness to the
industry has provided these organisations with first-hand knowledge of producer problems and needs. In turn, the AWB and the AMLC have provided an avenue for producers to influence government agricultural trade policy, albeit indirectly, in each commodity area.

A more direct avenue of influence has been through the system of industry consultation which the Australian government has established. Formal representation has occurred through the involvement of the NFF on the Trade Negotiating Group (TNG), chaired by the Minister for Foreign Affairs and Trade and the Commodity Trade Advisory Group (CTAG), chaired by officials of DFAT.

DPIE has consulted societal actors such as the Australian Council of Trade Unions (ACTU) and the National Farmers Federation (NFF) on a regular and informal basis, while at a more senior and more formalised level, consultation has occurred through the Rural and Allied Industries Council (this has been chaired by the Australian Minister for Primary Industries and Energy and has met every six months).

With respect to wheat policy, DPIE has informally consulted with the Grains Council of Australia (a constituent of the NFF), while on beef policy contact has been maintained with the Cattle Council of Australia (another constituent of the NFF). Sugar has been treated somewhat differently due to the fact that the major player in the exporting of sugar has been a private company, the Colonial Sugar Refining Company (CSR). Exporting under licence, CSR has been regularly consulted by the Australian government. Canegrowers and millers' organisations have continued their representation on the Queensland Sugar Corporation while also having been informally consulted by the Queensland government.

Agricultural trade policy-making has offered many opportunities for industry interests to seek to influence various stages of the formulation and implementation process. However, the record indicates that agricultural industry groups have had less of an impact upon government than have the ideas of deregulation, reducing protectionism and increasing the market orientation of agricultural production. Individual commodity groups which, understandably, have been more protectionist than the peak farming body,
the NFF, have on occasion, been able to 'hold the line' against government deregulatory and anti-protectionist moves. The AWB's wheat export monopoly and sugar's production regulation and import tariff reduction freeze have represented victories for industry groups over the Australian government's deregulatory and liberalising policies. However, these groups have generally been on the defensive and have witnessed an almost continual reduction in agricultural support over the 1980s and early 1990s.

Agricultural industry groups have been divided over the level of government support which they consider should be provided. For example, the NFF has emphasised the need to reduce protection across all sectors of the economy and to promote the results of studies of the domestic effects of assistance to agricultural industries in other countries.[National Farmers Federation, 1988] Of the sugar industry groups, the Australian Sugar Milling Council has been much more favourably disposed to deregulation of the industry than the Queensland Cane Growers Council (QCGC). In the wheat sector, the Grain Council of Australia (GCA) opposed the NFF's more liberalising policy and lobbied against the removal of price underwriting of wheat prices by the Australian government. The GCA considered such support to have been an important form of insulation against the importation of corrupted world market prices.[Grains Council of Australia, 1988, 11]

The weakness of agricultural industries in securing additional government assistance to counter global price distortionary and market access problems has reflected the fact that Australian agricultural trade policy-making has been both export-oriented and highly influenced by ideas of economic rationalism. The Hawke and Keating Governments, more than any of their predecessors, have promoted the view that Australia's agricultural commodities had more to gain from uncorrupted world markets. To promote ideas of free and fair competition within these world markets, a prerequisite was that Australia would get its own 'house in order' by deregulating and liberalising its domestic industries. Against these moves by government, there has only been a small domestic political market receptive to claims from agricultural industries for specific industry assistance.
Australian agricultural trade policy-making has been guided by the ideas of free and unsubsidized competition. The debate over government assistance has effectively been confined to matters relating to the provision of regulations which would assist marketing and encourage exports. It was not so much that industry has not been influential than that government has only been receptive (short of some kind of domestic emergency or acute political pressure) to industry efforts which have been compatible with the Australian government’s campaign to reduce the barriers to overseas markets rather than maintain or build up its own in Australia. Australian agricultural trade policy-making has involved a domestic bargaining relationship between state and societal actors. State actors have, undeniably, dominated this relationship which has focused upon the protectionist regimes of the major agricultural players, such as the U.S., whose policies have both corrupted world commodity markets and obstructed imports into their own domestic markets.

Australia’s Bargaining Approach to the U.S.

The approaches made by Australia to the U.S. to seek an improvement in wheat, sugar and beef trade outcomes, have reflected the dominance of Australian state actors in agricultural trade policy-making with their role having been performed through a cooperative and largely informal arrangement between the Departments of Foreign Affairs and Trade and Primary Industries and Energy. Societal actors have also been involved, usually on an informal basis, in the formulation and execution of Australia’s bilateral and multilateral approaches to the U.S. This involvement has been both constant and important reflecting the close relationship between the political and commercial aspects of policy-making.

Australia has sought an improvement in these sectoral trade outcomes both bilaterally and multilaterally. Each approach has demanded different skills from Australian policy-makers and negotiators and has involved different strategies by Australia, as it has sought to take account of the complexity of U.S. agricultural policies and the nature of the U.S. agricultural trade policy-making process. The approaches should not, however, be treated as being completely separate from each other and have been pursued simultaneously by Australia towards an improvement in its trading outcomes.
The Bilateral Approach

Australia’s bilateral approach has been the most constant means adopted to attempt to change U.S. policy in each of the three agricultural sectors. In addressing the problems Australia has experienced in each sector, this approach has focused on the protectionist U.S. policies and programs and has brought into play, to a varying extent across the sectors, a general partnership between Australian state and societal actors in seeking the removal or amendment of these programs.

U.S. policy in the case of all three commodities has provided specific protectionist instruments. While these instruments have suited the purposes of a number of important state actors, their existence has been largely the product of the influence that coalitions of societal actors (principally producer interests) have had over the policy-making process found in both the Congress and agencies of the executive branch. Australian state and societal actors have been well aware of the domestic focus of U.S. agricultural trade policy-making and the difficulties for a foreign state in attempting to influence that process.

Congress has held the dominant position in U.S. agricultural trade policy-making and has, in many instances, provided limited flexibility to the implementing executive agencies with which they could improve outcomes for trading partners, such as Australia. While Australia has given considerable attention to the Congress in the late 1980s and early 1990s, this had not always been the case. Until at least 1986, the Australian government considered that it could make the greatest impact upon the U.S. policy-making process by concentrating its lobbying efforts almost solely upon the executive and its agencies. In fact, in the preparations for Prime Minister Hawke’s first visit to the U.S. in 1984, the clear message from Canberra was that the Administration was far more important despite the Australian embassy’s strong recommendation that attention be given to Congress.[Interview with former embassy staff] Given the fact that the administration was probably the most important lobbyist on Capitol Hill, attention to the executive could thus indirectly impact upon the Congress. However, the direct and independent lobbying of Congress, manifested in the appointment of the Minister
(Congressional Liaison) within the Australian embassy, has now been accepted as vital to the promotion of Australia’s agricultural, as well as more general, trading interests.

The Australian government has taken the lead in the bilateral approaches made to the U.S. and this is chiefly conducted by officers of the Australian embassy in Washington. The U.S. wheat and sugar policies were considered to be particularly contentious and representations have been made on these by other more senior embassy staff, including the Ambassador.

Ministerial representations against the U.S. policies in these sectors, including that from the Australian Prime Minister, have increased during the 1980s, and have become more strident. Such representations have been made during Ministers’ visits to Washington and during the visits to Australia of senior U.S. politicians and officials (as witnessed by criticisms made of the EEP during Vice-President Quayle’s visit of 1989 and that of President Bush in January 1992). As a result of criticisms made during the visit of President Bush, the U.S. agreed to consult Australia on the markets to which EEP would be applied.[Brown, 1992, 3]

On December 22, 1992 Australia and the U.S. signed the Australia-U.S. Trade and Investment Framework Arrangement (TIFA) thereby establishing a formalised framework for high-level consultations. The Arrangement has established a Trade and Investment Council which will consider issues such as bilateral market access and regional and multilateral trade and investment issues of mutual interest.[Minister for Trade and Overseas Development, 1992; United States Trade Representative’s Office, 1992] The TIFA is an important development which has provided another opportunity for the Australian government to press Australia’s trading interests to the administration and to emphasise the damage done to its exports by U.S. policies. However, the Agreement has not prevented the U.S. from making policy decisions in each of the wheat, sugar and beef sectors which have either further restricted Australia’s access to the U.S. market or made trading on the world market that much more difficult.

Australian politicians and officials have sought, on occasion, to use the good political and security relationship between the two countries to point out to the U.S. the
discriminatory and unfair nature of its policies and their effect upon Australia. At
Australia’s insistence, trade has now been placed high on the agenda of annual
Australia-U.S. Ministerial talks.\textsuperscript{88} This sound relationship has undoubtedly helped in
efforts to get a hearing (chiefly with the administration)\textsuperscript{89} and there is evidence of
marginal improvements in sectoral outcomes. For example, embassy staff have argued
that in the absence of Australian lobbying, the 1988 Trade bill could have been much
worse for Australia in terms of its coverage of those commodities which Australia
exports to the U.S., while the EEP could well have been applied to markets beyond
those affected by subsidized sales.

A ‘good political relationship’ certainly does no harm to a relatively weaker country
such as Australia. However, beyond assisting in providing access there must remain
serious doubts about its value as a strategic weapon in bringing about an improvement
in sectoral trade outcomes. Both Australian state and societal actors have been reluctant
to link specific trade demands too forcefully to the nature of the relationship. Even
amidst heated disagreements over the effect of the EEP (as occurred during Quayle’s
visit), it has become obvious that the Australian government has not wanted to overplay
its hand or seek linkage across issues.\textsuperscript{90} In the late 1980s, an Australian government
reference to the effect a loss of export earnings could have on Australia’s capacity to
meet its defence responsibilities (perhaps prompted by a similar though less subtle
reference by farm industry representatives), has been as far as Australia has recently
chosen to go in drawing linkage across from these trade issues.\textsuperscript{91} A statement by
Australian Trade Minister Cook that problems with the U.S. (particularly those over
Australian agricultural exports) called into question the continued alliance between
Australia and the U.S. was hastily clarified to refer to the trade alliance (which does not
exist) rather than the security alliance.\textsuperscript{[Stutchbury, 1993b, 5]}

Bilateral representations to the Americans have sought to influence the ‘ideas debate’\textsuperscript{92}
as well as the political debate going on in Washington. In addressing the economic
inefficiency of the commodity programs and their cost to U.S. taxpayers and consumers
as well as their effect upon the world markets, Australia (using studies such as those of
the Australian Bureau of Agricultural Resource Economics) has sought to tip the balance
in the free trade/protection debate. Recognized by Australia as a long-term strategy, the
value of this strategy will depend upon the level of influence these ideas achieve within that bargaining process between relevant U.S. state and societal actors which will continue to determine U.S. agricultural trade policy outcomes.

Australian state and societal actors have undertaken what is fundamentally a joint bilateral approach to improving U.S. trade outcomes. Australian societal actors have sought, both formally and informally, to influence the policy lines and strategies adopted by Australian state actors when dealing with the U.S. They have lobbied Ministers and government officials in Canberra through their membership of consultative committees (if they enjoyed such privileged access) as well as independently. As well, societal actors have taken advantage of their membership of Australian joint government/industry delegations to the U.S. Australian industry actors have also undertaken their own direct and independent lobbying and representation to the Americans, though much of this has been done in consultation with the Australian government, principally through the Washington embassy.

Where Australia has exported to the U.S., as in the case of sugar and beef, Washington-based lobbyists have been retained by societal actors. These lobbyists, often attorneys with knowledge and experience of the way policy is made in Washington, have been retained so as to gather information, monitor developments, and generally seek out opportunities for their client foreign interests. CSR has retained a lobbyist to advance Australia’s sugar interests while the Australian Meat and Livestock Corporation (AMLC) has retained one to expand the range of its product and increase the proportion of higher value-added beef exported to the U.S. Both lobbyists are experienced in the “influence game” that is central to U.S. policy-making and believe that they have been able, at the very least, to prevent legislation causing more harm to Australia’s interests.93 [Legge, 1988, 25]

Without denying the value of these lobbyists, their effectiveness must, of course, bear some relation to how Australia has been viewed in Washington and those sectorally-specific resources which it is capable of applying towards improved outcomes. As stated succinctly by Davis Bobrow in assessing the possible use of lobbyists or ‘traders’, a foreign government (or for that matter any foreign interest) must assess its current and
future "holdings of trading currencies and in respect of those what is the supply and
demand situation."[Bobrow, 1992, 20]

The Australian wheat industry has done its own lobbying through the Australian Wheat
Board’s New York-based representative. However, there has been some collaboration
with the embassy staff reflecting a shared view of the effects of the U.S. wheat policy
and on how to deal with it. The industries’ U.S.-based representatives (the AMLC also
has a New York office) have been chiefly concerned with commercial developments,
both in the U.S. and globally, including taking into account the policies of the major
players and their effects upon global markets. The National Farmers Federation has also
retained a firm of lobbyists in Washington to act as a ‘listening post’ on general
agricultural developments. Australian industries’ overseas representation has been
very important to the Australian government’s lobbying efforts in Washington D.C. Not
only do industry actors possess the commercial intelligence so useful to state actors in
arguing Australia’s case, but they also have a keen sense of the effect of U.S. policies
on the market through their direct marketing role.

Australia’s bilateral approach to the U.S. has involved its government and industry
representatives in attempting to build coalitions with domestic industry interests.
Australia has thereby hoped to build on what little political capital it has had in the U.S.
policy process. Attempts at (loose) coalition-building have been more successful in the
sugar and beef sectors than in the case of wheat. Sugar and beef have been cases of U.S.
import politics and U.S. industries can be identified (such as the American Meat
Importers Council and the U.S. Cane Sugar Refiners Association) which have relied
upon imports of the Australian product. Domestic coalition-building has been more
successful (though still of marginal importance) for beef than for sugar. This may be
partly explained by the fact that Australia’s share of beef imports into the U.S. has been
much greater than that for sugar. It would be more difficult to find U.S. industry
interests which could claim sufficient damage from the operation of U.S. wheat policies
as to persuade them to join forces with the Australians.

It has been generally recognized by Australian policy-makers that those U.S. industry
interests that have been prepared to team up with foreign interests have held weak
bargaining positions within the sectoral policy-making processes. Coalition-building thus has been of only limited value and, like issue linkage, has held little hope of influencing the U.S. policy-making process and of securing improved returns for Australia. There has been a good deal of scepticism about the value of this strategy for a foreign interest (especially one with a weak bargaining position) seeking to influence what is essentially a domestic political debate. In an interview, a senior staffer of the U.S. Senate Agriculture Committee was possibly close to the mark when he said that he could not recall one instance where a foreign interest had successfully teamed up with a domestic interest/s to get more from Congress in terms of farm policies.

The Multilateral Approach

Advocates of U.S. protectionism, either sectorally or generally, have been keen to argue that their protectionist policies have been necessary because of the actions of other major players in the global trading system. The U.S., it has been argued, will only liberalise its domestic support programs if other players, notably the EC, do likewise. Partly because of this line of argument and partly because of the benefits which Australia would obviously receive from the global liberalisation of agriculture, multilateralism has been an important approach for Australian policy-makers. The interest in this approach has been heightened by the success which Australia has seen, chiefly through the work of the Cairns Group, in having agriculture placed at the top of the agenda in the Uruguay Round of multilateral trade talks.

The multilateral forum of the Uruguay Round of GATT trade talks has provided a better opportunity for relatively unsubsidized traders (such as Australia) to focus upon the economic irrationality of U.S. agricultural policies. With agricultural policies having been brought under serious GATT consideration, ideas of promoting the liberalisation of domestic support structures have received a better hearing. Those within the U.S. policy-making process who have advocated the liberalisation of agricultural policies have also found new opportunities within the GATT process to subject U.S. farm policies to such scrutiny. Likewise, the Round has forced those who support U.S. protectionist farm policies more on the defensive.
Since the Uruguay Round began in September 1986, Australian policy-makers have
given a high priority to the Round and talked up the benefits that would result from a
breakthrough in talks on agricultural subsidies. Australia has been encouraged by the
U.S. administration's willingness to place all agricultural policies on the table for
negotiation in the talks. Australia's positive attitude to the Round has also been
prompted, however, by the problems which it has encountered in seeking reform of U.S.
programs by bilateral and other means. For example, Australia's victory in securing
reform of the U.S. sugar program by means of a GATT panel case proved a shallow one
with the 1990 replacement of the import quota by an equivalent tariff rate quota. Tariffication of the U.S. sugar import quota may, however, improve the prospects of
Australia successfully bargaining for an eventual removal of the import restrictions
through the reduction of tariff levels.

The Australian government’s support of economic rationalist arguments and moves to
reduce protection for domestic agricultural industries have strengthened its hand in the
multilateral discussions. Australia, together with other countries in the Cairns Group,
have been able to argue that on agriculture they have come to the talks with their own
‘houses in order’ (relatively speaking) and that now, principally, the U.S. and the
EC should do the same. More importantly, the Round would seem to have enabled the
Cairns Group to deny the U.S. and EC an agreement reforming intellectual property
rights and trade in services without at least some reform in agriculture.

There are, however, problems for Australia in the way in which the U.S. has itself
approached the Uruguay Round. The U.S. approach to tariffication and tariff reduction
is certainly in line with that of the Cairns Group. Importantly, the U.S. has also, through
the initiative which resulted in the Blair House Accord of 1992, moved to bring the EC
to a realisation that some reform of agriculture was necessary for the Uruguay Round
to be successfully concluded. However, a cynical view could still argue that the tabling
of many of the U.S. farm programs owed more to a desire to lever reform out of the EC
than to have their own programs reformed. At the same time, this strategy of using
programs as negotiating tools makes bilateral efforts to change or modify any of these
U.S. programs less likely to succeed, at least in the short term.

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The U.S. administration has been more amenable than the Congress to reform proposals in the Uruguay Round having been less constrained by societal actors and generally more receptive to ideas of free and fair trade. Congress has remained receptive to societal-actor influence and, as one Washington analyst of the GATT Round noted, Congress has viewed the Round as a "nebulous and infrequent" thing. [Hanrahan, 1990, 7] As the body dominant in agricultural policy-making, Congress expects to have the final say in any Uruguay Round deal that entails reform of U.S. farm programs.102

Australia has understood that reform of agricultural support policies by the Congress may have as much, if not more, to do with a need to lower the U.S. federal budget deficit than to abide by any GATT decisions. As well, for GATT reform of agriculture to bring changes to the U.S. wheat, sugar and beef programs, it must induce a fundamental realignment of the forces within Congress which presently support these programs. This realignment will only come if the forces supporting the programs are convinced that reductions in U.S. support are matched by like reductions by its major trading rivals, the EC and Japan.

Despite the fact that all three programs have been on the negotiating table in the Uruguay Round, Australia has appreciated that they are not all equally amenable to multilateral reform. The wheat program, created largely as a response to developments on the world market, is more likely to be reformed should a compromise agreement be reached over the elimination of export subsidies (the U.S. has been explicit in arguing that EEP should continue to exist as a negotiating tool in the Round).

The sugar and beef programs are, on the other hand, bilaterally determined with foreign exporters to the U.S. either required or ‘voluntarily’ agreeing to limit their exports. Unless a major reform of policies is agreed upon in the Round, it cannot be expected that the U.S. will substantially change its own policies. Rather than seriously negotiating the reform of the sugar and beef policies, the U.S. has, to date, been more prepared to use the policies as levers by which to exact agreement for reform from the EC. The beef producers’ industry body has, in fact, argued strongly that the MIL was never a matter to be negotiated away in the Round and that any attempt to do so would be met by a strong lobbying campaign to have it replaced by some other benefit.103 Supporters of
the U.S. sugar and beef programs have their positions further strengthened by the fact that these two programs have not constituted an identifiable cost to the federal budget, a fact which has significantly reduced their vulnerability.

Multilateral reform, for all its problems, is still considered by Australian policy-makers to offer the best hope for agricultural reform. This has been due not so much to the influence of the Cairns Group in the GATT process of the Uruguay Round but to the fact that the major powers are demanders in this Round (their demands centre on bringing new areas, other than agriculture, under GATT discipline), and that the U.S. administration has been prepared to acknowledge the inefficiency of many of its agricultural programs and move in the direction of agricultural reform. What is more important, in terms of Australia's approach to the U.S., is the potential for the GATT Round to act to assist in reconciling the obvious differences which exist between the administration and Congress over the reform of U.S. agricultural policies.

The stalled finalisation of the Uruguay Round has not as yet moved the U.S. toward any such reconciliation. While the signs of a compromise agreement on agriculture coming out of the Round's talks have certainly improved (partly because of the Dunkel proposals of late 1991 and the EC proposals of May 1992\textsuperscript{104}), the Round has yet to perform the necessary role of persuading Congress to moderate its 'stay tough' signal to the EC on agricultural reform.

In November 1992, the U.S. and the EC finally reached an agricultural trade deal (the Blair House Accord).\textsuperscript{105} This promised to remove the principal stumbling block (an agreement on agricultural trade) to a successful conclusion of the GATT Round. The deal covered many of the outstanding issues of the Uruguay Round and, importantly, promised over a period of 6 years to cut internal farm subsidies by 20 percent; cut import tariffs and export subsidies by 36 percent; and reduce by 21 percent the level of exports receiving subsidies.[Clark, 1992, 1,12] It was estimated by the Australian Bureau of Agriculture and Resource Economics (ABARE) that the Blair House Accord, if implemented, would particularly benefit Australian wheat and beef growers, but that such benefits would very much depend on how the major players implemented a successful Uruguay Round outcome.[Gill, 1993e, 1,4] While formally still in place at
the time of writing, the deal has looked decidedly shaky with France’s new conservative Prime Minister Balladur having rejected it as only a ‘pre-agreement’ and having sought concessions in the areas of goods and services before France would be prepared to accept the deal.[Stuchbury, 1993e, 1,10]

Apart from the problem of the French refusal to accept the Blair House Accord, Australia has recently expressed concern that the U.S., along with the other major countries and trading groups, the EC, Japan and Canada, may concentrate on goods and services reform leaving insufficient time to address the outstanding problems in agriculture.[Hurst, 1993, 10] The recent surprise breakthrough at the July 1993 Group of Seven summit, where the major countries agreed on a package of cuts in protection for 18 categories of industrial products, however, may serve to bring attention back to agricultural reform and move the GATT forward to a successful resolution of the Round by the end of 1993.[Hartcher, 1993b, 1]

Conclusion

Australia’s agricultural trade with the U.S., as exemplified by these three sectoral studies, has experienced a number of problems due to the nature of the U.S. agricultural trade policy-making process and the protectionist U.S. policies and programs which it has produced. As a relatively weaker state, many of Australia’s difficulties have derived from the fact that the U.S. has greater power-capable resources which it has been able to apply to the determination of sectoral trading outcomes. However, each agricultural sector has revealed different opportunities and constraints upon Australia as it has sought to change or modify U.S. policy, making the attempted application of sectorally-specific resources a worthwhile exercise.

This study has sought to both clarify the nature of these problems, and examine how Australia has approached the U.S. to either have programs removed or have their more harmful effects modified. This chapter has dissected the U.S. policy-making process and resultant policies in each sector and examined Australia’s agricultural trade policy-making process. This has served as a necessary prelude to a discussion of how Australia
has approached the U.S. to attempt to secure an amelioration of the harmful effects of these U.S. policies and programs.

U.S. agricultural policy, in the three sectors studied and more generally, has largely been the result of compromises and trade-offs which have occurred between competing state actors, either between the executive and Congress or between actors within various policy-making organs of the Congress, influenced as these actors have been by societal actors. This has meant that once policy has been agreed upon, it has been more difficult to change as this would have involved an unravelling of the bargains already struck. The role of the executive in agricultural trade policy-making has been reduced over the 1980s with its discretion as the policy-implementing agency severely constrained by each program’s provisions. The result has been a reduction in the administration’s discretionary power to moderate the impact of certain agricultural policies in the interests of foreign states (assuming it so desired).

The U.S. has been a major producer and exporter of wheat and beef as well as being an important export market for beef and sugar. As well as having a large and relatively prosperous domestic market, the U.S.’s relatively strong market position has made it a key policy leader in each of these three commodity markets (as in most global agricultural markets). U.S. structural power within the global agricultural markets for wheat, sugar and beef, has meant that the opportunities and constraints available to Australia to improve its outcomes in each of the sectors has been principally determined by the nature of the U.S. agricultural sectoral policies and the U.S. agricultural trade policy-making process.

The wheat policy, sanctioned by the mercantilist desire to undercut the EC’s subsidized exports and to maintain market share, has thus been more susceptible to ideas of trade liberalisation and global agricultural reform than the more domestically-focused U.S. policies on sugar and beef trade. The U.S. sugar program is less likely to be reformed through global agricultural liberalisation given the strength of U.S. proponents of the program. However, the increasingly organized and articulate domestic U.S. societal actors opposed to the sugar program, together with the division of opinion within the executive over the program, have improved the chances of this program being reformed.
On the other hand, the beef policy has not been the subject of such an intense debate between U.S. societal actors. The policy’s instrument of protection, the MIL, has been both less protectionist and less contentious than the sugar quota program and formulated by Congress so as to prevent the executive from diluting its impact on foreign exporters.

While the agricultural trading relationship between Australia and the U.S. in each of the sectors studied has revealed an asymmetry in their power-capable resources (as indicated by the fact that in the three sectors studied, Australia has had a greater need of its trade with the U.S. than could be said for the U.S. in reverse), the ability of the U.S. to translate its greater power-capable resources into control over trading outcomes has varied from sector to sector. Likewise, the opportunities for Australia to improve its outcomes have also varied across sectors and over time.

In seeking to overcome the greater relative bargaining power of the U.S., as derived from its greater power capabilities, Australia has sought to develop sectorally-specific resources capable of application in its bargaining with the U.S. These resources have included a high level of commitment to ideas of agricultural liberalisation, evidenced by many of Australia’s own domestic agricultural policies, promotion of studies showing the benefits of such liberalisation, and its determination to see agricultural reform in any Uruguay Round result; the formation of coalitions (however loose) with U.S. domestic actors as part of its bilateral approach and with other agricultural traders as part of its multilateral approach; and Australia’s promotion of itself as a reliable and relatively unsubsidized supplier either to the U.S. or to third markets. Without the application of such resources, the acknowledgement alone by U.S. state actors of the harm U.S. policies have caused to Australia’s interests, would certainly have been insufficient to influence a change in U.S. policy in any of the sectors.

Despite regular bilateral lobbying and consultative frameworks, Australia has had limited bilateral bargaining leverage to change U.S. policy in agricultural sectors. It has exercised greatest influence through its multilateral coalition-building where it has displayed a high level of commitment to agricultural trade liberalisation. This commitment has been illustrated through Australia’s self-promotion as a relatively unsubsidized agricultural trader and through its provision of intellectual support to those
in the U.S. (amongst both state and societal actors) promoting the removal of subsidies and freer agricultural trade.

Against the influence and pressure of U.S. domestic agricultural interests in the making of U.S. agricultural trade policy, Australia through the application of these sectorally-specific resources and concomitant lobbying and bargaining strategies, has been unable to lever reform from the U.S. to effect more than, at best, a marginal improvement in outcomes. Rather, the effectiveness of Australia’s bargaining seems to have been only in terms of controlling the damage which U.S. policies have inflicted, often inadvertently, upon Australia’s agricultural trade interests.

Of the three agricultural sectors, only the wheat sector reveals some marginal improvement in outcomes for Australia with the prospect of a substantial improvement should U.S. ratification of the 1993 Uruguay Round result. Such improvements are due to the fact that U.S. policy-making in this sector has been directed more at world market developments than has been the case in the sugar and beef sectors where U.S. import politics have been effectively at work. Thus, Australia’s promotion of liberalised trade, both bilaterally and through the Cairns Group in the Uruguay Round, became an effective bargaining resource by striking a resonant chord with those U.S. state actors seeking efficiencies in U.S. agriculture and the liberalisation of agricultural trade. In the wheat sector, Australia has been assisted by the fact that proponents of the U.S. support programs have been less able to disguise their programs’ economic costs.

The outcomes from Australia-U.S. bargaining in each of the three agricultural sectors offer some lessons for assessing the likely outcomes from Australia’s trade with the U.S. in other sectors. The sectors show that a tightly-drawn program designed by the Congress to support particular U.S. industry interests will offer few opportunities for Australia to improve its sectoral outcomes. Each of the three agricultural sectors expose Australia’s weak bargaining position and should access to the U.S. market be at issue, as in sugar and beef, then Australia will have less leverage to exact an improvement in outcomes than where it is in export competition with the U.S., as in wheat. Australia’s bargaining for an improvement in wheat outcomes was enhanced (as it could be in other
U.S. export-oriented trade sectors) by the fact that Australia was able to appeal to international liberalising developments to assist in moderating U.S. sectoral policies.

Australia's macroeconomic difficulties and the perceived need to increase export revenue from commodity trade have heightened the importance for state actors of focusing on the international distortions to agricultural trade and the need for global liberalisation. Australian societal actors in these agricultural sectors have used what political influence they have had with the Australian electorate to ensure that their trading concerns (both globally and bilaterally with the U.S.) as well as demands for state assistance, have been brought into the domestic bargaining process. These societal actors have also traded their knowledge and skills from their operations in both the U.S. and global markets for influence in the approaches taken to attempt to improve Australia's trading outcomes.

Australian state actors have identified agricultural policy as very much a part of general trade and economic policy and important in assisting Australia's economic adjustment to changes in the global economy. Accordingly, they have encouraged the involvement of societal actors in policy-making (primarily through consultative mechanisms) only so long as they were in general agreement with the state actors' pursuit of a policy of reduced protection for Australian agricultural industries. The sugar sector has constituted a partial exception to this policy with societal actors within the industry, together with Queensland government support, having had sufficient political clout to resist some of the Australian government's moves to reduce protection.

As with the other sectors of this study, Australia has enjoyed a good political relationship with the U.S. which has at least served the purpose of providing access to top U.S. decision-makers. Australian state and societal actors have become increasingly sensitive to the harm caused by U.S. agricultural policies and have intensified Australia's lobbying. With this has come the temptation by both Australian state and societal actors to make oblique, if not direct, references to the political relationship. Concern has been expressed at how the damage U.S. agricultural policies have inflicted upon the economic interests of Australia, 'a friend', could jeopardise the basis of the good political relationship. Australian state and societal actors have, however, avoided making direct linkage across to other aspects of the political relationship.
The closest the Hawke Government came to making linkage was the general statement made as to the economic difficulties Australia would have in future in upholding its security responsibilities should its trade balance decline further. Recent statements by members of the Keating Government as to trade problems with the U.S. indicate that Australia probably considers issue linkage a double-edged sword revealing greater Australian dependency upon the U.S., in the political and strategic as well as commercial dimensions of the relationship.

Despite the problem of exposing its weak bargaining position, Australia's bilateral approaches have been the most important in seeking reform of U.S. agricultural trade policies. While Australia has not sought special bilateral arrangements with the U.S., it has been anxious to improve the dialogue with the U.S. administration so as to enhance the prospects of the U.S. being apprised of Australian concerns before potentially harmful agricultural policies and programs are implemented. It was to this end that the Australian government prompted the establishment of a new consultative framework, the Trade and Investment Framework Arrangement (TIFA) in December 1992. Australia considers this formalised arrangement as a supplement rather than as a replacement for the regular and less high-profile channels used by Australian state and societal actors to attempt to influence both U.S. policy-making and program implementation.

Whether it be the unilaterally imposed sugar quota or the 'negotiated' restraint agreement of the beef sector, the nature of each program has not only strictly limited Australia's U.S. market share, but also reduced the opportunities available to Australia (as with other foreign exporters) to improve its trading outcomes through bargaining with the U.S. executive. Even where Australia has been the major exporter to the U.S., as in the case of beef, its share of total U.S. consumption has still been so small that Australia has been in no position to influence a change in U.S. policy.

With the wheat trade, Australia has been concerned with the effect that U.S. policies have had on the world wheat price and on Australia's access to third markets. U.S. policies, while directed at maintaining both income support and market share for U.S. wheatgrowers and in countering the effect of the EC's wheat sales, have effectively reduced Australia's world market share as well as placing downward pressure on the
prices received in that market. Against these imperatives, Australia has not had the sectorally-specific resources necessary to successfully bargain for either a change in policy or a special dispensation. While Australian lobbying has probably been a factor in producing a number of 'could-have-been-worse' decisions by the U.S., it has not been able to influence a change in the income support policy or prevent the expansion in the use of the EEP program.

In its bilateral approach to the U.S., one strategy adopted by Australia to improve outcomes has been that of informing U.S. policy-makers of the costs of the U.S. agricultural policies on specific U.S. economic interests, and more generally U.S. taxpayers and consumers. Sectoral studies such as those produced by the Australian Bureau of Agricultural and Resource Economics have been widely distributed and accepted as credible analyses of U.S. policies.\(^{108}\) They have found common cause with U.S. studies which have likewise been critical of the distortionary effects of the U.S. policies.\(^{109}\) These studies have been important in influencing the course of the 'ideas' debate which has been carried on within U.S. policy-making circles, providing 'ammunition' for those within these circles favourably disposed towards free trade or otherwise opposed to the farm programs. While this 'informing' strategy has been applied towards improved outcomes in both its bilateral trade with the U.S. and in liberalising global trade, and has assisted in 'damage control', it has been unable to influence a change in direction for U.S. agricultural policies.

Coalition-building has been another strategy promoted jointly by Australian state and societal actors. This has been a strategy by which Australia has sought to 'tap into' the domestic policy-making process in the U.S. While there has been some evidence of attempts at this strategy,\(^{110}\) Australia has been criticized for not taking advantage of the 'enormous tangible goodwill' that exists in the U.S. to get U.S. constituents who depend on Australian products to voice their concerns at the effect of U.S. trade policies on Australia and pressure Congress and the administration.\(^{111}\) There are, of course, significant collective action problems in Australia seeking to establish workable and effective coalitions with U.S. actors given that the incentives for such action will be much greater for Australia than for the U.S. actors.
To date, there have only been loose arrangements between Australia and U.S. industry opponents of the sugar and beef programs which have constituted nothing more than the sharing of information. Australia is well aware that a U.S. domestic industry interest is generally much more likely to seek to cultivate a relationship with another domestic interest with political capital capable of application in the U.S. domestic policy-making process.

Australia's frustrations in bilaterally seeking to improve outcomes has helped to move the focus of Australian attention towards the GATT Round of multilateral talks. Australia's multilateral approach has, since the beginning of the Uruguay Round, always offered greater promise of reforming U.S. agricultural trade policies than has been the case with the other two sectors (steel and international air passenger transport) of this study. This has been partly because Australia and the Cairns Group have kept agriculture on the Round's agenda, and partly because the U.S. has linked reform of its agricultural policies to like reform by other major traders, something more likely to occur as a result of multilateral trade talks.

Despite the great promise of reform offered by the Uruguay Round, Australian state and societal actors have considered it necessary to use bilateral and multilateral avenues simultaneously to seek to improve trading outcomes. Campaigning for the removal or modification of distorting U.S. policies, both Australia's promotion of international agricultural trade liberalisation in the GATT Round and the bilateral application of sectorally-specific resources have served the same purpose: to seek to ease the pain being experienced by Australian rural industries as domestic economic strategies are implemented to adjust Australian industry to the exigencies of the global political economy.

In its multilateral approach (and to a lesser extent in its bilateral approach) to changing U.S. policies, Australia has displayed a high level of commitment to the international liberalisation of agriculture. This sectorally-specific resource, while equally applicable in all three sectors, is most expected to produce favourable outcomes in the wheat sector due to reform of U.S. policies in that sector being more directly linked to liberalisation of the global market. This resource has been used by Australian state actors in both their
international (to promote liberalisation by the major traders) and domestic bargaining. Australian state actors, more so than societal actors, placed great store on the ability of the U.S., with the assistance of the Cairns Group, to break its impasse with the EC and for the Uruguay Round to be the vehicle for agricultural reform, both generally and in respect of U.S. policies.

The successful conclusion of the Uruguay Round in December 1993 offered the hope of sufficient reform of agriculture as to improve Australia's trading outcomes in each of the wheat, sugar and beef sectors. At the time of writing, the agreement was awaiting ratification from national governments. Australia's role through the Cairns Group and the strategy of stressing global reform of agriculture certainly played a contributory part in bringing about a successful conclusion to the Uruguay Round. However, as focused and as ideologically consistent as Australia's multilateral approach has been, the successful GATT result undoubtedly owed more to the ability of the U.S. to reach a satisfactory compromise with the EC. It now remains for the U.S. administration to persuade the Congress that such a result is sufficiently in the interests of influential societal actors that it will be prepared to ratify it.

The protectionism exhibited by sugar and beef programs has been a product of the sensitivity of U.S. import politics and Congress' high level of interest in the formulation and implementation of U.S. agricultural policies over this period. While these programs were placed on the GATT negotiating table, it remains to be seen whether they will, in fact, be changed substantially once the U.S. has ratified the global reform package which resulted from the end of the GATT Round.

U.S. wheat policies and programs have been the product of U.S. export politics and have resulted from the administrations' responses to international developments and the perceived need to win back market share. In addition to Australia's multilateral bargaining, bilateral lobbying has been required to address problems of both reduced market share and depressed wheat prices. Of all the sectors of this study, wheat has been the only one where Australia's sensitivity to the effect of U.S. policies has been recognized by U.S. state actors. There has been some (albeit grudging) acceptance by
the U.S. that the issues of U.S. wheat policies and their effect upon Australia are of some foreign policy significance for their overall bilateral relations.

While Australian state and societal actors have each applied their own skills and expertise in the approaches made to improve trade outcomes with the U.S., increasingly each has acknowledged the shared problems presented by both Australia’s weak bargaining position in agricultural trade and the complexity of the U.S. agricultural trade policy-making system. Australia’s agricultural trade problems with the U.S. have not been amenable to simple resolution through either the bilateral or multilateral bargaining processes. In seeking an amelioration of these problems and to achieve even marginal improvements in outcomes, Australian state and societal actors have realised that they have had to mobilize and apply, wherever possible, sectorally-specific resources as part of a cooperative, and at times collaborative, approach.

In approaching the U.S. to improve its outcomes in each of the three agricultural sectors, Australia has had limited bargaining leverage because of the ability of the U.S. to translate its greater power-capabilities across into trading outcomes. This has been the case particularly in the sugar and beef sectors where tightly-proscribed programs have been strongly supported by U.S. societal actors so as to restrict access to the U.S. market. In the wheat sector, where the U.S. has been seeking to enhance its exports rather than restrict its imports, the prospects for an improvement in Australia’s trading outcomes are a little more promising. Acknowledging these sectoral difficulties, Australia has sought to minimise its problems by taking advantage of the few opportunities that have presented themselves from within either the ideas and/or political debates that have constituted U.S. agricultural trade policy-making. This difficult task has been executed through the development and application of certain sectorally-specific resources.

...
NOTES

45. It is noted that while the import quota has been the principal mechanism used by the U.S. sugar program, the program has also allowed for the use of tariffs and fees.

46. The target prices and the provision of deficiency payments for farmers made it politically possible to bring down the loan rate without threatening the incomes of the farmers. [Gardner, 1990, 35]

47. This variability and resulting market volatility was almost double over the period 1966 to 1980 what it had been between 1950 and 1964. [Becker, 1988, 8]

48. These diversions were made on area bases which had been greatly expanded since the previous diversions of the 1970s.

49. Twenty percent of US cropland was enrolled and a total of US$94.6 billion was paid by means of commodities.

50. The Export Enhancement Program had originated in early 1983 when the US heavily subsidized a wheat sale to Egypt in order to undercut the EC.

51. The EEP program was initially targeted at specific markets with the bonus bushels allowing the price of whole consignments to the specified export markets to fall below the price to both other export markets and the domestic US market.

52. During the period of this study, the EEP subsidy has usually been around US$20-25 a tonne. However, at the height of the U.S.-EC subsidy ‘war’ of 1990-91, the level of the subsidy was US$50-60 a tonne. The steady trend over the period has been for EEP to be expanding (subsidised wheat was up to 32 million tonnes for 1992 and 1993, targeting up to 30 importing countries) and encroaching upon Australia’s traditional markets. As recently reported, the Australian Wheat Board has been concerned that the June 1993 inclusion of Mexico as a targeted EEP market (against Canada’s exports), constitutes a “step towards using EEP as a general exports promotion programme”.[Wyatt, 1993, 24] It should be noted that with different types of wheat on the world market, some discrimination by quality types will act to reduce export competition between Australia and the U.S., as with other exporters.

53. With a move by the U.S. to target markets for Canadian wheat (such as Mexico), Australia has recently expressed concern that the Clinton Administration may be about to go beyond counteracting subsidised sales by the EC and use its subsidy programs as a lever to break into new markets. [Stutchbury, 1993c, 6] Displaced Canadian sales could then well act to jeopardise Australian sales to its traditional markets.

54. Australia has expressed concern at both Canada’s new tariff quotas on Australia’s wheat exports and what has been seen as its increasingly aggressive selling of subsidised wheat sales into Asian markets such as China. [Stevens, 1993b, 4]

55. Australia’s net export returns for sugar for the year ended June 1990 totalled almost AUD$1 billion. [Queensland Sugar Corporation, 1990, 29]
56. While Australia has exported sugar since 1922, it first exported to the U.S. market in 1961.

57. The great majority of sugar exporters into the United States are developing countries from the Caribbean, South America, Africa and the Pacific.

58. Australian canegrowers have estimated that Australia's exports of 81,511 tonnes of sugar to the U.S. in 1992-93 were about a tenth of the 1980 figure of 800,000 tonnes.[Dowding, 1993b, 28]

59. In 1992-93, Australia exported 81,511 tonnes of sugar to the U.S. worth AUD$55 million. Australia's quota allocation for the 1993-94 year represented a further cut of 15,275 tonnes (valued at AUD$4.5 million), about 10 percent of its previous allocation.[Shanahan, 1993, 2]

60. It has been a source of frustration for both Australian and New Zealand beef exporters that the U.S., in calculating whether import restrictions would be triggered in any year, has not taken into account the effect of the sizeable U.S. exports to the North Asian markets on domestic U.S. supply.[Barlow, 1992, 1]

61. The size of the quota was determined by a formula which used as its base the average annual domestic commercial production of these prescribed meats for the five years 1959 to 1963. The Agriculture Secretary estimated the likely imports of prescribed meats in the quota year and the quotas were triggered into effect if it was estimated that total imports were to exceed the Adjusted Base Quota by more than 10 percent. The executive had some discretion to suspend the quota and increase the amount of meat imported.

62. This was despite a 1977 International Trade Commission finding that imports were not causing serious injury to the US cattle industry.

63. With the executive discretion (as provided under the 1964 Act) having been applied on four separate occasions to increase imports above the trigger level, the U.S. cattle industry was keen to limit this presidential authority in any future legislation.

64. The trigger level for any year is estimated by having 10 percent added to the adjusted base quota, as calculated.

65. In keeping its quota down, U.S. policy has ensured that, quite often, Australia's beef exports have had to go into bond in the U.S. until the January of the following year. Large tonnages build up as a result and U.S. processors can then price the product down by holding off from buying until January, when this increased supply of beef has forced the price down.

66. Australian beef exports to the U.S. were restricted in 1993 making it the third consecutive year in which the MIL had been used to restrict Australia's access to the U.S. market.

67. In the late 1980s, the agricultural sector provided only 2 percent of US Gross
National Product and employed only 2.7 percent of the labour force. [United States Department of Agriculture, 1988, 327].

68. In the formal interagency process, the Secretary of the Treasury is the effective deputy of the Economic Policy Council (EPC) with the Secretaries of Commerce, Agriculture, Defense, Labor, Transportation, State, and the United States Trade Representative (USTR) also being on the EPC. Two additional members are the Director of the Office of Management and Budget (OMB) and the Chairperson of the Council of Economic Advisors (CEA).

69. The decision to aim EEP at the Mexican market for Canadian wheat exports could have been worse for Australia. It was originally feared that the U.S. would also use the EEP for exports to Indonesia, an important market for Australia’s wheat.[Clark, 1993, 8] The fact that Indonesia was not targeted and Australia has escaped from further injury from the application of EEP has been reported as having provoked an angry response from the farming lobbies in Washington.[Lyons, 1993c, 2]

70. While the U.S. Government has introduced production quotas on U.S. sugar producers and has provided penalties for those who broke their quota, the Australian government and sugar industry have not considered these to be enough.[Shanahan, 1993, 2] While Deputy USTR Yerxa has been reported as admitting that 1993-94 sugar quota cuts would hurt Australia, he has linked reform of the U.S. sugar program to a successful conclusion to the Uruguay Round.[Dowding, 1993b, 28]

71. There has been no indication from the Clinton Administration that it is prepared to move to reform the MIL. Australia has been concerned that 1993 has seen a further reduction in its beef quota share from 619,000 tonnes (of 1992) to 571,000 tonnes. This further reduction would place additional downward pressure on the world market price given that a drought had forced Australian cattlemen to liquidate herds sending more meat on to the global market.[Stutchbury, 1993a; Reuters, 1993b]

72. The role of the U.S. Department of Agriculture has been enhanced by the existence within its structure of a Foreign Agriculture Service (FAS), which has been responsible for reporting on overseas agricultural developments, and an Economic Research Service (ERS) which has provided detailed analysis of global agricultural developments and policies.

73. If anything, the Department of State’s involvement could be detrimental to Australia as its allocation could be reduced and partially reallocated to reward or encourage certain policies (such as human rights or democratic elections) by the developing country sugar exporters.

74. Another industry group opposed to the program has been the much weaker U.S. Cane Sugar Refiners’ Association. The Association represented both refiners of imported and domestically-produced sugar making it difficult for the Association to be wholeheartedly opposed to the sugar program.[Interview with a lobbyist/consultant for the Association]
75. The relatively independent position of ABARE should be contrasted with the Economic Research Service (ERS) of the U.S. Department of Agriculture. In a number of interviews, ERS officers complained of the problems they had experienced in providing independent and objective analysis given the pressure from the USDA for them to follow the departmental policy line.

76. Prior to the deregulatory changes of 1989, this power of acquisition and purchase was part of a 5-yearly renewable agreement between the Queensland government and the Federal government. The Corporation’s power to compulsorily acquire all sugar produced in the state of Queensland has been criticized by the Industries Commission in its 1992 sugar inquiry Report. In the Commission’s view, this power has impeded the growers from responding to changes in market conditions due to the fact that they have marketed their own sugar.[Garran, 1992, 5]

77. In February 1993, the Australian government froze its sugar tariff reduction program (the AUD$55 a tonne tariff was to remain until 1997) ostensibly as a lever to encourage reform from the Queensland government, which has controlled production and pricing. In fact, with at least 7 federal House of Representative seats in the states of Queensland and New South Wales affected by the sugar vote, the move was highly politically motivated.[Stevens and Porter, 1993, 1, 2] The government’s decision was contrary to the recommendations of an April 1992 Industries Commission (IC) Inquiry. IC Commissioners have criticized the decision as sending the wrong signals to the industry and as being likely to prompt other industries to seek special treatment.[Power, 1993c, 2]

78. Privatisation of the wheat board, with growers taking up shares in a new corporation (called ‘Newco’), was floated in 1992 by industry leaders and government officials.[Bolt, 1992, 3] However, despite the fact that the proposal included retention of the AWB’s export monopoly, many growers remained unconvinced of the need to change the existing structure and neither government nor industry have been prepared to move further on having the proposal implemented.[Stevens, 1992, 3]

79. A U.S. General Accounting Office Report, released in June 1992, has claimed that the AWB, like its Canadian counterpart, has constituted an unfair trading practice. The Report claimed that with the AWB’s export monopoly powers and government underwriting of its borrowing, together with other assistance such as that under the Australian government’s rural adjustment scheme, Australian wheatgrowers were subsidised as much as AUD$180 million a year.[Young, 1992, 5]

80. The Australian Minister for Primary Industries and Energy, Simon Crean, has been reported as being about to announce a review of the AMLC together with a think-tank of industry players to be charged with devising an “industry driven strategy to forge the future for this industry”.[Power, 1993a, 5]

81. The AMLC has operated an export quota licensing system which has acted as a control mechanism for the orderly marketing of Australian beef into quota-restricted markets such as the U.S.
82. CSR has retained the exclusive right to market Australia’s sugar exports despite the power given to the Queensland Sugar Corporation in 1991 to appoint other marketing agents, if it so desired. CSR has also been the major industry force in the refining of Australian sugar. In 1988, for example, CSR refined 96 percent of Australia’s sugar cane.[Interviews with officials of CSR]

83. The Queensland Cane Growers Council has argued for the maintenance of the regulation of sugar production as necessary for the continued financial viability of many cane growers.

84. The Agricultural Counsellor at the Australian Embassy in Washington together with the Minister (Congressional Liaison), a recently created position the holder of which has the primary responsibility for lobbying on Capitol Hill, are the principal advisors and lobbyists. They are assisted on particular commodity issues by other officers such as, for example, in the case of sugar and beef, a First Secretary (Commercial) who has day-to-day responsibility.

85. A former Australian Ambassador to the U.S., Rawdon Dalrymple, has recently referred to the complexity of the problems facing Australia in seeking to influence U.S. policy and the need for a "very long-term strategy" in its approach to the U.S.[Dalrymple, 1993, 20]

86. Australian Ministers regularly warned the U.S. that the harm that its policies were causing Australia’s export industries, especially in agriculture, was producing much ill will within the Australian community. Australian Trade Minister Peter Cook recently commented in Washington D.C. that the future of the Australian-U.S. alliance would at risk if the U.S. did not make further trade concessions.[Lyons, 1993b, 4; Stutchbury, 1993d, 5] While Cook soon backed off from the severity of this statement, it was, in tone, the most recent of a long line of such comments from Australian Ministers on the Australia-U.S. trading relationship.

87. The first negotiations under the TIFA were held in Washington D.C. on June 11, 1993. Australia’s Trade Minister Peter Cook used the opportunity to refer to the "concern in Australia about the impact which the aggregation of trade issues on which we are on the receiving end is having on the public image of the US" and also the "concern at the extent to which this could soon start to undermine Australia’s capacity to support US leadership on key international issues".[Stutchbury, 1993d, 5]

88. This was not always the case and it was only when the Australia-U.S. Ministerial Meetings (AUSMINT) replaced the ANZUS Council meetings in 1986 that Australia managed to persuade the U.S. to place economic issues on the agenda for discussion at these meetings.[Interview with former embassy official]

89. There have been, without doubt, important members of the U.S. administrations of the 1980s and early 1990s as well as prominent members of Congress who have been positively responsive to the Australia-U.S. political relationship. Given the many calls on their time, the responsiveness of these state actors has, as expected, not been translated across into the promotion of specific Australian trade interests.
90. Australian societal actors have likewise been ambivalent about linking specific trade problems to the Australia-U.S. political relationship. When the Australian Trade Minister Peter Cook recently made reference to the risk to the Australia-U.S. alliance of U.S. trade policies, the President of the Australian National Farmers Federation was reported as responding by saying that Australia should not be provocative in its rhetoric because "it’s very hard for a 6-stoner to go and bash up a 20-stoner and that is where we sit".[Lyons, 1993b, 4]

91. A related but more subtle use of the defence ‘card’ was Prime Minister Hawke’s observation that the U.S., by its actions, could well undermine its traditional (conservative) constituency in Australia, and that if a perception developed in Australia that conflict was developing between bilateral defence and economic interests, political support for the strategic alliance could be further undermined.[Interview with former embassy official]

92. In addition to Australian-based studies, Australian officials have been keen to promote those U.S.-based studies which have pointed out the cost to U.S. consumers and taxpayers of U.S. farm programs. One such study, by Kansas State University, has estimated that in 1986, the abolition of the farm programs would have reduced the U.S. trade deficit by US$42 billion.[Quoted in Bovard, 1991, 16] Another, more recent study, by the U.S. General Accounting Office has estimated that in 1990, where Australian farmers received 11 percent of their income from subsidies, U.S. farmers received 44 percent and that had U.S. farm policies been liberalised in 1986, world grain prices, for example, would have been raised 11 percent.[Quoted in Department of Foreign Affairs and Trade, 1992c, 5]

93. One example cited by lobbyists and embassy staff was the success that they believed they had had in ensuring that more adverse provisions did not appear in the 1988 Trade Bill (Omnibus and Trade Competitiveness Act).

94. A "listening post" is considered to be of lesser significance by both the Australians and the Americans than a registered lobbyist. Its primary functions have been to collect information and monitor developments rather than to specifically promote a particular industry interest.

95. One of the first attempts by the Australian government to forge an alliance with a domestic industry interest to try and influence a change in U.S. agricultural policy was with the U.S. defence manufacturers. Even though the Australian market for U.S. defence materiel has been valued at over AUD$1 billion and the defence lobby was responsive to Australia’s approaches, Congress was not persuaded to give Australia special treatment on this count.[Interview with former embassy official]

96. Recent reports have estimated that a successful conclusion to the Uruguay Round could add AUD$1 billion to Australia’s export income (or about 1 percent to Australia’s annual growth).[see for example: Clark, 1992, 1]

97. The Cairns Group of Fair Agricultural Trading Nations, established in 1986 under Australia’s leadership, is a heterogeneous bloc that has included both developed (Canada, Australia and New Zealand) and developing (Argentina, Brazil, Colombia, Chile, Fiji, Hungary, Indonesia, Malaysia, Philippines, Thailand and
Uruguay) countries. In the late 1980s, the Group accounted for about 26 percent of global agricultural exports, while the U.S. represented 14 percent and the EC 31 percent of agricultural exports by value. The Group represents the same number of people as the U.S. and EC combined and has established itself as a third force in the ongoing Uruguay Round of trade talks. The Cairns Group has argued that it would not accept a conclusion to the Uruguay Round unless it included agricultural reform. The Group’s proposal in the Uruguay Round has been for the elimination of 75 percent of internal agricultural supports and import protection and a 90 percent reduction of export subsidies, phased in over 10 years. The centrepiece of its proposals has been tariffication whereby all non-tariff barriers to agricultural trade would be converted to tariffs which could be then be progressively reduced.

98. The Australian Bureau of Agricultural and Resource Economics (ABARE) has been reported as recently predicting large gains for the Australian farm sector if a Uruguay Round agricultural package is implemented in a beneficial manner. For example, beef producers were expected to gain by US$173 million while wheat farmers would benefit by US$176 million and sugar producers would receive US$20 million. Overall the Australian farm sector would gain by US$629 million. [Gill, 1993e, 1,4]

99. Under the tariff quota, while existing imports attracted only a tariff of 0.625 cents per pound, any imports over that level attracted a prohibitively high tariff of 16 cents per pound.

100. The Cairns Group has not been without its difficulties in ensuring that all members move in the direction of agricultural trade liberalisation. For example, Canada’s assistance to its wheat and beef growers has recently been a cause of concern to Australia. However, Australia has been anxious to keep the Group together and in the case of Canada, has stressed the importance of its membership as providing a link to the Group of Seven richest industrialised countries.

101. This view is given credence by the fact that the U.S. has continued, and in fact expanded, the use of the EEP over the period of the Uruguay Round talks. Australia has recently accepted that the U.S. is unlikely to remove the EEP before the end of the Round and has changed its plea to one of no further subsidies under the program. [Lyons, 1993a, 11]

102. This is despite the existence of the “fast track” negotiating mechanism which has been provided to the US Administration’s negotiating team. The fast-track mechanism, by which Congress would vote a Uruguay Round package (provided to it by the Administration) either up or down without amendment, has been renewed a number of times with the final renewal effectively extending the Round’s talks to December 15, 1993.

103. The Australian beef industry suspects that should the Meat Import Law disappear as the result of a Uruguay Round agreement, then tariffication would appear to replace it.
104. On 20 December 1991, then GATT Director-General Arthur Dunkel tabled a package (the Draft Final Act) which called for cuts of 36 percent in the value of production subsidies; of 40 per cent in the value of export subsidies; and of 24 percent in the volume of subsidised exports.[GATT, 1991] On 21 May 1992, the EC's farm ministers agreed on a package including a 29 percent fall in the target price of cereals (the issue where the US and the EC were farthest apart). It has been estimated that this would lead to a drop in export subsidies by 1997. However, the EC package does not call for a reduction in the volume of subsidised exports. The deal on cereals was generally welcomed as probably opening the way for the reform of other programs.

105. This Accord was reached after the U.S. and the EC had nearly halted the GATT reform process altogether over a subsidy battle which had centred around the EC's refusal to reform its oilseed subsidy program and the U.S. imposition of additional duties on a number of EC exports.[Manchee, 1992, 16]

106. Critically for Australia, the Group of Seven communiqué said that they "looked forward to immediate re-engagement of the multilateral negotiations to complete expeditiously the agricultural market access package, including processed products, as an essential component of the agricultural agreement and of a global and balanced Uruguay Round package."[Hartcher, 1993b, 16]

107. This strategy has been used by Australian state actors in the domestic bargaining process in order to secure the acquiescence of societal actors in an approach to economic adjustment which would involve a minimum of state assistance for Australian agricultural industries.

108. In particular, the 1989 ABARE study on U.S. grain policies and a 1990 study on the sugar policy together with a CSR 1987 study on sugar policy have been cited by those in the U.S. opposed to the U.S. policies in these sectors.

109. Among these U.S. studies was one in 1991 by the Center for National Policy, "U.S. Agriculture: Myth, Reality and National Policy" which found that a majority of U.S. farmers believed that government support programs harmed them internationally.[United States Information Agency, 1991, 4-5] Another study, released in May 1993 by the U.S. General Accounting Office (GAO) found that U.S. support arrangements had raised domestic U.S. sugar prices to twice the world price and had given 42 percent of the program's benefits to only 1 percent of sugar producers. The report called for an increase in sugar quotas.[Gill, 1993d, 9]

110. Examples of this strategy have included contact maintained between the Australian embassy and the meat importers associations as well as the support given to Australia's case by certain defence contractors, with whom Australia has been a significant and reliable customer. [Interviews with embassy officials]

111. Bruce Wolpe, a former Washington lobbyist, has recently argued that Australia must participate more vigorously in Washington and employ outside consultants to lobby on its behalf and mobilise Australian constituencies within the U.S.[Wolpe, 1993, 21]
POLITICAL ECONOMY OF AUSTRALIA'S STEEL TRADE
WITH THE UNITED STATES

Introduction

Steel is Australia's largest single manufactured export to the United States and is likely to continue to be so for some time to come. The steel export trade has a significance for Australia far greater than what its dollar value represents in that it has constituted an example of Australia's ability to diversify into the export of manufactured products. While Australia's exports of steel to the U.S. have not been a major source of foreign revenue, they have been part of recent trend which has seen exports of manufactured goods rise as a percentage of Australia's total exports.\textsuperscript{112}

Broken Hill Proprietary Ltd (BHP)(the largest Australian steel producer) has a monopoly over Australian steel exports.\textsuperscript{113} In 1988, BHP had an output of 6 million tonnes, ranking it as the 16th largest steel company in the western world on the basis of aggregate raw steel output (see Table 1).\textsuperscript{[International Iron and Steel Institute, 1989, 2]}

However, like other Australian steel producers, BHP has traditionally been domestic-oriented and has not been a consistent exporter of steel. In fact, until recently, steel was only exported when a surplus occurred over and above local demand. Top priority was given to the domestic market as export markets were considered unreliable and high prices could still be obtained on the domestic market.

While the Hawke Government had encouraged the expansion of the domestic industry so Australia could become a larger and more reliable exporter of steel, production is still directed principally at the domestic Australian market. It is a highly concentrated industry with BHP and its subsidiaries dominating domestic production.\textsuperscript{114} Of total Australian production, BHP has maintained approximately 85 percent of the Australian market. \textsuperscript{[BHP Steel, 1989b, 7]} While BHP's production of marketable steel increased over the late 1980s and early 1990s to 5,735 million tonnes in 1992, domestic demand for steel was depressed by the recession and sales to the domestic market have declined by 28% from a high in 1989-1990.
There is evidence that domestic demand is growing but, partly reflecting new attention to the export market, BHP has experienced a 23 percent increase in export sales, bringing export sales to 43 percent of total sales. [Broken Hill Proprietary, 1992a, 16] The increase in total exports has not, however, resulted from an increase in access to the U.S. market. In the late 1980s and early 1990s, about 20 percent of Australia’s exports were destined annually for the North American market (predominantly the U.S.) The U.S. has remained an important market for Australia’s steel but has now slipped from being Australia’s second largest market to its third largest steel export market.\(^{115}\) However, problems of access to the U.S. market are, if anything, more important for Australia than they ever were.

Australia has considered the U.S. a significant steel export market over the postwar period but, not surprisingly, Australian steel exports are not nearly so important for the U.S. For example, Australia’s sales to the U.S. in 1992 were 350,000 tonnes which was 0.37 percent of the total U.S. domestic market of 88 million tonnes.\(^{116}\) This study is concerned with the U.S.’s role as both producer and importer of steel.\(^{117}\) While the U.S. produced 90.1 million tonnes of steel in 1988, it still needed to import nearly 20 percent of its domestic consumption needs (see Tables J, K). [International Iron and Steel Institute, 1989, 3,11]

The story of U.S. steel trade policy over the period of the 1980s is one of growing protectionism which dates as far back as 1968. The latest manifestation of this protectionism were the Voluntary Restraint Agreements (VRAs) which were introduced in 1984 and continued until March 1992. These VRAs involved negotiated agreements with 29 countries (including Australia) which constituted a majority of steel exporters to the U.S. This study will examine the nature of this form of protectionism and the filing of unfair trade suits which have reappeared since the expiration of the VRAs.\(^{118}\)

The U.S. steel trade policy process will be examined in order to understand the roles played by the various U.S. state and societal actors in providing protection for the U.S. industry. The focus will be upon the interaction of the state and societal actors and the relative influence of ideas promoting either free trade or industry protection in U.S.
policies. As well, the part played by each of the U.S. political institutions in the formulation and implementation of steel policy will be addressed.

World steel trade experienced a severe downturn in demand in the early 1980s. This was coupled with an excess of supply resulting from the buoyant 1970s. U.S. steel producers, as with many of their foreign competitors, suffered a competitive decline together with a resultant increase of imported steel into the U.S. This downturn exposed the internal structural failings of much of the U.S. steel industry, especially as compared to the efficient and low-cost industries of many of the developing countries. Following the filing of legal suits with the International Trade Commission (ITC) alleging dumping on the U.S. market by foreign producers, U.S. steel producers were eventually able to convince a politically-sensitive Reagan Administration to initiate a 5-year program of VRAs in 1984. The 1989 renewal of this program for a further 30 months followed a fierce debate between advocates and opponents of further industry protection.

The VRA program was introduced essentially to combat what the U.S. industry considered to be heavily subsidized producers, the European Community (EC) and Japan. However, the U.S. industry lodged an antidumping suit against BHP in 1984 as well as against other small and lightly-protected steel exporters. Whether BHP was guilty of dumping steel on to the U.S. market was never actually tested. To maintain access to the U.S. market, the Australian government was keen to dispose of this suit and negotiated a VRA with the U.S. government. BHP willingly cooperated with the Australian government in the negotiation of the VRA given that the alternative would have been an expensive and time-consuming legal suit. The resultant agreement of 1984 provided Australia with 0.18 per cent of the U.S. domestic consumption market.

These developments in the U.S. and the protectionist responses of various other countries only exacerbated the difficulties facing the Australian steel industry in the early 1980s. Experiencing a downturn in its sales as a result of the diminished world demand and the other macroeconomic problems of this period, the Australian industry urgently sought assistance from the Australian government. BHP underlined the gravity of the situation by even threatening a shutdown of its steel-making activities if some aid was not forthcoming.
In August 1983 the Australian government announced the Steel Industry Plan whereby assistance would be provided to the industry for a period of 5 years with industry (principally BHP) agreeing to continue to operate integrated steel mills and to invest a certain amount in the industry and with the unions agreeing, for their part, to exercise wage cost restraint. A Steel Industry Authority (SIA) was established to monitor and advise the government on progress made under the Plan. While it is doubtful whether the Plan, as the centrepiece of the Hawke government’s domestic steel industry strategy, was a major contributor to the Australian industry’s recovery, it did serve to improve industrial relations which assisted the future development of the industry.

The Australian steel industry has been a domestic-oriented one and the move to increase the steel export market independently of domestic demand has been a recent one. While the added emphasis upon export markets has drawn attention to new markets, especially in Asia, established markets such as the U.S. market have also become more important. A study of these Australian industry developments helps to explain the changing nature of the domestic bargaining process between those Australian state and societal actors involved in making Australian steel trade policy. Together these sections help to explain the Hawke government’s domestic steel industry strategy and the relations which developed over this period between state and societal actors involved in making Australian steel trade policy. This in turn has helped to explain how the bargaining between Australian state and societal actors has influenced Australia’s approach to seeking an improvement in its steel trade outcomes with the U.S.

The study will initially consider the particular problems experienced by Australia in exporting to the U.S. under the VRA program and subsequent unfair trade suits. This will be followed by an examination of the roles performed by Australia’s state and societal actors in the Australian steel trade policy process, how they interact in that process and the influence that each has upon the other in the making of policy.

The final section considers the approaches Australia has adopted, be they bilateral or multilateral, towards solving the problems presented by the nature of U.S. steel import politics. Linked as it must be to the previous discussions of the U.S. steel policy and policy-making process and the Australian domestic bargaining process, this part will
refer to the strategies adopted by both Australian industry and its lobbyists and the Australian government in bargaining for an increase in U.S. market share.

U.S. Steel Trade Policy and Programs

Brief History of the Postwar Period

Where in the 1950s the U.S. steel industry had the preeminent position in the world market due to the scale of its plants, it had fallen behind by the 1970s. The industry experienced an extraordinary rise in labor costs over this period and these were passed on to domestic purchasers by virtue of the oligopolistic competitive structure of the industry. [Walter, 1983, 486] The nature of the U.S. industry largely explains the deepening penetration of imports into the U.S. from the 1960s through to the 1980s.

In the late 1960s Japan and the European Community both had surplus steel capacity and targeted the U.S. market. The resultant influx of imports was encouraged by the fact that U.S. consumers, fearing industrial strife in the U.S. industry, ordered heavily from foreign producers. [Hogan, 1987, 354] Reacting to these increased imports the steel industry together with the industry’s unions were able to force President Johnson’s hand in 1968. To forestall congressional action, Johnson directed the negotiation of the first of many VRAs with Japanese and European steel industries.122

There were no VRAs or other protectionist devices in operation in the period 1974 to 1976 because of both an upsurge in domestic demand for steel and an anti-trust suit filed on behalf of steel users by the Consumers Union. In 1976, the steel industry, facing a depressed domestic market and a new surge of mostly Japanese imports, sought more comprehensive forms of protection which would cover other countries which had not been signatories to previous VRAs.

Responding to the filing of antidumping suits by the U.S. industry and following a taskforce report, the Carter administration introduced the Trigger Price Mechanism (TPM) in February 1978. The TPM aimed to be a more systematic protection device (covering all foreign producers and all steel products). It was ostensibly an antidumping
rather than a protectionist measure and established what were referred to as ‘fair value’ import reference prices.\textsuperscript{121} [Walter, 1983, 491]

The TPM remained in place, albeit in a revised form, until 1982. With the U.S. steel industry feeling the full effect of the recession,\textsuperscript{124} the TPM proved to be an insufficient guarantee of the minimum acceptable market share for the domestic industry and in February 1982, the seven largest firms filed 110 charges of unfair trading practices against 11 countries. The U.S. industry remained convinced that the flow of imports could only be effectively stemmed through the imposition of quantitative restrictions and 1982 saw a hardening of this protectionist position.\textsuperscript{125} [Walter, 1983, 495]

In October 1982 the U.S. signed a steel pact with the EC which saw the EC’s share of the U.S. market reduced in return for the lifting of dumping and countervailing duty charges against the EC. [Conybeare, 1987, 210] This pact effectively provided an incentive for the diversion of supplies from non-EC producers on to the U.S. market. Together with the U.S. industry’s view of a demonstrably successful 1982 campaign, this immediately created more pressure by the U.S. industry for control of imports.\textsuperscript{126} [Jones, 1984, 396] For the U.S. steel industry, the import issue remained the avenue of immediate relief. In seeking a global import quota, the industry sought protection through various channels. These included petitioning for relief through the escape clause (being Section 201 of the 1974 Trade Act); the filing of many ‘unfair’ trade suits; and the introduction of industry-sponsored legislation in Congress, resulting in The Fair Trade in Steel Act of 1984.

In 1984, for the first time, there was a simultaneous push for industry protection by means of escape clause petitioning and the filing of unfair trade suits.\textsuperscript{127} In mid-1984, the U.S. International Trade Commission (ITC) recommended relief on most steel products in the form of a combined program of increased tariffs and quotas. The industry was disappointed that more comprehensive protection was not recommended and turned its attention, together with unions and supporting politicians, to the President.
While the Reagan Administration took into account a number of important international considerations in devising a recovery plan for the U.S. industry, domestic political issues dominated the policy formulation process and a new program of protection was introduced. Aware that a program of export restraint agreements would not expose the U.S. to retaliation or claims for compensation by dissatisfied exporting countries (and avoid retaliation under GATT procedures), the Reagan administration became more interested in negotiating these than in implementing the ITC recommendations.

**Voluntary Export Restraint Agreements**

The VRAs, negotiated as part of the Reagan plan, were an attempt to overcome the leakages of previous protectionist measures and establish a global system of binding bilateral arrangements. The invitation to foreign producers to enter into VRAs was made with the blatant threat of the use of U.S. trade laws and their remedies as leverage with which to pressure reluctant governments into making such agreements.

The system of VRAs sought to be comprehensive, covering all 'unfair' traders, and thus aiming to fully insulate the U.S. domestic industry from world market effects. Foreign suppliers were faced with little choice but to negotiate an agreement given that any exporter under investigation was deemed to be an unfair trader. While initially seeking to protect the arrangements (both formal and informal) made between the U.S. and the EC and Japan, and to cover the increasing exports of the developing countries, the very design of this VRA program ensured that it also covered lightly-subsidising countries such as Australia.

This quota plan was designed to limit penetration to 18.5 per cent of the U.S. market for steel mill products (down from the 25.4 per cent at which it stood in June 1984) with a limit of 1.7 million tonnes on annual imports of semi-finished steel. Congress endorsed this plan when it passed the Steel Import Stabilisation Act of 1984, which became part of the Trade and Tariff Act of 1984.

The plan had seven important components: there were to be negotiated 5-year export limits on the countries whose steel prices to the U.S. had surged 'unfairly' in recent...
years; coverage was to be over all steel mill products with product-by-product limits based on historical patterns; there was to be a system of licensing to enforce the export limits; there was to be continued ‘rigorous’ enforcement of the U.S. unfair trade laws; there was to be the possible termination of unfair trade investigations in exchange for export-restraint agreements; existing steel trade agreements were to be reaffirmed; and consultations were to be undertaken with the U.S.’s trading partners on ending ‘trade-distortive and trade-restraining practices’ in other markets. [Jones, 1984, 400]

While this system of VRAs was ostensibly voluntary, in reality the export limits were enforced by a licensing system. The agreements with various states contained a number of common features including permission for a foreign country to enter into consultations if it believed it was being unfairly treated in relation to other countries; permission for the foreign country to borrow against future allocations up to 5 percent of its quota; the withdrawal of unfair trade cases after consultation with the US industry; and consultation by exporting countries if there appeared to be a shifting of products within product categories. [Cantor, 1986, 6]

The 1984 VRA program had resulted from the Reagan Administration’s frustration with the ineffectiveness of previous protectionist measures (the TPM and the previous VER). The Administration wished to satisfy steel industry demands, while at the same time appearing to remain a free trader in the world steel trading community.

**Arguments over the General Effects of the VRAs**

Arguments over the effects of the VRAs surfaced in the debate over whether the 1984 program of VRAs should have been extended beyond September 30, 1989. The steel industry argued that the VRA program should be extended for a further 5-year period. It contended that while the program had made an important contribution to the recovery of the industry (from its low point in the early 1980s) and had restrained ‘unfair and illegal’ imports, more time was needed for both a full recovery and for the U.S. government to combat these ‘unfair and trade-distorting practices’.
While proponents and opponents of the VRA program agreed that the trade-distorting conditions of the world steel market had not changed much since the VRA program was introduced, opponents argued that the program had itself contributed to the distortions in the world steel market [Jones, 1984, 406] and that the program effectively did nothing to correct the world market situation. Instead of discriminating between fair and unfair traders, opponents argued that the VRA program actually exempted the unfair traders from U.S. trade laws and guaranteed them a share of the U.S. market. [The Stern Group, 1989, 63]

The industry argued that the VRAs were necessary in order for the industry to improve its international competitiveness and that additional time was still required.\^\textsuperscript{134} The U.S. industry stressed that while progress had been made in modernizing plant (for example, in product yield and energy use), the industry was in a transitional phase having suffered US$12 billion in losses in the early 1980s and still lagged behind its major competitors by the late 1980s. [Putnam, Hayes and Bartlett, 1988, 38]. Opponents of the VRA program answered this by arguing that by 1989 the indicators showed an industry profitable and ready to face foreign competition without the aid of the VRAs.\^\textsuperscript{135}

It was argued that steel as a strategic industry required assistance because of its importance to the health of the U.S. economy and particularly the manufacturing sector. Without denying the strategic importance of the steel industry, opponents of further protection for steel argued that many steel-using industries were both important sources of exports for the U.S. (being disadvantaged by the higher costs of steel which resulted from the imposition of the VRAs)\^\textsuperscript{136} and employed many more people than the steel industry.\^\textsuperscript{137}

Arguments over whether the VRA program caused steel price rises for steel-users and consumers were also important.\^\textsuperscript{138} The industry has argued that the price rises in the late 1980s averaged only 3.4 per cent higher than in 1984 and only 1.7 per cent higher than in 1981 while for users, when adjusted for inflation, the prices were in fact 5 per cent lower than when the VRAs were instituted.\^\textsuperscript{139} [Putnam, Hayes and Bartlett, 1988,
22] Opponents have countered by referring to price rises directly resulting from the operation of the VRAs and the costs resulting from shortages.140

The fact that VRA countries undershipped in 1987 and 1988 undermined the argument that the quota arrangements of the VRA program were a significant cause of any price rises. Quotas were only capable of causing price increases when the quotas were binding or filled which was certainly not the case.141 [Cantor, 1989b, 1] In addition to the inflexibility of the quota system under which foreign exporters supplied to the U.S. market, there were also some 40 foreign exporters not covered by the VRA program.

While the evidence of undershipments undermined the argument that the quota arrangements contributed to the rises in steel prices, it also weakened the argument of the VRA advocates that the VRA was needed to maintain an effective barrier to a surge of imports. While other effects of the VRA program were problematic, it proved to be highly successful as a measure to control imports from those countries with whom a VRA had been signed.142 Given that many foreign exporters did not fill their VRA quotas, it could well be argued that one of the significant effects of this import control program was as a deterrent to these exporters. Certainly BHP officials believed that the difficulties experienced in adhering to the program made alternative markets more attractive. [Interviews with BHP officials]

Opponents of the VRA program argued that shortages had resulted producing problems of both cost and availability for steel-users. One steel-user association argued that members' investment decisions had been affected by what it considered to be the risk of insecure supply both from domestic and foreign steel producers.143 The steel industry in reply referred to a Short Supply procedure which it claimed had been underutilised. [American Iron and Steel Institute, 1989e, 8] This procedure, which as part of the VRA program allowed U.S. steel users to seek additional supplies of steel when not available domestically, effectively exempted a particular importer from the quota limits. Opponents of the program countered by arguing that the process was time-consuming and allowed domestic suppliers to quote high prices. [Cantor, 1989a, 6]
Opponents of the VRAs argued that the program acted as a disincentive to modernization and adjustment for the U.S. industry and had undermined the industry’s capacity to compete internationally. Import restraints were seen as having adverse effects upon both domestic efficiency and the economic welfare of steel consumers. The program also provided manufacturers with an incentive to seek either alternatives to steel, (foreign sources of steel-intensive components) or to minimize the use of steel in their products. [The Stern Group, 1989, 26-27]

Internationally, the VRA program had removed the incentive for foreign suppliers to produce efficiently and at the lowest possible cost. With the threat of trade cases removed, suppliers who were granted a quota share, were assured of sales into the U.S. at prices which did not reflect the world market price.

U.S. President Bush announced on 23 July 1989 a "Steel Liberalization Program" which would phase out the VRAs while negotiating an international consensus to remove unfair trade practices.144 [United States Department of State, 1989, 35] The VRA program was extended for a further 30 months to 31 March 1992 while allowing for the progressive annual lifting of import ceilings by one percent. The VRA program had served its purpose in effectively allowing time for the U.S. industry to modernize and place itself in a more competitive position for the time when the program was withdrawn. The lifting of the U.S. import ceilings did not give any priority to relatively subsidy-free steel exporters such as Australia145 as had been hoped by the Australian government and BHP. [Hywood, 1989] However, while predictions that the 1992 expiration of the extension period would see no further extensions of the VRAs proved to be correct, [Hancock, Porter and Hilly, 1990, 10] no sooner had the program ceased to exist than the U.S. steel industry lodged unfair trade suits against foreign exporters.

**Effect of the VRA Upon Australia**

The effect of the VRA program upon Australia has been both beneficial and detrimental. Australia has historically been a small exporter into the U.S. and its small quota share of 0.18 per cent reflected this fact. It was affected both directly and indirectly by the import restraint applied by the U.S. VRA program. Directly, the VRAs had the effect
of limiting the amount of steel Australia was able to export into the U.S. While BHP considered this to be an irritation throughout the period of the program, the effect was aggravated as Australia geared up to expand its exports, both generally and to the U.S. Indirectly, with the U.S. as the largest steel importer, its VRA program acted to both reduce import competition into that market and constrain the world trade in steel.

Together with the other 29 countries holding quota shares into the U.S., Australia had gained the benefit of the higher rents guaranteed by the program. The program had not, however, rewarded Australia (or other countries for that matter) for having been an efficient and lightly-subsidized exporter of steel. If anything, the VRA between Australia and the U.S. had acted as a disincentive to greater efficiency given that Australia’s membership of the cartel (of exporters to the U.S.) was based on previous market share and bore no relation to the price at which Australia had been able to export steel into the U.S.

Given that Australia had not filled its VRA quota throughout the period of the program, the VRA had not, strictly speaking, limited the amount of steel Australia exported to the U.S. However, BHP was concerned at not only the great amount of paperwork the VRAs entailed for both it and the Australian Department of Foreign Affairs and Trade, but also that the limit imposed affected BHP’s ability to respond flexibly to the requirements of the world market. [Phillips, 1992b]

U.S. Steel Trade Policy-Making Process

The U.S. steel trade policy-making process and the implementation of a program of VRAs from the early 1980s through to the 1990s should not be interpreted as simply a reactive executive and Congress facing powerful and organized industry interests. Without understating the strength of the steel producers lobby and its position in relation to other societal actors involved in the making of U.S. steel trade policy, state actors in both the executive and the Congress played the dominant roles in this policy process. The restrictive nature of the VRA program was not only the result of a powerful and articulate domestic constituency pressuring for some protection from import competition,
but it also represented a strong interest within this policy-making establishment in the U.S.'s role as an exporter rather than as an importer of steel.

The late 1980s and early 1990s witnessed a decided shift of opinion within policy-making circles away from providing protection to the steel industry. This was derived not only from the increased prominence of anti-protection societal forces but from changing attitudes within the executive and Congress as to the economic position of the steel industry and the provision of governmental assistance. The decision to extend the VRA program only till March 1992 and then only upon certain terms was testimony to this shift of opinion.

An assessment of the roles performed by each of the state actors within the two central political institutions and how they interact is critical to understanding U.S. steel trade policy-making. This will be followed by an examination of how various pro and anti-protection societal actors have competed for influence over the making of U.S. policy.

**Role of the Executive**

Since the late 1960s, the executive has had a central role in the making of steel policy and, on many occasions, as with the 1984 VRAs, has taken the lead. This was partly the result of the nature and perceived importance of the industry and partly due to the industry's ability to take advantage of both legal avenues and political circumstances to apply pressure upon the executive. Within a VRA program, where both exporter and importer producing interests have wanted a deal (admittedly for different reasons), it has been difficult for the executive to resist the temptation to proceed with such a trade restricting deal. [Destler, 1992, 161]

The institutionalization of the VRA as the main instrument of steel policy acted to enhance the role of the executive and its implementing agencies. Within the executive branch, it was the Office of the U.S. Trade Representative (USTR) which negotiated these agreements, while other agencies were involved in both monitoring steel imports and in ensuring the compliance by foreign exporters. The VRAs, as negotiated forms of protectionism, provided the executive with a certain discretion with which to implement
the program. The authority and discretion of the executive was, however, limited by the general enforcement authority exercised by the Congress and the fact that Congress monitored both the level of imports and how well the domestic industry was meeting its modernisation requirements.

In both 1984, when the President was considering some form of assistance for the steel industry, and then again in 1989 when renewal of the VRAs was being debated, policy-making within the executive branch was conducted through an inter-agency process. The principal agencies which handled steel policy were the Office of the U.S. Trade Representative (USTR) and the Department of Commerce while other bodies such as the Departments of Justice, Labor and State, the Treasury, and the Office of Management and Budget (OMB) were also involved.

Important agencies of the executive took varying positions as to whether the program of VRAs was desirable. The USTR and the Departments of Commerce and Labor were generally supportive of the VRAs while the Treasury and the Departments of State and Justice were generally against such protection.

There were in 1984, according to one analysis, three broad groupings which sought to influence the President over steel trade policy. [Walters, 1987, 17-18] The first of these groupings was what was termed "the principled-free-traders" who espoused a preference for market solutions. This group included the then Secretaries of the Treasury, State, Defense and the director of the OMB. They believed that protection would not only prolong the steel industry's problems but also harm the exporting steel-using industries.

The second group were "the pragmatic-protectionists" who shared the philosophy of the principled-free-traders but saw some value in devising a policy of import restraints to help the steel industry. This group included the then USTR and the Secretaries of Commerce and Labor. This was the group closest to the problems facing the steel industry and held the general view that a significant proportion of steel imports entering the U.S. were unfairly traded.
The third group were the White House domestic political advisers and were those most keenly concerned with the need for President Reagan to be re-elected in 1984 and to get as many Republicans elected to the Congress as possible. This group sought to both address the concerns of an industry represented in a number of important states, and avoid a confrontation with a Congress concerned to provide some protection to the industry.

This division gives some idea of the tensions and compromises generated in 1984 and the problems faced by the Bush Administration in 1989 when it wrestled with the issue of whether to renew the VRAs. A shift of opinion in favour of the "principled-free-traders" was evident in 1989 with a change of political and economic circumstances. The steel industry had returned to profitability; the administration and Congress were not as vulnerable to industry pressure and there were in existence much stronger and organized anti-protectionist forces.

The Department of Commerce had day-to-day responsibility for steel policy and maintained close relations with the steel industry through its International Trade Agency (ITA). Given this close and continuous relationship, it was understandable that this Department tended to support protection.

USTR took a similar, though less overtly protectionist line to that of Commerce, on the steel trade issues of the 1980s. According to a senior Australian embassy official, the USTR emphasised the importance of viewing any protection for the steel industry very much linked with the need to gain an international consensus against dumping and subsidisation of exports. Within the USTR, the sub-cabinet Trade Policy Review Group (TPRG) considered steel trade issues while on a more day-to-day basis, the Trade Policy Staff Committee (TPSC) took responsibility for the formulation of the agency’s policy.

The importance of the USTR’s coordinating role is illustrated by the establishment within USTR Carla Hills’ office of a special working group to consider the 1989 renewal of the VRA program. This group worked with other agencies of the executive, with the Congress and with steel producers and users, to flesh out the administration’s
steel policy from the framework given in the letter of President Bush of November 1988. [United States Congress, 1989, 13-1] The importance of this USTR process is illustrated by the fact that the resultant executive policy on the VRAs was derived from the deliberations of the USTR task force.

Those executive agencies with responsibility for the implementation of steel trade policy also had, by the nature of that function, an important role in policy formulation. They were the USTR, the International Trade Agency (ITA) of the Department of Commerce and the Customs Service.

The U.S. Special Trade Representative (USTR), as the principal trade agency, had the responsibility for negotiating the bilateral VRAs with the foreign exporting countries. As a general rule, it was an agency which encouraged the expansion of trade and has argued against the implementation of trade distorting mechanisms. However, in arguing for linkage between limiting U.S. imports and international reform of steel export policies, the USTR supported the adoption of the VRAs.

The ITA’s role involved monitoring the operation of the VRAs and, through its Office of Agreements Compliance, was responsible for enforcing compliance with the agreements. The ITA also had responsibility for selecting the independent forecaster who estimated the market outlook for each product. From this forecast, the ITA specified the tonnage of each product that VRA countries could export to the U.S. Foreign exporters shipping steel to the U.S., for their part, were required to have export licences for the quantities involved. As an aspect of the institutionalization of the post-1984 VRAs, the ITA received copies of all export licences in advance of the actual entry of the steel, thus enabling it to monitor all steel shipments to the U.S.

The Department of Commerce has also been very much involved with the administration of the unfair trade laws which succeeded the VRA program. The Department interacts closely with steel producers and has been more concerned with the economic conditions that they face rather than with whether these laws were being used for protectionist purposes.[Baldwin and Moore, 1991, 258] Following allegations of dumping, for
instance, Commerce had the responsibility to determine whether the alleged imports were dumped and, if so, to estimate the margin of dumping.¹⁴⁹ [Murray, 1991, 24]

The Customs Service had the least policy-oriented role of the implementing agencies. The Service processed the entry of the steel shipments, furnished the documentation to the ITA and simply enforced any restrictions imposed by the ITA. It was the collector of duties, undertook necessary inspections of steel shipments upon entry and classified the products. [Cantor, 1986, 8-9]

**Role of Congress**

The 1984 steel policy does not represent the dominance of Congress over the executive in trade policy-making. Congressional assertiveness was directed at pressuring the executive to respond positively to the demands coming from the U.S. steel industry. In contrast to most other protectionist initiatives of the 1980s, the thrust of the policy originated with the Administration’s response to industry demands for protection. Rather than provide for statutory restrictions upon steel imports, Congress sought an Administration program to the same effect. When 201 Representatives signed on to the steel quota bill in 1984, this was more to apply pressure upon the Administration than to have the bill placed on to the statute books. [Destler, 1986, 77] In this way, steel policy-making over the 1980s involved particular members of Congress acting more as lobbyists to the administration on behalf of the steel industry than as legislators.

Congress was not, however, simply a cypher or conduit for industry pressure upon the executive. There was a genuine body of opinion within the Congress which believed the steel industry was suffering badly from unfair competition and sought a change of policy which would help to alleviate this problem. Some members of Congress were obviously motivated by the fact of their closeness to the steel industry or its importance to their constituency, while others believed that steel, as a strategic industry, was close to extinction.

Congress’ formal response to the Reagan Administration’s decision to impose VRAs upon foreign exporters incorporated provisions that were not in the Reagan plan (and
had in fact been advocated by his 1984 presidential challenger, Walter Mondale). These were a market-share target of 17 per cent for steel imports (rather than the 20.5 per cent sought by Reagan) and a reinvestment requirement provision for the steel industry. Prominent Democratic members of Congress persisted in the negotiations with the executive and the resultant compromise bill, (the Trade and Tariff Act of 1984) reflected congressional wishes as much as those of the executive. President Reagan, in seeking re-election, was prompted to take the lead in answering industry demands for protection at this time. However, members of Congress, mindful of their role in providing the necessary legislation to implement and enforce the executive’s proposals, played a central part in the process which established the VRA program.

A steel caucus had been established in Congress since the early 1970s. Its existence was testimony to the geographical spread of the steel industry across the U.S. and its influence over many members of Congress. In 1984, the importance of this large and sympathetic body of opinion was evidenced by the fact that the 9 largest steel-producing states had 225 out of a total of 270 electoral college votes needed by President Reagan to be re-elected.

Congressional support for the steel industry was both organized and focused by the steel caucus, and this was enhanced by the high profile which the steel industry had traditionally enjoyed across the U.S. Over the period of the 1980s, the efforts of the steel caucus to secure increased protection for the industry were reinforced by the growing protectionist sentiment within the Congress as a whole.

Steel industry interests were represented much more prominently within the Congress than were those of the steel-using industries. Protection for the steel industry proved to be a political good around which industry groups were able to organize and pressure state actors much more effectively than groups (such as the steel-using industries and consumers) which sought the removal of the VRAs.

While many within Congress had been prepared to legislate protection for the steel industry, a number of members of Congress remained keenly aware of the harmful effects such protection had upon other steel-using industries and upon the economy as
a whole. The realisation by many in Congress of the seriousness of the industry’s problems, did not mean that they blindly accepted the industry’s arguments for protection from imports. There was also evidence of ideological opposition within Congress to the use of VRAs because of their effect upon steel-using industries.152

A vital part of the congressional decision-making process, as in other trade sectors, was the committee system. The committee system was, however, of lesser importance in steel trade policy-making than in other sectors given the role of the steel caucus in bringing steel policy issues directly on to the floor of each House. However, the committees of the Congress still performed key policy oversight functions through the use of their hearings on steel policy and related issues. These functions were performed principally by the trade committees: the House Ways and Means Committee and the Senate Finance Committee.

With the implementation of the VRA program, the congressional committee system performed another important function. Congressional authority for the enforcement of the VRAs, to be renewed each year, required the certification of both the House of Representatives Ways and Means Committee and Senate Finance Committee that the domestic steel industry had reinvested substantially all of the net cash flow back into its steel operations.153

In contrast to its role in the instigation of the VRA program, Congress has been the more dominant player in both the formulation as well as implementation of the unfair trade laws. Over the years, Congress pressed for a tightening of the enforcement of these laws and (in parallel with its policy as evidenced in the VRA legislation) sought to ensure that the executive’s discretion was limited in the execution of these laws.154 [Baldwin and Moore, 1991, 254-263]

Role of U.S. Societal Actors

Steel provides an excellent example of where the pluralistic structure of the U.S. system of government has provided a number of pressure points where societal actors could seek to influence the policy-making process. Over the 1980s, the nature and extent of
societal-actor influence in the U.S. steel trade policy-making process changed. While lobbying by societal actors seeking further protection for the industry remained important, by the end of the decade their influence over policy-making was no longer decisive.

The steel industry was in the 1980s and into the 1990s, the most influential societal actor in the making of steel trade policy. As the producer group, it has been critical of both U.S. government intervention in terms of taxes and charges and government inattention in terms of assistance to match the government support given to its chief foreign competitors. The industry's trade body, the American Iron and Steel Institute (AISI), had lobbied both the Administration and the Congress for the establishment and then the continuation of some form of protection. In the early 1980s, the industry used the filing of legal cases by individual firms with the ITC to reinforce its demands for some form of comprehensive protection.

Since the late 1960s the United Steelworkers (covering almost all workers in the industry) have supported the industry's case for protection. As they saw it, the decline in the competitiveness of American steel production made trade restrictions essential in order to protect their wage structure. This in turn made it imperative for the union to throw its weight behind the political campaign for protection. [Jones, 1984, 394] As illustrated in the 1989 VRA renewal debate, there was little to distinguish the position of the union from that of the industry on protection.

From the time of the pressure for protection of the early 1980s to the renewal of the VRAs in 1989, industry tactics changed. In the early 1980s, the industry was seeking to change the status quo and found it necessary to apply pressure upon three different institutions: the ITC, the Congress, and the Reagan Administration. By 1989 the industry was determined to maintain the status quo (the system of VRAs) and to do so agreed not to institute legal cases against foreign countries who agreed to negotiate a VRA. This meant the industry could no longer use pressure upon the ITC to ensure a continuation of policy. Industry pressure was thus directed to the 1988 Presidential candidates and to influential members of Congress.
The AISI and certain research bodies were also active in promoting ideas akin to viewing the steel industry as a strategic one deserving of assistance. Conscious of the strength of 'free' or liberal trade thinking in policy-making circles in Washington, the industry's argument that steel be treated as an exceptional case was promoted in publications ranging from pamphlets to full-length books. [see for example, Howell, Noellert, Kreier and Wolff, 1988] Even opponents of protection have acknowledged the importance of the steel industry's publicity and promotion campaign.

The 1980s saw the rise of many interest groups opposed both to the granting and then extension of protection to the steel industry. Most active amongst these anti-protectionist groups were the steel-using industries which argued that the increased domestic price for steel was caused by import restrictions. In their view, any quota system not only protected the domestic industry but also gave importers the opportunity to quote as high a price as the market would bear. [Wasowski, 1988, 22] The increased activity of these groups was partly a reaction to the increased protectionist activity of the steel industry and partly due to the steel users' own increased dependence upon trade. [Destler and Odell, 1987, 27]

In the debate over the renewal of the VRAs, the activity of the anti-protectionist groups was, however, generally not as intense as that of the protectionist threat. Some large steel-using firms such as Caterpillar Inc. were especially sensitive to the threat posed to their input costs by the VRAs and became leaders in the fight against extension of the VRA program. However, downstream users such as in the U.S. automobile and construction industries did not play a major role in the trade politics of the time. [Destler and Odell, 1987, 49]

These anti-protectionist societal actors cannot be credited with the decline in support for the steel industry over the initial 5-year period of the VRAs. Some major steel users indeed showed inexplicable reluctance to become very involved in lobbying against the VRAs, while others, conglomerates with steel-producing subsidiaries and hence conflicting interests, showed even less interest. In fact, even in the initial campaign against the introduction of the VRAs in 1984, efforts to build a broad coalition between users and importers met with little success. Much of the lobbying by anti-protectionist
interests in fact came after the decision and was directed at receiving favourable treatment for their own imports. Perhaps, as has been suggested, there was a broader ambivalence amongst users than amongst producers, with the users having been dependent not only upon imports but also upon their traditional domestic steel suppliers. [Destler and Odell, 1987, 48]

Towards the end of the 1980s, the steel-using industry, despite its organizational problems, became more vocal in its opposition to both the renewal of the VRAs or in fact any form of industry protection. U.S. steel importers have also expressed concern over both the VRA and more recently the unfair trade suits.\textsuperscript{157} Their calls have struck sympathetic chords in many quarters of both the Administration and the Congress (including within the steel caucus) where ideas of ‘free’ trade were still widely held.

The steel users and importers have, however, had a limited impact upon the making of steel trade policy. One of the principal reasons for this was that they had not established a political tradition for lobbying and pressuring the organs of government over the past 20 years or so of steel protectionism. As well, during the period of the post-1984 VRAs, these steel users have not taken every opportunity to argue against the VRAs nor acquired the kind of cohesion and focused attention so characteristic of the steel industry itself. Largely for these reasons, anti-protectionist activity by steel users and consumers was not as effective as the steel industry’s lobbying and certainly not as much as it should have been.

The steel industry has made good use of its oligopoly arrangement during the 1980s and early 1990s and, together with the United Steelworkers (with its virtual monopoly over labour), successfully argued that steel was a special case requiring each President to depart from the favoured free trade posture and apply a protectionist program for the industry.

The steel trade policy-making process in the U.S. has exhibited a number of interesting features over the period of the 1980s and early 1990s. Congress, which began the period as the more protectionist of the two political institutions of government, found strong competition from the executive branch for control of protectionist policy. Another is that
the executive, as a result of its role in both instituting and then implementing the VRAs, became the primary focus of industry attention as the latter sought to continue to restrict import penetration.

Support for the steel industry, though diminished over the period, was still substantial in both the Congress and the executive at the time of the expiration of the VRA program. However, despite this support, there was within each political institution, an ongoing debate during the period over whether and what kind of support should be made available to the industry.

Australian Steel Industry

The Australian steel industry is small by world standards but rates highly in relation to other Australian manufacturing industries. While primarily an industry oriented to satisfying the domestic market, steel has constituted one of the top Australian manufacturing exports by value. The industry has also been a highly unionized one with only a few unions representing the great bulk of employees. It has had a history of industrial disputation which has badly affected both its productivity and efficiency. Any attempt to improve the efficiency and international competitiveness of the Australian industry would have to directly involve both BHP and the steel unions.

The steel industry has not been a highly protected one, by Australian or world standards, and received an average effective rate of assistance of 12 per cent as compared to 23 per cent for the manufacturing sector as a whole. [Industries Assistance Commission, 1985, Table 3.7] Until the early 1980s, the tariff was the main form of assistance and rates ranged from 5 to 15 per cent for most basic steel products with some specialised steel products, albeit subject to phasing arrangements, attracting duties of 22 to 25 per cent. In 1982, tariff quotas were introduced to restrain imports of certain hot and cold rolled products and pipe and tube to the 1981-82 level.
The Steel Industry Plan

In August 1983, not long after the election of the Hawke Labor Government, the largest government assistance plan in the history of the steel industry was announced.\textsuperscript{160} The Steel Industry Plan (SIP) was influenced, to a varying extent, by the findings of a steel inquiry by the then Industries Assistance Commission (IAC) in 1982-83\textsuperscript{161} and the recommendations of a tripartite Steel Industry Advisory Council (SIAC).\textsuperscript{162} As well, the government seemed to accept the general realization, both inside and outside of industry that, largely due to the severe economic climate of this period, BHP could well close down its steel-making. Importantly, the SIP was an attempt by the Hawke government to provide assistance to the industry without insulating the industry from the need to be internationally competitive.

The SIP, which was put together by the industry, the unions and the Australian government, aimed to "establish a viable and internationally competitive steel industry in Australia capable of providing competitively priced steel to domestic downstream users and job security for the industry’s employees." [Steel Industry Authority, 1988a, 33] The Plan involved obligations on the part of the government, the steel industry and the steel unions,\textsuperscript{163} and fitted within the pattern of ‘consensual politics’ of the early years of the Hawke Government. In contrast to its predecessor, the Hawke Government had sought to reach tripartite agreements involving the government, the unions and employers.

A Steel Industry Authority (SIA), with tripartite representation, was established to implement and monitor the success of the Plan as well as monitoring and analysing developments in the industry.\textsuperscript{164} The Authority reported in mid-1988 that the Plan had been a success and that all specific short-term objectives on production, investment, employment, productivity and steel prices had been met. [Steel Industry Authority, 1988a, 1]\textsuperscript{165}

1988 saw the steel industry recover sufficiently for the then Minister for Industry, Technology and Commerce to decide, on the advice of the SIA, that no further assistance would be granted to the industry. In ending the Plan, the Minister announced
the end of governmental intervention or any special treatment for the steel industry (that is, apart from the tariff levels which were being lowered), and reduced the government's role to that of monitoring the continuing process of negotiation between the industry and the unions.\textsuperscript{166} [Minister for Industry, Technology and Commerce, 1988]

While the Plan was well-timed as a response to the problems being faced by the Australian steel industry in a world steel market characterised by government subsidisation and excess capacity and experiencing the worst post-war recession, it was not without its problems. The Australian government cut its bounties for the steel industry in 1986 and failed to provide a fast-track antidumping mechanism against steel imports. 1986 also witnessed an increase in industrial disputes with unions failing to comply with dispute settlement procedures which had been negotiated between BHP and the Australian Council of Trade Unions (ACTU).\textsuperscript{167} However, despite these problems, the Plan had encouraged the development of better relations between management and unions at the various plants than had previously been the case.\textsuperscript{168}

The SIP represented the first manifestation of the Hawke government's emphasis upon sectoral policies and contained a mixture of social and political purposes while 'buying time' for the industry to modernize and restructure itself.\textsuperscript{[Warhurst and Stewart, 1989, 174]} During the period of the Plan, investment by BHP had totalled approximately AUD$2 billion, which was more than double its original pledge; price rises had remained generally in line with the Consumer Price Index; and there had been a marked improvement in productivity. However, in terms of supplying the demand of its steel-user customers, BHP's performance showed little improvement from the years before the Plan. During the period of the Plan, BHP admittedly made only one involuntary retrenchment of workers. However, this should be balanced off against the massive cuts in its workforce which BHP had made in the years immediately preceding the Plan.

The SIP was hailed by all three parties to it as a success. It was generally considered to have provided some stability for steel-making while giving the industry the confidence to continue its operations. The Plan's greatest contribution was probably in providing both a framework for the restructuring and modernisation of the industry and
a learning experience for all the parties as to how they could cooperate in the interests of both the industry and its employees.¹⁹

As against the praise given to the Plan by government, industry and the unions, should be placed the criticisms of the Industries Assistance Commission (IAC) and two other reviews of the Plan. The IAC, the most critical, argued that the end of the recession and the depreciation of the Australian dollar were the important factors in returning the industry to good health and noted that BHP had returned to profitability before the Plan had begun. An inquiry by the Bureau of Industry Economics (BIE) also found that the Plan was not responsible for the industry’s recovery by the late 1980s but argued that the Plan had been beneficial in establishing a climate of confidence for investment.¹⁷⁰

The other review, by the House of Representatives Standing Committee on Finance and Public Administration, agreed that macroeconomic factors and not the Plan were responsible for the industry’s recovery. However, this Committee also stated that the climate of confidence provided by the Plan had been vital for investment and without the Plan, BHP may well have closed one of its plants.[Australia, House of Representatives, 1987, 77]

The Plan cannot be dismissed as being irrelevant to the recovery of the Australian steel industry or of little value as an innovation of industry policy worthy of extension to other sectors. However, while of some importance, the Plan was not the principal cause of the industry’s recovery. Many of the problems facing the steel industry in the early 1980s were neither of local origin nor confined to the industry. Thus, not surprisingly, its return to profitability was prompted by external and macroeconomic factors such as the end of the world recession in the mid-1980s, the concomitant strong domestic recovery, and the depreciation of the Australian dollar.

In judging the relevance and success of the Plan, account must be made of the circumstances in which it was originally formulated and implemented. The Plan satisfied the Hawke Government’s desire to assist the industry while, at the same time, not insulating it from international competition. What can be said in the Plan’s favour is that it helped achieve an improved industrial relations climate in the industry that placed the
industry in a more favourable position to contend with adverse global economic circumstances, and more importantly, to promote its own future development.\textsuperscript{171}

**Australian Industry’s Domestic Focus**

The steel industry’s domestic orientation is underlined by the fact that the Australian industry’s improvement over the 1980s was largely due to its increased share of the domestic market. As recently as the late 1980s, approximately 90 per cent of local production was consumed domestically. This helps to explain why Australian steel makers have traditionally not considered the export market to be nearly as important as the domestic market.\textsuperscript{172}

During this period, however, the domestic steel users, for their part, were concerned at the inability of the industry to adequately meet even local demand. Steel users found themselves having to continually pressure the industry for steel in reliable quantities and at competitive prices. As an official of the then Steel Industry Authority pointed out, government officials were well aware that many steel users were important industries in the Australian economy and were exporters themselves. Concerns about the situation facing these steel users finally surfaced in criticism of steel producers, especially BHP, by Australian state actors.[Davies, 1988c, 5]

The domestic market has remained the central focus of the industry’s attention into the 1990s. This was despite the fact that domestic orders dropped significantly as the recession bit deeply into the order books of steel-using industries.\textsuperscript{173} There has, however, been a general move by BHP (as the Australian steel exporter) towards developing overseas markets. In a recent report, BHP indicated that this was not a temporary trend but would be continued even after the domestic market had moved out of recession and domestic orders had returned to their old levels of the late 1980s.[Broken Hill Proprietary, 1992a, 18] \textsuperscript{174}

In tandem with this industry move has been pressure from the Australian government for BHP to overcome its production problems and become a reliable exporter without, at the same time, sacrificing the domestic market. From the late 1980s, for example, the
Australian government has supported moves by BHP to lay greater emphasis on higher value-added products, especially for the export market.

The recession which hit the domestic demand for steel in the early 1990s has helped to move the focus of attention on to the export markets. Despite depressed international markets, BHP was able to export a record 2.4 million tonnes of steel products in 1991/92 which amounted to 43 percent of total Australian despatches for the 1992 year.\textsuperscript{175} [Broken Hill Proprietary, 1992a] These steel products, consisting of steel sheet, rod and bar and coated products, were part of a trend towards increased exports of higher value-added and specialty steel products, especially the coated products. As the Pappas Report into manufacturing had previously noted, production of more higher value-added steel products would make the industry less vulnerable to the ups and downs of the global steel trade. [Pappas, Carter, Evans and Koop/Telesis, 1990, 134]

The trend should, however, not be exaggerated for, as the SIA noted, the Australian steel industry must still rely on its domestic market and could not depend upon simply developing an export specialty niche market. [Steel Industry Authority, 1988, 188] As a government official has pointed out, the Australian government has remained uncertain as to whether BHP’s planning would enable it to increase capacity to such an extent as to make the export market a major component of its production. [Interview] The domestic market has remained the principal market for BHP’s steel production and once that market has moved out of recession (which both industry and government predict will occur in late 1993), the export share of dispatches is expected to revert to something like its level of the late 1980s.\textsuperscript{176}

**Australia’s Steel Exports to the U.S.**

The U.S. market remains a major destination for Australia’s steel exports. However, increased exports to Asian markets have meant that those markets now offer more potential than the U.S. market for Australian steel export development. With the ending of the Plan, BHP was targeted by the government to increase its export tonnage of steel as part of a general thrust to make Australian manufacturing industry more internationally competitive. At this time, the Minister for Industry, Technology and
Commerce called upon the industry to pay particular attention to the U.S. market, describing an improved performance in this market as essential if Australia was to have a reputation as a reliable supplier. [Davies, 1988c, 5]

Australia has mainly exported coated products into the U.S., an aspect of production in which BHP has become an internationally-competitive producer. This aspect of the Company’s steel-making had been subject to the same shortages as other areas and Australia, while complaining at the presence of the VRAs, had been unable to fill its quota share of exports into the U.S. because of poor demand and low prices in that market. As an industry official has commented, the U.S. steel producers had themselves forced prices down as a result of market share wars between each other.[Phillips, 1992a] Another factor in explaining the unfilled quota was the attraction of the Australian domestic market which until the late 1980s showed sufficiently strong demand to provide good prices for BHP.

While there is an increasing focus upon the export market generally and those markets in particular where Australia had managed to retain a share (such as the U.S.), the Australian steel industry (namely BHP) has adopted a rather cautious approach towards export expansion. While industry, like the Australian government, has been aware of the potential gains to be made in the export market, it has also been conscious of the volatility of the world market and has been reluctant to have too much of its production geared to satisfying export demand. Industry’s view reflected the fact that the 1980s had been a period of reduced world demand for steel and that the early 1990s had also witnessed depressed world markets.

BHP officials understand well that the company’s commanding position in the Australian domestic market could not be replicated in the world steel market where it would remain a price taker. BHP is looking to expand its exports of those categories of steel (such as coated products) which it produces efficiently and which have represented the more value-added end of the world steel market. Australia’s export trade into the U.S. has been predominantly of such refined varieties of steel, and this partly explains the increased emphasis which both government and industry have given this market in recent years.
Australia will remain, for the foreseeable future, a small steel exporter into both the US market and the world market. While the 1980s rationalisation of BHP's steel operations placed it in a good position to maintain its standing as an efficient supplier to the US, this has not meant that BHP has been able to use its greater productivity to further penetrate that market. BHP had been unable to fill its quota during the period of the VRAs. This was not only because of the administrative problems for the Australian government and BHP in adhering to the VRA program, but also because of the higher prices for steel in the Australian domestic market (due to the assistance of the Steel Plan and the depreciation of the Australian dollar) which provided incentives for BHP and other Australian steel producers to sell domestically. At the same time, however, the operation of the VRA acted to limit Australia's flexibility to expand to meet any increase in demand in the U.S. market.

After the expiry of the VRA program in March 1992, BHP was able to maintain market share. However, the filing of the unfair trade suits against Australia have provided difficulties and uncertainty for BHP, sufficient to act as a further disincentive to any attempted expansion of its access to the U.S. market.

The VRA program had been an administrative irritant for Australia as well as a major factor in distorting world steel market signals. The program's eventual termination in March 1992 was, however, something of a pyrrhic victory for anti-protection forces as Australia and other foreign exporters were faced with a series of antidumping and countervailing suits filed with the ITC by a number of U.S. steel mills.\(^{177}\)

The antidumping and countervailing duty suits which followed the ending of the VRA program, while not imposing limitations upon the absolute tonnages Australia could sell into the U.S. market, constitute a form of harassment possibly resulting in expensive and lengthy defences to unfair trade complaints. Of the 2 antidumping cases filed against BHP in 1992, one was dismissed while the other, involving a complaint on BHP's sales of corrosion-resistant steel, remained.[Peers, 1992a, 21] Until the claim was settled in July 1993, BHP like all other foreign exporters, was required to post a bond equivalent
to the penalty, this being 21.47 percent on 135,000 tonnes of its annual exports to the U.S. [Gill, 1993a, 7].

The U.S. Department of Commerce, not surprisingly, in its final decision on the dumping complaints on June 23, 1993, upheld its initial decision and imposed a 24.96 percent duty on BHP exports to the U.S. of corrosion-resistant flat rolled steel. The International Trade Commission (ITC) followed this decision with a finding on July 27, 1993 which effectively targeted the value-added end of the steel import market for anti-dumping duties but left open foreign competition in the upstream end. [Stutchbury, 1993h, 12] The ITC, in voting 5 to 1 to find that BHP's sales of corrosion-resistant steel was injuring the U.S. industry, made permanent the 24.96 percent duty imposed by the Commerce Department. While the decision is not a good one for BHP, industry officials have been reported as believing that the harm to Australia could be limited. BHP will have to increase the price of its corrosion-resistant steel by 25 percent but expects to maintain market share in the U.S., partly because U.S. steel producers have been increasing their prices during the 1993 year and partly because BHP has been one of the only suppliers of this quality of steel products to the U.S. steel market. [Howarth, 1993d, 12]

The decision has meant Australia has escaped from the imposition of duties on its hot and cold rolled steel. While not the focus of BHP's export expansion to the U.S., the ITC decision has provided the opportunity for BHP, along with other foreign exporters, to attempt to increase exports of these products to the U.S. in competition with the U.S. steel producers. Another, and more important effect of the decision, has been the incentive it has provided BHP to increase its presence and become a producer within the U.S. market. BHP has been reported as having held negotiations with a U.S. mini-mill operator, North Star Steel about establishing a new mini-mill. [Howarth, 1993a, 21, 28]

Another effect upon Australia, albeit indirect, of these lengthy and expensive unfair trade suits is that they could result in a diversion of steel exports (from especially European and South American producers) to Asia and possibly even Australia. This would hurt BHP by challenging it in its own domestic market (which still constitutes the greatest
proportion of its steel sales) as well as hindering its own exports into the Asian region. [Peers, 1992b, 21]

**Australian Steel Trade Policy-Making Process**

**Role of Australian State Actors**

Steel trade policy-making is principally handled within the Australian government by the Departments of Foreign Affairs and Trade (DFAT) and the Department of Industry, Technology and Commerce (DITAC). DFAT inherited the trade negotiations and monitoring functions of the old Trade Department and took the more trade and internationally-oriented perspective of the two departments. DITAC, as the more sectorally-oriented department, has liaised with the domestic industry on a day-to-day basis.

Within DFAT, the Americas and Europe Division handled Australia’s bilateral relations with the U.S. on steel. This Division contained officers with trade experience and knowledge of the American political system but generally reflected the Department’s greater attention to the political over the trade/economic aspects of the bilateral relationship. The high political profile given the U.S. VRA program by the Australian government, especially with the 1989 debate over VRA program renewal, gave the steel issue a prominence in this Division’s consideration of bilateral Australia-U.S. matters. Attention given to Australia’s steel trade with the U.S. by DFAT has not, however, been as pronounced as that given agricultural trade. This reflected the less important position occupied by steel in Australia’s export profile and Australia-U.S. economic relations.

Within DFAT, two other Divisions were concerned with aspects of steel trade policy-making. The Economic and Trade Development Division, which generally handled trade negotiations and analysis, was involved in monitoring developments in the U.S. Consulting with DITAC, this Division took the lead in negotiating the VRA with the U.S. government. The Multilateral Trade Division, which was chiefly responsible for both the formulation and presentation of Australia’s position in the Uruguay Round, also monitored the steel trade and the possibilities of its reform through multilateral fora.
In contrast to agricultural commodity export issues, this Division did not perform a prominent role on steel trade issues. Given the nature of the VRA program, once Australia’s VRA had been negotiated, DFAT’s role became principally one of monitoring developments in the U.S. market (and of course, the world steel market), including the problems BHP was experiencing in filling its U.S. market quota.

DITAC’s role in steel trade policy-making has concentrated on the domestic aspects of industry policy. Likewise, DITAC has been more concerned with the domestic impact of bilateral and multilateral steel trade negotiations. As the agency of government with primary responsibility for manufacturing industry policy, it was the department chiefly concerned with the steel industry. The Heavy Industry Sectors Division (with the Metals and Machinery Branch providing the primary avenue of contact between government and the steel industry) was the DITAC Division with primary carriage for steel industry policy. The Trade Development and International Relations Branch (part of the Industry Infrastructure Division) retained a monitoring brief over international developments affecting the steel industry.

During the 1980s, DITAC, as part of increased Australian government concern at the need to boost manufacturing exports, has become more involved in devising strategies to increase these exports. Despite this development, DITAC, while consulted by DFAT, has remained an observer in the negotiation of export access to foreign markets. The prominence given over the 1980s to developments to improve the Australian steel industry’s productivity together with the industry’s continuing emphasis on production for the domestic market, has meant that DITAC has continued to perform an important role in steel trade policy-making. For example, the Minister for Industry, Technology and Commerce has been the Minister chiefly responsible for keeping abreast of both steel production and trade developments, nationally and internationally.

Cooperation and liaison, both formal and informal, was extensive between DFAT and DITAC on steel trade issues. This reflected the increasing export orientation of the Australian industry and, to a lesser extent, developments occurring within the Australian steel industry. Unlike the handling of agricultural commodity issue areas, there were no divisions caused by the split up of the old Trade department. A possible cause of friction
between the two departments was thus avoided. Where there may not have been shared experiences for officers of these departments, their responsibilities were more clearly delineated on trade issues.

Other Australian government departments have not performed a significant role in steel trade policy-making. With the Steel Plan at an end and the Australian industry receiving low levels of government protection or assistance, neither the Treasury nor the Industries Assistance Commission paid much attention to the industry. Likewise, during the 1980s, the Department of Prime Minister and Cabinet experienced a diminished role in manufacturing industry policy-making and had little influence in steel trade matters.

Role of Australian Societal Actors

Australian societal actors have been influential, both formally and informally, in the making of Australian steel trade policy-making. BHP has had formal representation on both the Australian Manufacturing Council, a tripartite industry/union/government group, and the Metal Fabrication Industry Council. BHP has had a virtual monopoly within the domestic industry and has been the only steel exporter. This has placed the company in a position where it could make significant contributions to government policy in this sector.

The involvement of major societal actors in Australian steel trade policy-making has represented something of a departure from previous practice. In terms of bargaining with the U.S., the VRA program itself required a level of cooperation between Australian state and societal actors. The partnership which developed over the negotiation of the VRA was in recognition of the inextricably linked political and economic aspects of bargaining with the U.S. for market access. However, the greater degree of interaction between the two sets of actors in policy-making has also resulted from two other developments of this period. On the one hand, the Australian government has sought to encourage manufacturing exports which has necessitated greater liaison by state actors with important producers and exporters (BHP in this case). On the other hand, the difficulties (often due to politically-determined measures) which BHP has experienced
in securing and expanding market share in overseas markets has encouraged it to seek the assistance of state actors.

Australian state actors have also become more important to societal actors for a number of reasons. State actors have important political resources which can assist the negotiating of improvements in trade outcomes and are formally required to conduct bilateral relations. Societal actors in the steel industry must also take account of state actors’ views because of the continuing existence of tariffs, albeit low ones, on imports of steel into Australia.

Industry, and particularly BHP, has been the major source of information on international commercial developments in steel-making and trading. With respect to the U.S., BHP has gathered information independently through its own lobbyist in Washington D.C. and through visits made to the U.S. by its own senior officials. BHP officials have argued that their role has moved beyond merely supplying information to government and has extended over recent years to ‘setting the pace’ on a number of options to be adopted by Australia in approaching other states. While acceptance of the VRA option in 1984 was not an example of industry-led decision-making, BHP’s preference for such an agreement (anticipating that this would effectively mean no restrictions on Australian exports) was forcefully made to the Australian government which was itself concerned to dispose of the U.S. legal suits. Australian state and societal actors were both actively involved (albeit for slightly different reasons) in reaching the decision that a VRA was the best option in the circumstances.

**Australia’s Bargaining Approach to the U.S.**

Australia’s negotiation of a VRA in 1984 so as to avoid legal action by U.S. steel firms, has always been a source of contention in Australia’s trading relations with the U.S. Considering itself a low-cost efficient supplier of steel, Australia had protested, without success, to the U.S. about the indiscriminate application of the VRAs.

The Australian government and the steel industry have sought over the 1980s to both expand Australia’s share of export markets generally and to secure and improve its
position within the U.S. market, in particular. The increased emphasis upon the exporting of steel (as supplementary to rather than as a substitute for domestic sales) by both Australian state and societal actors was the product of the economic difficulties of the early 1980s and was driven by a desire to lift Australia's economic performance (sectorally as well as generally) through trade.

Approaches to the U.S. on improving access for Australia's steel products have, over this period, concentrated on bilateral representations. With the 1992 termination of the VRAs and the filing of legal suits against Australia, the need for Australian government and industry officials to lobby U.S. authorities has not been lessened.

The initial findings of the ITC were made within a political atmosphere coloured by U.S. industry claims that unfair trade in steel was preventing them from making a full recovery. This has necessitated ongoing lobbying of U.S. state actors by Australian state and societal actors in an attempt to influence a change in a policy which had encouraged the filing and successful prosecution of these unfair trade claims. Of course, irrespective of this lobbying, Australia (and this means BHP) also needed to directly answer the allegation of antidumping through the formal channels of the Department of Commerce and the ITC.

Prior to the VRAs, BHP's strategy of monitoring and seeking to influence developments in U.S. steel policy had not directly involved Australian government officials. The onset of government-to-government VRA negotiations meant BHP had to consult with Australian government officials in DFAT to ensure that its interests were taken into account. For their part, government officials (involved in helping to implement the Hawke Government's professed policy of promoting manufacturing exports) sought to display a common purpose with BHP in lobbying to both secure and advance BHP's returns in the U.S. market. To be at all effective, Australian government and industry representations needed to display a common purpose.

While never complete, cooperation and liaison between Australian state and societal actors over approaching the U.S. to improve steel trade outcomes, has been at its closest in the 1980s and early 1990s. In general terms, the response to the U.S. policy called
for the application of both Australian state actors' political skills and stature as well as BHP's commercial intelligence. Australian state actors had been required to formally negotiate the VRA with U.S. state actors and thus were directly involved in the bargaining over market share. Such a combination (of state and societal actors) was considered imperative so as to address both the political and commercial dimensions of the U.S. steel policy. The VRA program in this way had served to promote an accommodation of Australian government and industry officials in negotiating continued access to the U.S. market.

However, not all approaches were made jointly and BHP continued to make independent overtures to the U.S. authorities. In addressing the antidumping suit which followed the end of the VRAs in 1992, the Australian government and BHP have maintained their VRA-induced cooperation. While BHP has also pursued its own independent lobbying in the U.S., both Australian state and societal actors have generally recognized the value of a joint approach to formulating trade policy responses to U.S. policies.

Distortions in world steel trade have remained an issue on the table in the Uruguay Round of multilateral talks. Australian state and societal actors have also been involved (the former directly and the latter indirectly) in these talks and in the serious efforts (by steel importers and exporters) to establish a separate Multilateral Steel Agreement. Such a global steel pact has, however, yet to eventuate and any improvement in Australia's steel access to the U.S. may well not occur unless a whole range of other issues are resolved in the Round, particularly agricultural reform.

**The Bilateral Approach**

Bilateralism, as exemplified by the U.S.'s VRA program, is at the heart of the U.S. approach on steel. American commentators have emphasised that the U.S. has preferred a bilateral approach which has enabled it to deal with each foreign steel exporter individually. This occurred in negotiating the VRAs and in the subsequent pursuit of unfair trade claims. Given the U.S.'s strength as an importer in the world steel market and preference for bilateralism in steel trade policy, it is understandable that Australia's principal approach to the U.S. on steel has had to be a bilateral one.
The bilateral approach enabled the U.S. to deal with weak and strong trading partners differently, should it have wished to do so. However, in respect of the VRAs and subsequent unfair trade suits, the U.S. has sought to treat all exporters equally and has not made conciliatory moves towards major exporters (such as the EC) despite their threats of retaliation. The bilateral approach has made it even more difficult for a relatively weak trader such as Australia to influence a change in policy.

Politics rather than commercial considerations have dominated U.S. steel trade policy-making. As portrayed by Australian industry officials, the U.S. industry has had something of a ‘shotgun’ approach to restricting imports, having sought to restrict the imports of all foreign exporters. With U.S. state actors having responded to these industry demands in one form or another, Australia was faced initially with a U.S.-determined VRA (or otherwise accept worse market access) and then later with unfair trade suits. While Australia has not been specifically targeted by U.S. authorities (particularly the Department of Commerce) or U.S. steel producers, presumably because of its weak position within the U.S. and world markets. This has been of little comfort, however, when one takes into account Australia’s inclusion within the category of offending or predatory exporters, despite Australia’s protestations that a lightly-subsidized steel trader should be treated differently.

Steel trade policy issues with the U.S. have enjoyed an enhanced political profile in Australia-U.S. relations over the past decade. This has been partly because of the controversial nature of the VRA program and partly because the continuation of the program into the early 1990s produced a heated debate between pro and anti-protectionist forces, both within and outside U.S. political institutions. The nature of this debate in turn provided opportunities for Australian government and industry lobbyists to attempt to influence the U.S. policy-making process. The 1992 filing of unfair trade suits against Australia served to renew the controversy over the nature of U.S. trade laws and their effect upon Australia’s bilateral trade outcomes. However, given the nature of this ‘process protectionism’, Australia’s efforts had to be directed to answering the specific claims made against it rather than in seeking to change the U.S. policy from which these claims had developed.
Much of Australia’s bilateral lobbying has had to be focused upon the executive. This was not only because it was the executive which instigated the VRA program but also because the executive agencies were responsible for negotiating quantitatively restrictive agreements with foreign exporters. Australian state actors and BHP have, both jointly and severally, sought consultation with the U.S. executive prior to implementation of any protectionist measure which would affect Australia.

While Australia has, somewhat optimistically, sought exemption from the need to negotiate a VRA, the more realistic purpose of the consultations was to bargain for a less restrictive and administratively inflexible arrangement. During the existence of the VRA program, BHP was prepared to negotiate a bilateral arrangement with the U.S. which would have operated in parallel with, but have been more flexible, than that program.[Interviews with BHP officials] With the unfair trade suits, the executive has continued to be an important focus of attention for foreign exporters. This has been chiefly because of the role of the Commerce Department in reporting steel shipments to the U.S. and in making determinations on unfair trade allegations.

Congress, despite the executive’s assertiveness, has remained attentive to developments in the implementation of U.S. steel policy. During the period of the VRA program and beyond, Congress was an equally important forum for the influence of competing U.S. societal actors (be they supporters or opponents of the steel policy). These U.S. societal actors (steel producers more so than steel-users and consumers) have remained influential with important members of Congress.

Certain features of the VRA program bolstered Congress’ importance and meant that neither domestic steel interests nor foreign exporters could afford to ignore the Congress. Australian state and societal actors have certainly not ignored Congress in recent years and have (either jointly or severally) attempted to influence the U.S. policy process and promote Australia’s steel export interests by directly lobbying prominent members of the U.S. legislature. Australia’s arguments to both the U.S. executive and Congress have centred on emphasising the relatively unsubsidized nature of Australia’s steel industry together with the fact that Australia, holding a small share
of both the U.S. and world markets, has been a non-disruptive trader deserving of more favourable treatment.

The Australian embassy in Washington D.C. was chiefly responsible for both monitoring developments in the U.S. steel VRA program and subsequent unfair trade suits and in lobbying on behalf of Australian interests. A First Secretary in the embassy took primary carriage of steel matters but others involved included the Commercial Counsellor as well as more senior staff up to and including the Ambassador when circumstances demanded their attention. Given that the U.S. steel VRA program was a legislatively-mandated program plus the importance of congressional involvement in its review meant that the Minister (Congressional Liaison) at the Embassy often participated in Australian government lobbying. Likewise, given that the unfair trade suits were made pursuant to certain trade laws, the Minister (Congressional Liaison) has also been routinely involved in lobbying Congress against the nature of these claims.

BHP has retained a lobbyist in Washington to maintain a watching brief and to take primary responsibility for the company’s bilateral approach to the U.S. BHP officials considered that the lobbyist’s role involved not only acquiring information about the U.S. steel market but also advising on how to approach the U.S. executive and Congress and on the strategies and responses best suited to deal with developments in U.S. policy. The lobbyist’s role was complemented by occasional visits of senior staff from BHP’s head office. While the lobbyist working on behalf of BHP kept in regular contact with the Australian Embassy, much of his work was done independently of the embassy and liaison only occurred where he considered that this would improve the chances of a successful outcome. Liaison between Australian government and industry officials, on the ‘frontline’ in Washington D.C., has not been institutionalized or even regularized.

Foreign exporters generally have had little impact upon the making of steel policy in Washington. This has been partly because of the U.S.’s position as an important producer and exporter of steel but, more importantly, because of the nature of U.S. import politics in this sector. Australian state and societal actors have sought to bargain with the U.S. for a relaxation of the application of the VRA program on the basis of a claim that it has been a lightly-subsidized and non-disruptive small supplier of steel to
the U.S. market. Linked to this claim Australia has argued (with other countries) for recognition by the U.S. of a small-supplier category (to include countries such as Australia and Thailand) which would not have to enter into VRAs to maintain market share or face harassing unfair trade suits.

Australia’s claims for favourable discrimination have not produced any concessions from the U.S despite a recognition of its continuing trade surplus with Australia and the fact that Australia, as a lightly-subsidized small steel exporter, has not been a threat to the U.S. position within the world steel market.189 The July 1993 decision by the U.S. International Trade Commission to impose antidumping tariffs on Australia, as a result of the recent round of unfair trade suits, has been seen as hastening BHP’s plans to produce steel in the U.S., thus avoiding future antidumping claims by the U.S. industry.[Howarth, 1993d, 12]

Formal coalition-building between Australia and those U.S. societal actors adversely affected by the VRA program or by the filing of unfair trade suits has not occurred.190 While not an integral part of Australia’s approach to changing U.S. steel trade policy, Australia has sought common ground with such U.S. societal actors wherever the opportunity has arisen. U.S. societal actors lobbying for a change in U.S. steel policy have seen little to be gained from joining forces with Australia, given its relatively weak market position and few bargaining resources to offer towards such a change of policy. In seeking to influence U.S. steel policy-making and its execution, direct bilateral contact with the U.S. government and congressional representatives has remained the most important avenue for Australia.

The Multilateral Approach

Australia and the U.S. both considered the steel VRA program a policy measure to be dealt with principally through bilateral rather than through multilateral negotiations. The VRA was a bilateral instrument of market allocation and a non-tariff barrier to trade not within the purview of the GATT. The countervailing duty and antidumping suits which effectively replaced the VRA program were also bilateral measures and, while GATT-legal, have also been used in such a way as to contravene the spirit of the GATT.
The VRA program was on the table of the Uruguay Round of multilateral trade talks as part of an attempt to call attention to such non-tariff barriers and to place all such measures on the agenda for possible country-to-country trade-offs. As with agricultural commodity issues, the U.S. was prepared to place the steel program 'on the table' of the Uruguay Round in an attempt to lever reform from other countries (especially the EC and Japan) whose policies it believed had been responsible for distorting the world steel market.

The fact that the Round has been stalled since late 1990 has meant that the U.S. Administration has not had to approach the Congress seeking a reform of steel policies to accord with successfully concluded trade talks. The abolition of the VRA program and its virtual replacement by unfair trade suits provided a continuing role for the GATT Round as a possible avenue through which small, lightly-subsidized exporters such as Australia could improve their steel trade outcomes. Should the GATT Round be ultimately successful in removing distortions in the world steel market then the U.S., for its part, would conceivably have no grounds for pursuing unfair trade suits against foreign steel exporters.

As with the GATT Round generally, the multilateral steel talks have not had as high a profile in Congress as with the U.S. administration. The debate over the renewal of the VRA program and then its virtual replacement by unfair trade suits occurred without reference to the Uruguay Round talks. Independent of other developments in the GATT talks, Australia has actively participated in negotiations for a Multilateral Steel Agreement, which it had hoped would open up markets and eliminate subsidies and other unfair trade practices. These talks had broken down by mid-1992, largely due to the filing of the antidumping and countervailing complaints by U.S. steel producers. While efforts at reviving the talks have continued since then, this U.S. development has significantly reduced the possibility of steel trade reform unless a general reform package is negotiated in the Round.

At the beginning of George Bush's term as President, he appeared keen to establish an international forum for negotiating U.S. and other countries' steel policies in an attempt
to remove the barriers to the free trade in steel. This had its genesis in Bush's letter to Senator Heinz of November 1988 where, in promising to renew the VRA program if elected President, he also vowed to pursue international negotiations to remove world market distortions. The Administration, while leading multilateral steel discussions, did not give them a high priority and by the time Bush left the White House in January 1993, efforts to reach a global steel pact had faltered.

While multilateral reform of steel certainly has not attracted a high level of attention among U.S. state actors, there remains a chance that the GATT Round will deliver reform of the U.S. policy. The origins of the U.S. steel policy have lain with state and societal actors' perceptions about the cause of the U.S. steel industry's uncompetitiveness. While prepared to acquiesce to protectionist demands to combat perceived predatory foreign exporters, many within U.S. policy-making circles have remained receptive to ideas conducive to the liberalization of the world steel market. Should the GATT Round offer the possibility of the reform of the world steel market, including the removal of the 'unfair' pricing practices of the U.S.'s major competitors, then these state actors would be expected to reciprocate with moves for a proportionate change in U.S. policy.

Australia's position within the Uruguay Round has been, as in the agricultural commodity issue areas, to promote itself as a fair, lightly-subsidized and non-disruptive trader subjected to unfair trading policies which have aimed, at least ostensibly, to match the policies of other unfair traders on the world market. As a relatively small producer and exporter, Australia has always been a price taker and has believed that it can only gain significantly in terms of both market access and increased market share if there is a liberalization of the protectionist policies of the major steel traders, including those of the U.S.

In its approach to the Uruguay Round talks, Australia has not given manufacturing issues anywhere near the kind of emphasis given to agricultural commodity issues. There has indeed been increased attention by Australian state actors to the exporting of steel as well as other manufactured goods and Australia has participated in unsuccessful efforts to form a small-supplier group to secure a different and more favourable
reception from the U.S. However, Australia's intention has never been to form a Cairns Group-style coalition of similar lightly-subsidized steel traders to promote steel trade reform in the GATT talks.

Reform in world steel trade is, however, not insignificant for Australia and, in the Round, Australia's steel trade interests have not been used as a trade-off for multilateral reform in other areas.\textsuperscript{196} As with most issues on the agenda for discussion in the GATT Round, any agreement on reform of steel trade issues will be a matter largely decided by the major trading powers. With efforts at establishing a Multilateral Steel Agreement having broken down and a standoff between the major powers, aggravated as it has been by the U.S. industry's unfair trade suits of 1992,\textsuperscript{197} the signs are not promising for Australia to expect reform of the U.S. policy through multilateral means.

\textbf{Conclusion}

Australia's steel trade with the U.S. is the only manufacturing trade sector covered in this study. While the problems of import access for Australian steel exports have much in common with Australian rural exports to the U.S., the nature of U.S. protectiveness in this value-added sector (seeking to counter failing U.S. competitiveness) has confronted Australia with particular problems. This study has sought to explain how Australia has dealt with these problems and attempted to bargain for an improvement in its steel trade outcomes.

Bargaining between those state and societal actors involved in making Australia's steel trade policy has been affected by political and economic developments, both domestically and internationally. This domestic interaction (with Australian state and societal actors being both highly influential) has, in turn, influenced the nature of Australia's trade strategies adopted in pursuit of greater access to the U.S. steel market.

The VRA program of 1984 to 1992 was the product of a compromise adopted by the then Reagan Administration between the pressures produced by the international trading system and those coming from the domestic industry. It was, in this sense, a manifestation of both the relationship between state and society in a particular U.S.
industry sector and of that between the U.S. and the international trading system. The U.S. government sought to respond to industry demands for relief from foreign exporters while at the same time avoiding any contravention of GATT principles or inviting retaliation from these same exporters.

The VRA program was considered by the U.S. industry to have been a highly successful framework for import control. Anti-protectionist forces in the U.S. could take some comfort from the eventual ending of this program and the fact that there seemed little prospect of the program being reactivated. However, the increase in generic protectionism in the U.S. over the 1980s and early 1990s may yet manifest itself in another such import restrictive steel program, while the recent prosecution of unfair trade suits by U.S. steel producers has provided another example of a threatened industry successfully seeking other trade remedies. The response of both the executive and Congress throughout this period has been to accept what was essentially an easy option: acquiescence to industry appeals for import relief which has not required any new legislation or budgetary outlays. Industry demands have been satisfied while keeping possible demands for more intrusive forms of government assistance or intervention out of the public policy arena.

Liberal/free trade ideology has been dominant in U.S. government thinking since the 1930s and protectionist measures, such as the steel VRAs, have been considered departures from the norm. While GATT principles were still considered important, the U.S. government gave them only passing reference in steel trade policy-making as it took the immediate need to be to respond to what it saw as unfair pricing practices of other steel traders.

It is thus not surprising to find that a division of opinion existed within U.S. policy-making circles. One view has considered that the domestic industry deserved support against the predatory practices of certain foreign steel producers, while another recognized that the world steel market needed to be liberalized and that the harmful effects of protectionist policies (upon, for example, U.S. steel-users and consumers) should be minimised. The 1980s also saw growth in the political influence of other international and domestic actors and ideas opposed to steel industry protection. The
presence of these forces and ideas joined up with the anti-protectionist sentiment in the administration to persuade the President to terminate the VRA program in March 1992.

While Australia’s share of the U.S. market has not been diminished by the operation of the VRA or the unfair trade suits, the implementation of each has produced difficulties. The VRA program was administratively a problem for Australia and provided little scope for either negotiating increased access to the U.S. market or for promoting Australia’s immunity from its application. Likewise, the unfair trade suits were inflexible (as well as being costly and time-consuming to defend) and, in their prosecution, held a bias in favour of U.S. industry claimants. As well, neither the VRA program nor the filing of the legal suits made any discrimination between unfair and fair traders and these measures have effectively blocked Australian efforts to expand its access into the U.S. market on the basis of it being a relatively unsubsidized, non-disruptive steel exporter.

The VRA was ‘negotiated’ by Australia so as to maintain U.S. market share and thus avoid a legal suit. Similarly, the nature of the 1992 antidumping claim against Australia provides no opportunity for Australia (as it does for strong and weak traders alike) to negotiate an improvement in its trade outcomes. More importantly, Australia has few resources capable of effective translation into the U.S. policy-making process that determines the steel trade policies upon which the VRA program and unfair trade suits have been based.

Australia has been unable to make U.S. policy-makers sensitive to Australia’s export of steel such as to make it an issue of such foreign policy significance (and be classified as an ‘Australian’ issue as in the case of wheat) as to provide linkage across to the political relationship. While this political relationship with the U.S., from all accounts, has provided Australia with good access to top U.S. decision-makers, it has needed more than a mere hearing to be able to influence a favourable change in U.S. policy on steel imports. U.S. steel trade policies and programs have permitted little discretion to the executive in negotiating the relative market shares of foreign exporters and hence, little negotiating scope available for Australia within which to seek to capitalise on this sound
Australia-U.S. political relationship to improve its steel trade outcomes (even if linkage across to the political relationship was possible).

Australia’s efforts at improving its access to the U.S. have concentrated on bilateral approaches. This has been partly because of the U.S. government’s greater interest in resolving problems bilaterally (as evidenced by its approach to dealing with foreign exporters under the VRA program and by the prosecution of the unfair trade suits) and because steel trade reform has not been given a high profile by any of the major traders, including the U.S., in the multilateral trade talks of the Uruguay Round.

The domestic bargaining relationship between Australian state and societal actors has been responsible for the formulation of certain strategies which were executed as part of its bilateral approach. Australian efforts to maintain and improve U.S. market share were, for example, influenced by the domestic strategy of improving the Australian industry’s international competitiveness, (notably through the implementation of the tripartite Steel Plan) while industry assistance was provided in such a way (it was hoped) as to be compatible with both the liberalisation of global steel trade and Australia’s self-promotion as a lightly-subsidized non-disruptive steel trader.

Developments arising from the U.S. steel trade policy-making process or from the nature of the U.S. policies and programs acted as an exogenous source of influence upon the Australian actors and were transmitted through the bilateral bargaining process or indirectly through their effect upon the world steel market. In particular, the VRA program induced cooperation between Australian state and societal actors in negotiating the Agreement with the U.S.: state actors were required by societal actors (BHP) to negotiate the VRA and to lead the political lobbying, while BHP provided the necessary commercial and industrial information for Australia’s case. In this way, contending with the VRA program provided a learning experience for each set of actors.

The level of collaboration developed during the period of the VRA program between Australian state and societal actors has continued after its expiration and has been in evidence in Australia’s response to the U.S. unfair trade claims. There has been more of an equal partnership between state and societal actors in steel trade bargaining with
the U.S. than in the other trade sectors of this study. This has been partly because of the nature of the U.S. programs and the responses required of Australia, but more particularly because of the dominant position of BHP in both the Australian industry and as the only Australian steel exporter.

Industry cooperation has certainly strengthened Australia’s lobbying to the U.S. This was secured through the provision of industry assistance under the Steel Plan (in particular, the bounties and guarantee of Australian market share) which, however, also served to weaken Australia’s claim of being a lightly-subsidized steel exporter.

While also seeking an expansion of its U.S. market share, Australian lobbying efforts have concentrated on ensuring that even if Australia’s claims for special consideration were ignored, then at least it would not be targeted for further punitive measures. To this end, Australia’s principal strategy, pursued by state and societal actors, has been to emphasise Australia’s market position as a relatively weak, non-disruptive steel trader. Australia’s bilateral and multilateral approaches have also sought to promote the translation of ideas of freer and fair trade into U.S. policy in tandem with this self-promotion strategy.

In seeking to promote some discrimination in U.S. steel policies between ‘unfair’ and ‘fair’ or lightly-subsidized traders, Australia has joined with others in advancing a small supplier category. This multilateral strategy has, however, failed to have an impact given that each such exporter has little or no leverage and the dominant U.S. perceptions of an unfair global market. In similar vein, these countries have been seeking, through multilateral talks, to establish a consultative mechanism which would enable small exporters to argue (before the filing of an antidumping or countervailing duty complaint) that their low level of sales could not ‘injure’ U.S. producers. Another important strategy has been that of promoting the distortionary effects of the U.S. steel policy upon the world steel market and the harm it has caused to U.S. steel-users and consumers. While coalition-building with these U.S. societal actors has proved unsuccessful, the continued exposure of the costs of the U.S. programs has still been considered a worthwhile strategy by Australia.
While Australia has only had a small share of the U.S. steel import market, its weak bargaining position cannot be argued to have been derived from its power-capable position relative to the U.S. (with powerful steel traders such as the EC and Japan experiencing the same problems). Australia has been neither able to lever reform of the U.S. policy nor exact any favourable treatment under the existing policy. This has been because of the powerful influence of U.S. steel producers (particularly the less efficient ones) and the perception of U.S. state actors that the U.S. continues to face an unfair global steel market. It has been largely the protectionist measures of major steel producers, particularly the EC, which have helped to create the perception among U.S. state actors that unfair trade suits (if not VRAs) should be allowed to assist the U.S. industry to counter predatory steel exporters.

Australia's self-promotion as a lightly-subsidised trader and promotion of steel trade liberalisation may well have served to ensure Australia maintained U.S. market share and did not receive more harmful treatment under the VRA program. However, the unfair trade suits, emphasising the importance of the Congress (over the executive) and the influence of steel producers in U.S. policy-making, have acted to reduce the opportunities for the application of these sectorally-specific resources through bilateral negotiation towards any improvement in Australia's trading outcomes.

A change in U.S. steel trade policy (albeit gradual) may be a possibility in the near future because of the growing divisions within the U.S. steel industry between the increasingly important and competitive mini-mills and the non-competitive integrated mills. Such a change may well enhance the currency of Australia's claims for positive discrimination as a relatively lightly subsidised trader while also promoting the liberalisation of world steel trade.

Bargaining with the U.S. over steel trade has either been conducted within the institutional restrictions of the U.S. VRA program or through the biased processes of ITC hearings of the unfair trade claims of U.S. steel producers. Australia's steel trade outcomes have thus not resulted so much from its weak bargaining position as from the nature of U.S. policy and the policy-making process within this trade sector. They would, thus, be of limited predictive value in assessing Australia's bargaining outcomes
in other sectors of its trade relations with the U.S. This sector may be further distinguished from other trade sectors by the fact that BHP has continued to expand its U.S.-based operations as a means of circumventing the application of U.S. protectionist policies. If this development continues, as is likely, then a point may be reached where U.S. market returns for Australia's current sole steel exporter will not be a product of bilateral bargaining.

Given that Australia has been able to maintain market share in the U.S. (though not as large as it would like) under the VRA program and despite unfair trade claims, it is not surprising to find that Australia has not considered its steel trade with the U.S. of such importance as to attempt to link it with either other issue-areas (with possibly greater issue-specific resources) or to the political relationship with the U.S. Equally, efforts at forming alliances with relevant U.S. societal actors have not been pursued seriously. While the more serious attempts at coalition-building with similarly-positioned foreign steel exporters have seen some progress of late, they have yet to prove successful.

Acknowledging that liberalisation of global steel trade does not offer the same magnitude of benefits as from agricultural trade liberalisation, Australia's commitment to multilateral liberalization of steel trade has not been as forceful as has occurred in its lobbying for agricultural trade reform. However, with multilateral reform still promising (potentially) the greatest rewards for Australia, this serious level of commitment to multilateral liberalisation has remained an important sectorally-specific resource at Australia's disposal.

While talks for a Multilateral Steel Agreement have broken down, at least for the time being, the multilateral discussions have at least helped to focus on the need for reform and may have acted to forestall the reintroduction of institutionalised protection for the U.S. industry. However, the possibility of securing improved U.S. trade outcomes as a result of the multilateral reform of steel trade has been affected by the fact that such reform has been kept somewhat apart from the general multilateral talks of the Uruguay Round. This was a contributory factor in steel reform not appearing as part of the successful Uruguay Round package of December 1993.
The nature of the U.S. policy-making process, with its highly influential domestic steel producers and accommodating state actors, has produced restrictive import control measures which have not discriminated on the basis of either the strength or efficiency of those foreign exporters seeking improved access to the U.S. market. Contending with these measures and with the relatively slight possibility of multilateral liberalisation of steel trade, Australia has found few opportunities through which to improve upon its U.S. steel trade outcomes.
NOTES

112. Exports of manufactured goods had risen to AUD$24,380 million or 56% of total exports by value by 1988 and then to AUD$31,433 million or 60% of total exports by value by 1990-91. [Australia, Bureau of Statistics, 1992]

113. BHP began steelmaking operations in 1915 and is Australia’s only integrated steelmaker, currently operating three integrated steelworks.

114. BHP, Australia’s largest corporation, has an extensive range of downstream processing industries with some 60 percent of its domestic sales being to affiliated companies and dependent outlets.

115. Australia has been looking increasingly to the Northeast Asian markets as destinations for its steel exports. This has been partly out of frustration with the U.S. Voluntary Restraint Agreements and unfair trade suits and partly from a desire to diversify its markets.

116. Australia’s share of the U.S. market has been a very small one. In 1992, while worth AUD$100 million, Australia’s exports amounted to less than 1.3 percent of total U.S. steel imports for that year. [Howarth, 1993d, 12]

117. The U.S. is also an important exporter of steel.

118. The General Agreement on Tariffs and Trade (GATT) allows member countries to offset the trade effects of dumping by imposing import duties. The 1979 Subsidies Code of the GATT also authorizes similar offsetting duties against imports that benefit from 'countervailable' subsidies.

119. Over the period of the 1980s, world steel trade amongst developed countries slipped behind both manufactured goods trade and total commodities trade. (see Chart D)

120. Dumping has been defined as international price discrimination or the practice of charging a higher price for sales in a foreign producer’s home market than for export to the U.S. [Boltuck and Litan, 1991, 8]

121. There was, of course, no guarantee that disputing the allegation of antidumping would have resulted in a victory for BHP.

122. This first use of VRAs in steel trade policy had the unexpected effect of increasing the overall value of steel imports while tonnage actually decreased. This was the direct result of exporters seeking to make the most of what limited tonnage they had by substituting higher-value specialty steels for lower-value carbon steels. [Conybeare, 1987, 207]

123. The import reference prices were made by reference to the average production costs, profit margins, and expenses of the most efficient foreign producer, the Japanese. Any foreign steel entering the U.S. market below this price would trigger a dumping investigation by the U.S. Department of Commerce.
124. In addition to the high production costs of the U.S. steel industry, there were also at this time, unfavourable exchange rate movements and questionable competitive practices by foreign suppliers.

125. There was also at this time very little opposition from steel users and other potential domestic opponents to the industry’s filing of suits against the Europeans. [Destler and Odell, 1987, page 46]

126. The greatest surge of imports now came from countries other than the traditional foreign competitors (Japan, the EC and Canada) and included Korea, Brazil, Spain, Mexico, Sweden and South Africa.

127. The escape clause petitions sought relief on the basis of suffering from ‘serious’ injury due to increases of a particular product regardless of whether they were fairly or unfairly traded. As part of the lobbying for relief during the course of a presidential campaign, as in 1984, the unfair trade suits provided a forum for promoting the case for global import controls while the escape clause petition broadened the coverage to the whole of the domestic industry.

128. Important among these international considerations was the maintenance of what was effectively a cartel between the U.S., the EC and Japan as against the developing country suppliers.

129. If the President had not granted some form of relief for the industry, the industry’s problems would have become a major issue during the last month of the Presidential election campaign in steel producing states of the industrial midwest. These states accounted for over a third of the 270 electoral college votes required to win the presidency.[Walters, 1985, 165]

130. The implementation of the ITC recommendations would had to have occurred within the framework established by the General Agreement on Tariffs and Trade.

131. The quota plan contained two stated objectives: to redress the injury to the domestic industry caused by unfair trade practices and give the industry time to modernize and become internationally competitive.[Cantor, 1986, 1]

132. The licensing system was first introduced in the 1982 steel pact between the U.S. and the European Community.

133. The American Iron and Steel Institute (AISI) claimed that industry costs were down 35 percent since 1982 and that labor productivity was up 40 percent (employment has dropped from 342,000 in 1979 to 123,000 in 1988). [American Iron and Steel Institute, 1989b, 1]

134. The U.S. steel industry claimed increased competitiveness from the operation of the VRAs by referring to industry costs being down 35 percent from 1982 to 1989, labour productivity up 40 percent and, as required by the 1984 Steel Import Stabilization Act, the industry having reinvested substantially all of its net cash flow back into steel operations (US$9 billion in plant modernization between 1982 and 1987). [American Iron and Steel Institute, 1989b, 1]
135. According to the Stern Group the U.S. industry had earned US$2.5 billion in the first nine months of 1988, capacity utilization was 96 percent in that year (as opposed to 70 percent in 1984-85), and imports were down and prices were firm. [The Stern Group, 1989, 11]

136. Reference has been made specifically to the manufacturers of machinery and transportation equipment which, it was argued, accounted for 44 percent of total U.S. exports in 1986. [The Stern Group, 1989, 4]

137. A leading opponent of protection for the steel industry has argued that metal manufactures, machinery and transportation equipment industries had 5.5 million employees in 1988 compared to only 170,000 to 210,000 found in the steel industry. [Coalition of American Steel-using Manufacturers, 1989, 3]

138. While steel price rises fell in 1985 and 1986, the downsizing of the U.S. industry and the increased demand for steel mill products both in the U.S. and overseas caused a price rise (variable across product categories) in 1987 and again in 1988.

139. Proponents of the VRA program argued that any price rises were at least partly caused by the strong worldwide demand for steel and other metals of the late 1980s.[American Iron and Steel Institute, 1989e, 8]

140. The Stern Group argued that a 15 percent increase in steel prices in 1987 and 1988 cost U.S. steel users at least US$6.5 billion in 1988, while extra costs were incurred by users having to carry large inventories (to cope with shortages) as well as having to apply for special import licences.[Stern, 1989, 8]

141. Industry sources put these undershipments at 900,000 tonnes in 1987 and 2 to 4 million tonnes in 1988. [American Iron and Steel Institute, 1989e, 8]

142. For example, U.S. industry statistics calculated that where in 1985 VRA countries accounted for about 81 percent of total U.S. steel imports, that figure had fallen to under 70 percent by early 1988.[Quoted in Cantor, 1989a, 4]

143. One company, Caterpillar Incorporated, also argued that its modernization program had been put in jeopardy because its management control system had become a "Just-in-case" system rather than a "Just-in-time" one. [Caterpillar Inc., 1988, 2] References were also made to the doubling of delivery lead times because of the effect of what were seen as VRA-induced shortages resulting in delayed production and frustrated attempts to meet demand.[Precision Metalforming Association, 1989, 3]

144. The extension of the VRA program by President Bush did not come as a surprise to many commentators given his assurance to Senator John Heinz, a steel industry supporter, in the final stages of the 1988 Presidential campaign that the program would be renewed. [Bush, 1988]

145. The Australian steel industry had, of course, received government assistance during the period of the Steel Plan in the form of guaranteed domestic market share and production bounties.

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146. However, the influence of the political advisors, who believed that protection should be granted if the alternative would jeopardise electoral success, was in evidence in then Vice-President Bush’s promise of November 1988 to Senator Heinz to grant an extension of the VRA program.

147. The position of viewing domestic protectionism as a lever for international reform was revealed in then Vice President Bush’s letter of November 1988 to Senator Heinz. The letter stated that if elected President, Bush would seek an international agreement to remove distortions in world steel trade. [Bush, 1988]

148. This is subject to the VRA enforcement authority of Congress given in the 1984 Trade and Tariff Act.

149. The International Trade Commission, an independent creature of the Congress, is the other agency responsible for administering the unfair trade laws. Once a domestic industry files a petition alleging imports are causing injury, the ITC will conduct a preliminary investigation and then after a Department of Commerce report, will conduct a final one as to whether there has been a breach of the law.

150. Congress’ steel caucus numbered some 180 members and had been active throughout the 1970s and 1980s in obtaining industry concessions by threatening key trade legislation and in supporting several bills to restrict imports. [Conybeare, 1987, 226]

151. Something of a complementary relationship had developed over the years between the steel industry and members of Congress in the steel caucus.

152. For example, Representative Sam Gibbons, who headed the trade subcommittee of the House Ways and Means Committee, was vocal in his opposition to the establishment of a program of VRAs for any industry.

153. The largest of the U.S. steel firms were also required, under the 1984 legislation, to set aside a sum of money, equal to one percent of their net cash flow, for the retraining of unemployed steel workers.[Cantor, 1986, 4]

154. The determinations in unfair trade cases are based on considerations that Congress can largely shape through legislation as well as various pressures on the Department of Commerce and the International Trade Commission. [Baldwin and Moore, 1991, 256]

155. The wage structure for workers in the U.S. steel industry was well above and out of line with world levels. As U.S. competitiveness declined, so trade restrictions were considered essential in order to protect this wage structure.[Jones, 1984, 394]

156. In the view of Lynn Williams, the union president, the VRAs were critical to allow the steel industry to do its part to bring prosperity and security to the U.S. industrial base. [Economic Policy Institute, 1989]

157. In late 1992, the President of the American Institute for International Steel (AIIS) reportedly called for the end of dumping suits and argued that these trade sanctions risked retaliation by foreign producers and accusations of U.S.
dumping.[Reuters, 30 November 1992] Together with many small U.S. steel producers, the AIIIS was reported as criticizing the ITC decision of July 1993 for injuring the "competitiveness of American steel-using manufacturers and the U.S. economy".[Gill and Peers, 1993, 12]

158. BHP has recently claimed that steel is the only Australian manufacturing export which earns above a billion dollars (Australian) per annum.[Prescott, 1989]

159. Imports above the quota were subject to an additional duty of 150 percent. In February 1983, a bounty of 5 cents for each dollar of the value of domestic sales was also applied to certain high alloy steel products.[Steel Industry Authority, 1988a, 32]

160. There was little doubt that the Labor Government would offer assistance to BHP given statements of commitment made by leading members of the Labor Party over the previous year to maintaining a viable steel industry.[Capling and Galligan, 1992, 179]

161. The IAC, in its report of March 1983, while recommending against any new protection for the iron and steel industry, called for the withdrawal of the developing country preference for steel imports from Korea and a five-year plan of value-based quotas.[Industries Assistance Commission, 1983, 188-193]

162. As well as indicating that the industry and the unions as well as government were willing to make serious commitments to a recovery plan for the steel industry, the SIAC recommended in early 1983 that government assistance was needed if there was to be a long-term solution to the serious problems facing the industry.[Steel Industry Advisory Council, 1983, 26-7]

163. The Australian Government provided a bounty scheme, and would review assistance if the domestic share of the Australian market in certain product categories fell below 80 percent or rose above 90 percent, a fast track anti-dumping system and a quota for imports from developing countries; the industry (in fact, BHP) agreed in return to continue the operation of its integrated steel centres, ensure job security for employees for the duration of the Plan and to undertake an investment program to increase its efficiency (AUD$800 million over 4 years for capital improvements to increase labour productivity and energy efficiency); while the unions agreed to keep wage increases within the prevailing community standards, to re-establish a specified labour productivity level, and to adhere to established dispute settlement procedures. [Steel Industry Authority, 1988a]

164. The Steel Industry Authority was given the authority to advise John Button, the Australian industry minister, on matters including 'steel industry investment, local production, imports, employment levels, productivity changes, wage settlements, steel prices and standards of product quality and consumer service, levels of state government taxes and charges, assistance provided and to be provided to the steel industry' and any other matter deemed relevant by the industry minister.[Australia, House of Representatives, 1983, 3032]
165. The Steel Industry Authority (SIA) had, however, expressed concern that while the Australian steel producers may have been price competitive with imports, the Australian steel-user may not be competitive due to the higher price paid for steel in Australia than that paid by the steel users’ overseas competitors.[Steel Industry Authority, 1988a, 4] Another criticism of the Australian steel producers, and principally BHP, was that they had failed to adequately supply the domestic market and the SIA recommended that the Australian Trade Practices Commission (TPC) be empowered to intervene where such disputes arose. [Davies, 1988a, 3]

166. Further agreements, focusing on improving the productivity of the industry and security of employment without direct government involvement, followed the Plan. The National Steel Industry Development Program Agreement was concluded on June 1, 1992 while a new workplace agreement, the Steel Industry Improvement Agreement has been finalised since then.[BHP Steel, 1989b; Broken Hill Proprietary, 1992a]

167. As Capling and Galligan have pointed out, the Plan had been negotiated at the national level without local involvement and commitment by steelworkers and their shop-floor representatives. This was exacerbated at the Port Kembla plant by political antagonism between national and local branch leadership.[Capling and Galligan, 1992, 186]

168. Apart from 1987, working hours lost as a percentage of total possible working hours worked in the three steel plants were more than halved for all years of the Plan as compared to what they had been in the period preceding the Plan. It was reported that when the Plan came to an end, BHP Steel Division’s industrial dispute level had been at a level less than half the national average for over 2 years.[Howarth, 1989a, 5]

169. By the end of the 1980s, BHP officials believed that the Plan had provided a favourable environment for the industry to expand, primarily in the export market. In particular, BHP was reported as viewing the capital investment which it had been making during the 1980s as necessary in order to increase its emphasis on exports.[Howarth, 1989b, 2]

170. The Bureau of Industry Economics was prepared to concede that the Plan had been an important factor for a brief period after its implementation, but that "as conditions changed the improved industry performance was due much more to the powerful influences of the recovery in world steel markets, the real depreciation of the dollar and the investment incentives of the corporate tax system."[Australia, Bureau of Industry Economics, 1988, 46]

171. The National Steel Industry Development Programme Agreement, which began in 1989, was focused primarily on an improvement in business performance through the setting of targets and by identifying and implementing measures to achieve them. The Agreement was premised on a continuation of the improved industrial relations as experienced under the Plan.

172. As recently as November 1988, then BHP Managing Director Brian Lotton was reported as referring to BHP having a policy of running a buffer capacity at about
25 percent above domestic market demands which in effect meant that it exported what it could not sell at home. [Stutchbury, 1988, 13]

173. By 1989, the steel industry was already feeling the impact of the slump in domestic steel demand. This continued through the early 1990s and by early 1993, while the trend was one of "incremental improvements", this was not seen by BHP as reflecting "any great strength in the general steel market." [Wood, 1993, 19]

174. As the SIA had noted in the late 1980s, it may no longer be sustainable for the Australian industry to see the export market as merely peripheral to addressing domestic demand. [Steel Industry Authority, 1988a, 188]

175. While BHP proudly referred to this 23 percent increase in exports over the more traditional 20 percent share of despatches, it readily acknowledged that softer international prices more than offset the increase in revenue from the stronger export sales. [Broken Hill Proprietary, 1992a, 16]

176. For the rest of the Australian steel industry (which produces only a fraction of that of BHP), the domestic market is effectively the only market.

177. In all, U.S. steel mills filed 84 unfair trade suits with the ITC against foreign exporters. On 1991 figures, this affected imports of 6.5 million tonnes out of a total U.S. market of 45.5 million tonnes annually. Two of these suits, alleging dumping, were filed against Australia.

178. Once a complaint has been upheld by the ITC, the US Department of Commerce will then make a preliminary determination on whether the foreign producer has pursued an unfair pricing policy. It is sometime after that (possibly 6 months) before a final decision is made on the complaint with both the Commerce Department and the ITC having to make final judgments. In a number of ways, the nature of and procedure for investigation of the unfair trade suits seem to favour the plaintiffs, the U.S. steel producers. For example, each U.S. sale by a foreign exporter is compared with the average price that prevailed in the exporting country over the period and if any sale was below the average, it will be deemed to have been 'dumped'. [Frum, 1992, 64]

179. The Commerce Department found that Australia was among 20 foreign exporters which had exported an estimated US$3.2 billion of dumped or government-subsidised steel into the U.S. market annually at 'unfairly' low prices. [Stutchbury, 1993b, 14]. The duty imposed on Australia (up from the 21.47 percent dumping duty margin found in the initial Departmental determination in January 1993) was near the bottom end of the penalty list with the duties imposed by the Commerce Department on foreign exporters ranging between 1.47 percent and 109 percent. [Dowding, 1993a, 8]

180. The dumping finding against Australia may well have been caused by low U.S. market prices rather than a conscious policy by BHP to attempt to sell in the U.S. at below the Australian domestic market price. While Australian steel-users have complained of high steel prices in Australia, there has been no evidence that high prices were being exacted by BHP in its domestic market so as to, in effect, subsidise its exports to the U.S. Even though BHP continued to stress that its 0.37
percent of the U.S. steel market (and 1.3 percent of the corrosion-resistant steel market) could not possibly cause material injury to the U.S. industry, it was reported as being aware that the ITC’s practice of sometimes ‘cumulating’ the damage found to have been caused by ‘unfair’ competition from all sources could result in Australia being found guilty of dumping.[Stuchbury, 1993b, 4]

181. The ITC decision surprised U.S. and foreign steel commentators by determining that the U.S. steel industry did not face material injury from about half of the US$3.2 billion of steel imports as found by the Commerce Department in June 1993. Thus Antidumping and Countervailing duties will be paid on only about half of the steel imports coming into the U.S. market.[Stuchbury, 1993a, 12] An appeal against the decision not to impose duties on the hot and cold rolled steel imports from Australia, Argentina and New Zealand by the U.S. steel industry were rejected by the ITC in mid-August 1993.

182. BHP expects to pass on the almost the entire burden of the tariff to its customers, lifting annual export revenue from the U.S. from AUD$100 million to nearly AUD$125 million for the 350,000 tonnes of steel shipped to the U.S.[Howarth, 1993d, 12]

183. BHP already has a number of subsidiaries in the U.S. to which it has been supplying 37 percent of the steel exported to the U.S. This was one of the reasons presented by BHP to the Department of Commerce and the ITC to explain why it believed that its exports were not injuring U.S. steel producers.

184. The possible joint venture with North Star Steel would be to build a mini-mill of up to a million tonnes a year capacity somewhere on the West Coast of the U.S. It would use leading-edge, thin-slab-casting technology which could produce the requisite level of high quality flat steel for BHP’s purposes in supplying the high-grade corrosion-resistant product it has been exporting to the U.S.[Howarth, 1993d, 12]

185. Following the announcement of the Second Keating Ministry in March 1993, the Department of Industry, Technology and Commerce became the Department of Industry, Technology and Regional Development. However, its functions with respect to steel policy formulation and implementation are unlikely to be affected.

186. The Department of Industry, Technology and Commerce’s influence over the steel industry has traditionally been because it has administered the tariffs on the import of steel into Australia. It has always enjoyed a closer relationship with the steel industry than that enjoyed by the Department of Foreign Affairs and Trade.

187. The two important features of the VRA program which enhanced Congress’ position during this period were the fact that the program had been given statutory form in 1984 and; the fact that this legislation had been tightly drawn so as to minimise executive discretion and flexibility in its negotiations with foreign exporters.

188. The Ambassador for much of this period, Rawdon Dalrymple, has been vocal in his opposition to U.S. protectionist programs that affected steel and agricultural commodity trade. Dalrymple (now Australia’s Ambassador to Japan) recently hit
out at U.S. policies effectively accusing the U.S. of hypocrisy in its trade laws: seeking redress from countries with which it has had a trade deficit, but not being prepared to make concessions to those with which it had a surplus, such as Australia.[Hatcher, 1993a, 7]

189. For example, the 1992 U.S. Department of Commerce ruling of unfair trade practices covered imports worth US$3.6 billion and of this, BHP’s portion (135,000 tonnes) amounted to a mere US$45 million worth.

190. These societal actors included both importing organizations, such as the American Institute for Imported Steel, and steel-user organizations such as the Precision Metalforming Association and the Alliance of Metalworking Industries.

191. A Multilateral Steel Agreement would have included the following elements: elimination of steel tariffs over 10 years; the prohibition of steel subsidies except those relating to research and development, industry restructuring and environmental measures; prohibition of quantitative restrictions such as quotas, voluntary restraint arrangements and other discriminatory practices; and an enforceable dispute-settlement process.

192. There is no guarantee that a multilateral steel trade arrangement would effectively deal with the threat posed by the U.S.’s Antidumping and Countervailing Duty suits. Rather than producing a liberal steel trade arrangement, such an agreement may in fact have established (or ratified) a trade-distorting cartel. [see for example, The Economist, 1992c, 100]

193. The U.S. has also contributed to the stalemate in these talks by demanding that all subsidies on foreign steel be eliminated; that the U.S. keep the right to take action against imported steel produced with the assistance of past subsidies; and that its antidumping regime should remain intact.[The Australian Financial Review, 1993b, 20; Gill, 1993b, 7]

194. USTR Carla Hills confirmed the pursuit of these international negotiations in testimony before the House Trade Subcommittee in February 1989. [United States Congress, 1989, 13-1]

195. At the time of writing, there is no evidence that the recently-installed Clinton Administration’s steel policy will be any different from that of its predecessor. In general terms, the same references are given to free and fair trade while the same acquiescence seems to be being given to demands for departures from GATT norms.

196. BHP officials have expressed concern that in previous Rounds of multilateral trade talks, reform in steel trade was foregone by Australia so as to advance Australia’s interests in other goods sectors.

197. The United States was not, of course, the only steel trader to file unfair trade suits. The European Community, for example, applied antidumping duties to a range of East European products in 1992.[The Economist, 1993a, 71] Problems in the European steel industry are reaching a stage where drastic action will be required.
Such action may well produce further distortions in the world steel market. [The Economist, 1993b, 64]

198. Discussions for an agreement between steel producing countries were adjourned late in 1992 till early 1993. However, apparently fundamental differences have arisen between the U.S. and the EC over such a subsidy-ending agreement and no further progress has been made.
POLITICAL ECONOMY OF AUSTRALIA'S AVIATION TRADE
WITH THE U.S.

Introduction

Australia's international aviation trade relations with the United States raise particular issues and problems which do not apply in the other sectoral studies. This chapter is unique in that in the international aviation sector Australia is in a more symmetrical position to the U.S. with each state having something (access to the other's market) sought by the other. The trading of economic rights in this sector has been determined by a bilateral bargaining process, a process which has both an equalizing effect while also providing opportunities for Australia, as the relatively weaker state, to apply sectorally-specific resources toward a favourable outcome.

In examining Australia's aviation trading relations with the U.S. over the past decade, this chapter considers how Australia has sought to improve its trading outcomes through bilateral approaches to the U.S.; through multilateral approaches in the GATT Round and; importantly, through a formal bilateral negotiating process. Service issues such as aviation rights have not been central to Australia's trade relations with the U.S. However, with the growing commercial importance of service issues for each state and globally, both states have given them a higher profile in their more recent trade discussions.

Australia has always sought to protect the market share of Qantas, the national carrier, on the Pacific routes while also promoting Qantas' access to the U.S. market. This policy has, however, been significantly changed in recent years and the Australian state actors, who have retained control over the making and direction of this policy, have included the pursuit of other economic interests within their policy aims (including the promotion of travel and tourism), effectively reducing their level of support for Qantas. This, together with the adoption of a multiple designation policy and the progressive sale of Qantas, has acted to change the nature of the domestic bargaining relationship between state and societal actors.
Australian policy, as a result of these recent changes, has been more susceptible to international influences favouring the liberalisation and deregulation of international aviation and this has, in turn, affected its approach to the U.S. The 1980s also saw the promotion of the U.S. pro-competitive policy with its emphasis upon the global liberalisation of international aviation. There has, however, been an important protectionist variant to this policy with the trading of rights being used to effectively minimise foreign carriers’ access to the U.S. domestic market.

The U.S. international aviation policy-making process is examined in order to ascertain the respective roles of state and societal actors in formulating U.S. policy and the extent to which it has offered opportunities for, and constraints upon, Australian efforts to change the policy and improve bilateral outcomes. This will be followed by a similar assessment of Australian policies and process and the changes that have occurred to each over the 1980s and early 1990s.

The most recent bilateral air services agreement of 1988 is then examined to highlight the differing approaches of the parties to the critical issues of capacity regulation and route entitlement and how they have been dealt with in both the 1988 negotiations and subsequent disputes. An important part of this study is to assess whether the bilateral bargaining process, conducted between Australia and the U.S., has provided opportunities for Australia, as the weaker party, to apply sectorally-specific resources to improve upon the outcomes which would otherwise be expected to result from the translation of the states’ differing power-capable resources.

The final section will examine how Australia has approached the solving of those problems which have arisen in Australia-U.S. aviation trade. While not as important as the formal bilateral bargaining process, Australia has also sought to promote a change in U.S. international aviation policy by bilateral approaches to U.S. policy-makers, independently of formal negotiations. Aviation services trade has been included within the current Uruguay Round of multilateral talks and the paper discusses Australia’s approach to these talks and whether they hold any opportunities for changing U.S. policy in such a way as to improve Australia’s sectoral outcomes.
Brief Postwar History

Relations between Australia and the United States over the trading of aviation rights and general negotiations relating to international air passenger transport date back to the establishment of the 1944 Chicago Convention. This Convention provided that there would be a fair and equal opportunity for carriers of the contracting parties to develop services but was unable to resolve the differences in approaches advocated by the U.K. and U.S.\textsuperscript{201} The result was that aviation rights were to be traded and relations determined by means of negotiated bilateral agreements.

The conference did, however, reach agreement on the exchange of the first two of the freedoms or privileges to be granted between sovereign states. These two ‘political’ or ‘technical’ freedoms, the right to fly across the territory of another government without landing and to land on that territory for non-traffic purposes, were considered essential to the operation of any service over or through a foreign city and required the prior permission of that other government. The third and fourth ‘freedoms’ give the right to carry passengers from the base country to another country and to the base country from that other country while the fifth ‘freedom’ gives the right to carry traffic to and from one country in the course of serving another. These third, fourth and fifth freedoms were to be exchanged by bilateral agreements.

At Chicago there was general agreement between the contracting parties over several objectives including the attainment of soundly-based and ‘economical’ air transport; the avoidance of ‘unreasonable competition’; and the affording of a ‘fair opportunity’ for all states ‘to operate their own international airlines’. However, it was left to the states, in dealing directly with each other, to work out the relative importance that each objective would be given in practice.

A 1946 Conference in Bermuda sought to establish the details of this regulatory system. A state’s sovereignty over its air space was the only multilaterally accepted principle and the matter of the exchange of traffic rights was left to be the subject of bilateral negotiations. The first set of Conference negotiations, between Britain and the U.S., resulted in an Agreement which was to be the model for all subsequent parties and
effectively established the 'rules of the game' such as the 'five freedoms'. The Bermuda Agreement provided what one analyst has called a "fair and equal opportunity for all designated carriers and sufficient flexibility for give and take" between the parties.[Harbison, 1987, 4] This brought into existence a decision-making mechanism, the bilateral negotiation process, whereby each state was able to retain unilateral control over the trade relations of its aviation sector. This was reinforced by varying degrees of state intervention and/or direction by each government in the activities of its international carrier/s.

After the Bermuda Conference a network of over 1,000 bilateral agreements came into existence, all displaying certain common components. Of these common clauses, this study is concerned with Australia-U.S. negotiation of the Route Description and Capacity clauses. Despite the legalistic ancestry of this bilateral regulation of air traffic rights, the nature and content of negotiations over route and capacity clauses has revealed all the hallmarks of the interaction of political and economic interests.

The state has always played a dominant role in regulating its air transport operations whether it be the U.S. case of moderate economic regulation or that of most others, including Australia, where state sovereignty was enforced by government intervention in the operation of designated airlines. Each state has been anxious to preserve and advance the interests of its designated airlines above almost all other considerations. Airlines were seen, by most states, as tools of policy and not necessarily as vehicles for generating as much revenue as possible.[Golich, 1989, 19]

While there may have been a "spirit of compromise and good neighbourliness" in the reconciliation of exclusive interests [Kohona and Sadurska, 1988, 54], a mercantilist approach has continued to pervade government thinking on international aviation rights. The 1980s attempts at the liberalisation of the international aviation market should not be misinterpreted as meaning that the international market has moved substantially away from what has been described as a "series of protected national markets interconnected by international routes".[Kasper, 1988a, 91]
The two decades after the 1946 conference was a period of growth and the different views about capacity control were easily accommodated. However, by the late 1960s, both the advances in technology (most notably the wide-bodied jet aircraft) and the increase in the number of airlines had brought about a change in the situation. Pressures for market shares have since intensified and excess capacity has become common, producing reductions in load factors and very low profit levels.

A dispute between the U.S. and the U.K. brought to the fore the debate over whether international air services should properly be considered a commercial business or a regulated one between states.\(^{204}\) This was significant not so much for what it decided but for the subsequent effect it had upon the development of U.S. international aviation policy in the late 1970s and early 1980s. In 1978, the U.S. adopted a new pro-competitive international aviation policy.\(^{205}\) This policy aimed at the deregulation of the domestic U.S. market as well as the liberalisation of the international market. The policy changed the U.S.’s approach to its bilateral negotiations and resultant agreements as it sought to encourage deregulation of other domestic aviation markets and the liberalisation of international routes. The international aviation market was directly affected as U.S. domestic deregulation enabled U.S. carriers to capitalize on the size of the U.S. domestic market and expand their own international networks while foreign carriers lost competitiveness as U.S. carriers ceased to provide them with connections to and from gateway points in the U.S.\(\text{[Golich, 1989, 14]}\)

Australia has over 40 air service agreements with other countries, most of which are of the predeterminist (Bermuda I) type.\(^{206}\) In negotiating these agreements, the Australian government and the then sole designated airline, Qantas, were particularly concerned with two commercial elements: the airlines designated to fly on particular routes and the respective capacities to be allowed to each of the countries’ designated airlines on these routes. These concerns have been paramount in Australia’s negotiations with the U.S. over Pacific routes. In August 1988, a new Air Services Agreement between Australia and the U.S. was signed which both parties considered would provide the basis for the expansion of services. However, despite the improvements on previous agreements, disputes over route entitlement and capacity have continued.
The Pacific routes are far more important to Australia and Qantas than to the U.S. and its carriers. Trans-Pacific services have constituted something like 30 percent of Qantas' operations while they were only 2 percent of United Airlines' and 4 to 5 percent of Continental Airlines' entire operations. [Kohona and Sadurska, 1988, 56] The different and relative power-capable positions of the two states (and their airlines) on these routes has been the main reason for the different approaches that each has had to the regulation of the capacity and route entitlement clauses of the 1988 Agreement and its predecessors. There have been three issues of concern which have divided Australia and the U.S. in the negotiations and subsequent discussions. Chief amongst these have been that of capacity on the routes and specifically how many passengers (including the percentage of through traffic between Australia and the U.S.) each state's designated airlines are permitted to carry; the number and location of entry points into each other's domestic market; and the related issue of how many airlines are permitted to operate on each route.

**Multilateral Bargaining and the GATT**

The bilateral regulatory and legal structures which developed in the early postwar years have, in recent years, begun to show signs of strain as states attempt to come to terms with the great changes that have occurred in the international aviation industry over this period. Against a background of these growing problems and in the context of moves to reform services in the current protracted Uruguay Round of GATT talks, multilateral approaches to the reform of aviation services have been considered.

Aviation services (though not traffic rights) have been considered within the services trade group (Group Negotiating Services (GNS)) in the current Uruguay Round of multilateral trade talks. Despite recognized problems with the operation of the bilateral system, both Australian and U.S. officials have expressed doubts about both the feasibility and desirability of a multilateral regime being established out of this current GATT Round. [Interviews] A recent European analysis has specifically referred to the problems a multilateral regime would encounter in attempting to unravel the complicated network of bilateral deals as well as in seeking to overcome the many vested interests of governments in the aviation field. [Williams, 1988, 53] A further problem may arise
from the fact that aviation issues, like many other service issues, have only permitted forms of behaviour if specifically given by agreement. This contrasts with goods trade where all forms of behaviour have been generally permitted unless disallowed by agreement. This could create difficulties in attempting to include such a sector within an overall multilateral package.

**Recent Developments in International Aviation**

The late 1980s and early 1990s have seen the greatest change in international aviation since the major airlines were established. U.S. airlines have led the way with their rapid development and expansion of national route networks (based on hub-and-spoke systems) after the 1978 deregulation. Competition has grown and airlines have had to become more efficient. Many smaller U.S. airlines which began after deregulation, failed and were taken over by the larger airlines while airlines outside of the U.S. copied the use of the hub-and-spoke system and the computer reservation system (CRS) as they too sought to become global carriers. In the U.S., the strongest airlines (United, American and Delta) have been getting stronger while the weaker have either gone into bankruptcy (such as Continental) or disappeared altogether (such as Pan Am and Eastern).[The Economist, 1991, 57]

However, even the major U.S. airlines have been hit by the recession and the 1990-91 Gulf War and have had to scale back operations. Even though passenger demand increased from mid-1991 and many of the airlines managed to bring their costs under control, several global airlines remained heavily in debt. In the U.S., the major carriers engaged in a discounting fare war as they sought to recover from the recession but this has only served to exacerbate their financial problems. For global airlines as a whole, operating margins have remained poor [see Table Q] despite expensive restructuring programmes by many carriers and a rise in passenger traffic.

Pursuant to the ‘open skies’ policy of the Reagan and Bush Administrations, the U.S. recently promoted further liberalisation of the international aviation market, with particular emphasis upon the European market. The opening move was an ‘open skies’ agreement between the U.S. and The Netherlands. The then U.S. chief airline
negotiator was reported as stating that he hoped this Agreement would initiate the deregulation of air traffic between Europe and the U.S. [The Economist, 1992d, 66]

Another recent global feature has been the moves by certain carriers to take a stake in other airlines so as to become truly global airlines. Apart from the U.S. industry’s own consolidation, the most recent and notable examples include KLM’s 49 percent stake in Northwest Airlines, Air Canada’s stake in Continental Airlines and the British Airlines bids for both a major holding in USAir and the purchase of 25 percent of Qantas.

Airline nationalism has been diminishing in significance as more airlines become privatised and mergers and alliances completed to both stifle competition and provide some economic security. However, bilateral regulation is still the primary means by which rights are determined. Airlines, not the least the U.S. carriers, have continued to place pressure upon their governments to use the bilateral negotiation process to hinder the free operation of the market where they have feared it would act to their detriment.

**U.S. International Aviation Policy**

**History and background**

Having failed to establish a liberal multilateral regime for international aviation in the early postwar years, the U.S. set about to maximize the returns for its carriers through the bilateral trading of aviation rights. While the U.S. government joined other governments in conducting bilateral negotiations, the U.S. industry was quite different in nature from that in most other countries. Most importantly, there were no U.S. government-owned airlines and, on the routes serviced, a number of private airlines were designated U.S. international carriers.

U.S. carriers had a clear comparative advantage over other airlines in the early postwar decades. They were in a strong bargaining position not only because of their size but also because access to the large U.S. domestic market was so eagerly sought after by foreign airlines. While the bilateral system of negotiating aviation rights has served
the U.S. well over the years, the U.S. has consistently called for a more liberal, less regulatory regime. [Shane, 1987, 13]

The domestic deregulation aspect of the 1978 policy change sought to encourage greater competition with the entry of a number of new carriers. While many new carriers did appear as a result of deregulation, the overall result of the policy was the dominance of the U.S. industry by a few large carriers. Competition was heightened by the deregulatory policy and with a hands-off approach to airline mergers, the largest carriers developed extensive national and international networks through their own domestic growth and acquisitions. The result was increased concentration in the U.S. industry. 218

Domestic deregulation not only rationalised the U.S. industry but also placed those carriers which gained from that process in a stronger position to seek a liberalization of the international market, enabling them to expand on their share of that market. At this time, the U.S. government, acting in concert with U.S. airlines, also pressured a liberalization of the tariff or rate setting structures of the International Air Transport Association (IATA). U.S. industry pressure coupled with the new official policy resulted in the U.S. dispensing with the Bermuda II model and seeking more liberal bilaterals.

Improvements in technology such as the introduction of wide-bodied aircraft, which could be used economically on long-haul routes, provided further impetus to the U.S. to negotiate more liberal agreements within the bilateral framework. The dispute with Britain of the late 1970s gave the U.S. the opportunity to push ahead with its new policy which involved, together with U.S. domestic deregulation, the negotiation of more liberal agreements with several European countries to divert traffic away from more restrictive ones. 219

The U.S. Airline Deregulation Act of 1978 ended the regulatory role of the Civil Aviation Board (CAB) 220 and U.S. airlines responded by realigning their route structures (notably through the rapid growth of hub-and-spoke operations), developing new pricing strategies and activating a range of new competitive weapons. These
weapons included the computerized reservation systems (CRS)\textsuperscript{221} and the frequent flyer programs (FFP).\textsuperscript{[Kasper, 1988b, 29]}

The installation of the Reagan Administration coincided with increasing doubts by the U.S. industry as to whether the attempts to liberalize international aviation through liberal bilaterals (and especially on capacity and route issues) was working in its best interests. Citing criticism that the 1978 Netherlands Agreement had not provided reciprocal benefits to the U.S. in terms of European gateways, the new U.S. policy was that deregulation on a global scale was impractical and to protect U.S. carriers, each bilateral relationship would need to be considered on its merits.

One of the key changes in the U.S. industry has been the increasing share of the total market at a particular airport held by airlines with hub operations at that airport. Through its hubbing operation a carrier was able to bring additional traffic to the airport. This allowed carriers to expand their networks and aggressively compete in both the domestic and international markets. In addition to the traffic generated at their hubs, the dominant position of these U.S. carriers in the ancillary markets at their hubs have served to enhance their position.\textsuperscript{222} While industry concentration has facilitated a pro-competitive stance by and amongst these U.S. airlines, the self-regulating nature of the market has also allowed the airlines to use economic power to preclude competition. Another effect of this industry concentration has been to reduce the ability of passengers to choose between competitive airlines, be they domestic or international.\textsuperscript{[Fischer, 1986, 8]}

The deregulation and subsequent increased concentration in the U.S. airline industry placed the U.S. carriers in a more aggressively competitive position internationally and, together with the U.S. 'trading rights' policy, has made negotiations with the U.S. even tougher. Equally important has been the impetus U.S. deregulation and its results have given to changes in both the structure and operations of many foreign carriers. Partly prompted by the mergers of U.S. carriers into mega-carriers and their resultant market strength, a number of mergers have occurred between foreign carriers.\textsuperscript{[Kasper, 1988b, 41]}

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The Clinton Administration has exhibited a willingness, not seen with the previous Bush Administration, to go beyond mere expressions of sympathy for the economic problems being experienced by the U.S. airline industry. The Administration has expressed interest in finding ways in which it can aid the competitiveness of the industry. An independent commission has been established to examine the industry’s problems while the White House has also set up a working group, including the USTR, which has been charged with coming up with solutions to these problems.[Stutchbury, 1993b, 14]

**U.S. Negotiating Policy**

The present U.S. policy on the negotiation of aviation rights originated with the policy established by the Carter Administration in 1978.[President Carter, 1978] The policy sought to ‘encourage vigorous competition’ in the world market place by effectively exporting the competitiveness which the administration was encouraging through deregulation in the domestic U.S. market. American policy-makers believed at this time that increased competition would enhance U.S. international commerce and that their negotiations should encourage trading opportunities rather than restrictions.[Taneja, 1980, 56]

The Carter policy was predicated on the elimination of what was referred to as ‘unfair competition’. Emphasising a policy of fair and equal opportunity to compete with foreign airlines, these general U.S. goals were translated into specific policy objectives which called for the expansion of scheduled services through the elimination of restrictions on capacity, frequency, and route and operating rights. The policy aimed at maximising access to international markets by seeking to increase the number of gateway cities for non-stop or direct air services while providing for maximum flexibility through the multiple designation of U.S. airlines in international markets.

The policy sought the elimination of ‘unfair or destructive competitive practices’ if they prevented fair and equal competition from occurring. Identifying U.S. interests with a more liberal international aviation industry, any concessions made by the U.S. negotiators were to be of a liberalizing nature and would only be granted in return for progress toward competitive objectives by those with whom they negotiated.
The initial policy was to be effected by the negotiation of liberal agreements with other countries. While the focus was upon the European market, which the U.S. considered to be unduly restrictive, the policy was adopted for worldwide negotiations and was in effect for the 1980 and subsequent Australia-U.S. talks. Using the U.S.'s extensive route rights (especially Third and Fourth Freedom rights), its negotiators offered foreign states access to new U.S. gateways in exchange for Fifth Freedom rights for U.S. carriers. In other words, the large U.S. domestic market meant that the U.S. was both attractive as a source of passengers for foreign carriers as well as a popular destination. U.S. negotiators were thus able to trade these rights to discharge and pick up passengers in exchange for rights to discharge and pick up passengers in a third country.

In interstate bargaining, U.S. negotiators sought changes that would, in effect, eliminate government restrictions on price competition and on the capacity offered on U.S. international routes. This strategy was successful in persuading a number of European countries to negotiate more liberal agreements by threatening to divert a substantial volume of price-sensitive traffic away from restrictive countries.[Kasper, 1988b, 76]

**U.S. Bilateral Approach**

The U.S. has conducted its bilateral negotiations principally through a team of professional negotiators chiefly drawn from the U.S government. The lead has been taken by the State Department, through its Deputy Assistant Secretary for Transportation Affairs, but the Department of Transportation has performed a central role in the formulation of the U.S. approach in each set of negotiations. Also on the team of negotiators has been a representative of the U.S. Air Transport Association (ATA) (the airlines' industry body).

The U.S. bilateral approach to the Australia-U.S. negotiations has been both formulated (at least ostensibly) and executed by U.S. state actors. However, the influence of the U.S. carriers has in fact been critical to the determination of this approach. This can be explained by the fact that the U.S. so-called pro-competitive policy (a truly pro-competitive international aviation policy would not have been concerned with the exclusive promotion of the interests of U.S. carriers) and the trading rights variant (as
developed by the Reagan Administration) argued not only the removal of barriers to the operation of U.S. carriers but also the promotion of the airlines’ economic interests in the negotiation of aviation rights in bilateral negotiations. The influence of the airlines over government policy has been checked only where U.S. carriers have been in direct competition and government officials have been able to balance the influence of one carrier off against that of another. U.S. state actors have had some latitude in executing U.S. policy so long as they were not seen to be favouring one carrier over another or disadvantaging the interests of carriers generally. The carriers’ interests have also been enhanced by the fact that the Department of Transportation, the executive agency most closely aligned to the interests of the airline industry, took over most of the regulatory responsibilities of the U.S. Civil Aviation Board after the deregulatory changes of the late 1970s.

The U.S. negotiating team was required by the U.S. Federal Aviation Act to seek a balance of rights in the negotiations between the states. According to one U.S. negotiator, while open skies was considered the U.S. objective, achieving a balance of rights was vital and the maximisation of that balance represented the exchange between the states. [Interview with State Department official] As the chief U.S. negotiator of the late 1980s has argued, the balance between the interests of both states may be finely tuned. For example, in referring to the "doing business problems" such as ground handling, airport access and user fees, unless impediments to the efficient operation of U.S. carriers were removed by the other state, the carriers of that country would have difficulty gaining new opportunities in the U.S. market.[Shane, 1986a, 14-15]

The Reagan Administration's policy sought "reciprocal exchanges of commercial opportunities" not "an absolute guarantee of equal market shares".[Shane, 1987, 1] In seeking such an exchange, each bilateral relationship was treated as being unique. As former Deputy Assistant Secretary Frank Willis has been quoted as saying, "our negotiators must assess each bilateral relationship in terms of the totality of U.S. transportation interests at play in the particular relationship."[Fischer, 1984, 16] This policy was continued by the Bush Administration.
The U.S., while having sought to maximize its gains from the regulatory nature of bilateral negotiations, has been concerned that these negotiations have constituted an impediment or trade barrier to both the liberalisation and expansion of international aviation services. U.S. negotiating policy over the past decade and a half has sought the eventual creation of a genuine marketplace for aviation services with government’s role being limited to establishing the “rules of the road and other safety standards”. [Shane, 1988c, 2] Other states, including Australia, would counter the U.S. approach by arguing that the global airline industry is some distance from being a perfectly competitive market and that an unregulated marketplace would necessarily assist strong aviation powers, such as the U.S., at the expense of the weaker ones, including Australia.

Congress, while not generally taking an interest in bilateral aviation negotiations, including those with Australia, has on occasion sought to influence the negotiations (at either the preparatory or execution stages) in response to approaches from the airlines. The adoption of the ‘trading rights’ approach by the Reagan Administration served to allay many of Congress’ concerns of the early 1980s that the interests of U.S. carriers were not being given high enough priority in the U.S. approach to negotiations. In general, in the absence of other political considerations, there has been little likelihood of Congress influencing U.S. negotiating positions.

The U.S. approach to negotiating aviation rights with Australia has represented its common approach of simultaneously seeking to trade and balance rights while moving for a further liberalisation of the international market. Bilateralism may have seemed unnecessarily regulatory to the U.S., but it has certainly produced favourable returns for its airlines. Bilateral bargaining has not, however, acted to stifle trade in aviation services and has, indeed, been recognized by the U.S. as a means by which it could push ahead with the liberalisation of international aviation.
U.S. Multilateral Approach

U.S. policy-makers have not given to multilateralism nearly the same importance as they have to the bilateral regulation of international aviation. One U.S. negotiator, when interviewed on the subject, argued that while a multilateral handling of aviation trade services was theoretically a possibility, its practical application had only been considered in response to developments arising out of the move for a single European aviation market.

The Office of the US Trade Representative (USTR), while more concerned with multilateral rather than bilateral negotiations in international aviation, has expressed uncertainty over whether aviation would be included in the final agreement to come out of the current Round of GATT talks. However, USTR officials considered that bilateralism was not comprehensive in that some barriers to aviation services trade were not covered and these could be handled more effectively through a multilateral agreement. The multilateral forum was, in the sense, seen as being able to perform a useful supplementary role to the bilateral regime. [Interviews]

Multilateralism was also considered by U.S. government officials as providing a means of solving certain problems arising out of the bilateral relationships. In particular, a liberalizing multilateral could, in including all states concerned, provide the opportunity for possible leverage against states taking advantage of the protectionism of a bilateral regime.

The multilateral approach was seen by U.S. policy-makers as being unlikely to produce significant results in the short to medium term. However, referring to the global developments in aviation, both in terms of changing economics (witness the growth in alliances amongst airlines) and technological innovation, some U.S. government officials were prepared to see an important role for a multilateral forum as part of a longer term scenario. They considered that, in time, rigidities in the bilateral regulatory regime may encourage the view that a different forum was required. For these officials, this forum would need to be one which encompassed more players and more issues and offered
improved returns for a U.S. government determined to promote the further liberalisation of international aviation.228

U.S. International Aviation Policy-Making Process

The U.S. international aviation policy process has been centred on the executive and its departments and agencies. The executive's prominent position in the making as well as implementation of international aviation policy has remained virtually unchallenged despite Congress' reassertion of power in other areas of trade policy-making.

The adoption of the pro-competitive policy by the past three U.S. Administrations was influenced by developments both within and outside the U.S. Frustration with bilateral negotiations, especially with the U.K., and the U.S. industry's pressure for a policy strongly promoting liberalisation both played an important part in bringing about the policy change.

The international aviation policy process has been an example of U.S. export politics in practice. The process has attracted greater executive interest than that of U.S. import politics and has been heightened by the fact that agreements with foreign countries have been negotiated bilaterally on a government-to-government basis. These negotiations have been led by officials of executive departments and have been the principal means by which the U.S. government has promoted its policy, while at the same time adjusting it to meet varying circumstances.[Shane, 1988d] The importance of the negotiation process in both the formulation (individual bilateral negotiations can affect general policy positions) and implementation of policy has helped to confirm the executive's control over the making of international aviation policy.229

U.S. societal actors (principally the private commercial operators) have also played an important part in the U.S. policy-making process. These commercial airline operators, while not actually present at any bilateral negotiations, have both directly and indirectly influenced policy positions adopted by U.S. state actors. Representations are made directly to members of Cabinet and government officials and indirectly through
particular members of Congress. These parallel modes of influence have been exercised before, during, and on occasion, after the bilateral negotiations.

While industry has undoubtedly exercised some influence over the making of policy during the 1980s and early 1990s, this has not been sufficient to change the general policy direction of each Administration. Nowhere has the limit of industry's influence been more noticeable than in respect of its unsuccessful attempts to have the Reagan Administration change the former Carter Administration's policy into a much more restrictive one.

Congress has performed a less important role in international aviation policy-making than in other sectors of this study. While there have been occasions when particular members of Congress have sought to influence the policy-making process (such as in the case of Japan), as a rule Congress has been prepared to leave this area of international economic policy-making to the executive branch. With so much of U.S. international aviation policy determined by the bilateral negotiating process and with the executive having been the principal participant in that process, the result has been that U.S. policy-making in this sector has been led by the executive.
Role of the Executive

U.S. international aviation policy has resulted from an interagency process between the Departments of State (State), through its Deputy Assistant Secretary for International Affairs, and Transportation (DOT), through its Assistant Secretary for Policy and International Affairs. This shared responsibility has been illustrated by the fact that while the DOT has been the primary policy-maker in international aviation matters, State has led the U.S. team in the bilateral negotiations. Relations between these departments have been both formal and informal and, as described by government officials, of a fluid nature over the past decade.

During bilateral negotiations, State officials liaised with industry officials over policy positions adopted and negotiating approaches taken. Outside of these negotiations, DOT officials have been charged with the ongoing responsibility for sounding out industry interests and informing them of government policy in this sector. U.S. government officials have stressed the importance of both keeping abreast of industry opinion as well as informing industry of impending policy changes. Industry consultation was more important during periods of bilateral negotiations and the close relationship was not surprising given that the government negotiators have had a legal obligation (from the U.S. Federal Aviation Act of 1978) to ensure that aviation rights were balanced between the two negotiating countries. The U.S. carriers who have operated (or have sought to operate) the routes at issue in a set of negotiations have made a necessary contribution to assessing the value of the rights being traded.

The USTR has also been involved in international aviation policy-making, though to a lesser extent than State and Transportation. USTR officials have principally been concerned with developing policy positions with respect to multilateral aviation developments rather than with bilateral aviation relations. As with other trade policy sectors which report to the Economic Planning Committee (EPC) of Cabinet, aviation policy-making has been subject to a formal hierarchical structure consisting of a Trade Policy Review Group (TPRG) at sub-Cabinet level and a Trade Policy Staff Committee (TPSC) which services the TPRG.²³⁰
Industry opposition to multilateral consideration of aviation issues as well as the fact that bilateral negotiations can be expected to remain the primary means by which aviation rights will be bargained, has meant that the USTR’s role within the policy-making process has been of less immediate relevance than that of State and Transportation. As with a number of other less involved departments and agencies, such as the Departments of the Treasury and Commerce, the USTR was consulted by the principal players in the executive but has performed only a small direct role.

**Role of Congress**

While the role of Congress in international aviation policy-making has been less important than in other trade sectors of this study, many members of Congress have had either a generic interest or a constituency interest in policy outcomes in this sector.

Members of Congress with a constituency interest have usually been legislators with a major airline hub in their District or State. A symbiotic relationship has developed whereby these legislators can be expected to act to ensure that aviation policy does not disadvantage the carrier with operations in their electorate. In return, either through Political Action Committees (PACs) or otherwise, the airline has assisted in the re-election funding or promotion of the legislator. Likewise, a city or municipality which has been the base for a major carrier/s or has acted as an important destination or throughfare point for international carriers has a vital interest in such policy developments and has lobbied its representatives in Washington in pursuit of that interest.

Individual members of Congress have only had an indirect effect upon international aviation policy-making and the U.S. approach to bilateral negotiations. Their role has been exercised either through Senate confirmation hearings of executive appointments, or more importantly through the appropriation and authorization stages of legislative deliberations and at committee hearings. The last major U.S. international aviation statute was the 1979 International Air Transportation Competition Act and unlike much of the commodities trade legislation, was broad-based, leaving the details of implementation to the executive agencies. This 1979 Act was so broad that it not only
accommodated the then Carter Administration’s ‘open skies’ policy but also provided a legislative basis for the more narrow ‘trading rights’ policy of the Reagan Administration.\textsuperscript{212} [Fischer, 1984, 17] The scope of action provided to both the Reagan and Bush Administrations was so broad that their policy shifts were not considered by Congress to have been contrary to the spirit of the 1979 Act and thus no substantial amendment was considered necessary.

In the debate over whether the U.S. should be more or less liberal in the trading of aviation rights, Congress has moved towards a more restrictive approach over the 1980s. This was evident in committee deliberations and has reflected the close relationship between major U.S. carriers and certain influential members of Congress. In an interview, a senior congressional staffer saw the importance of the alliances, formed between certain members of Congress and the major carriers in the post-deregulation period, as having provided opportunities for information-gathering from, and the influence of, the industry directly into the congressional process.

There has been an unwillingness on the part of Congress to legislate on international aviation issues.\textsuperscript{233} This has been partly because Congress has remained in general agreement with the policy line of recent Administrations and partly because Congress has recognized that this is a policy area subject to rapid changes, at both the domestic and international level, which makes it a difficult area about which to legislate. In an interview, a Senate aviation subcommittee staffer suggested that both Congress and the industry considered Congress’ role over the past decade as being one of applying political ‘heat’ to the executive. How effective Congress was in promoting the interests of any particular U.S. airline to the executive, in turn, depended upon the level of competition among the carriers for influence with the executive.

Committee level consideration of international aviation matters within Congress has varied between the House and the Senate. With a greater number of members in the House, there have been opportunities for members to specialise which has resulted in members on the House aviation subcommittee having become active in the pursuit of particular issues. In contrast, senators have had to spread themselves across a greater number of issues in meeting both their state-constituency and committee responsibilities.
While a senator may have developed an interest by reason of his/her aviation committee responsibilities, it has more likely been the case that a strong and continuing interest in aviation matters has resulted from there being a major carrier’s base or hub within that senator’s state. Senators have, generally speaking, become less involved in international aviation policy-making. However, particular senators have taken a stand on such issues where it was believed their seniority would add necessary political pressure upon the administration.

Individual senators and members of Congress have sought to become involved when the international aviation policy-making process was dealing with specific countries, notably Japan. However, unless focusing on related trade issues, the congressional aviation caucus has not been very active over the 1980s and, as with congressional committees, has avoided becoming specifically involved in matters pertaining to individual routes.[Interview with aviation analyst, Congressional Research Service]

Role of U.S. Societal Actors

Industry influence upon the decision-making process has occurred at two levels of U.S. policy-making. U.S. carriers have lobbied both members of Congress, be they as individuals or as members of committees, and executive officials involved in determining U.S. policy positions. As well, the airlines have indirectly exerted influence over the U.S. state actors’ conduct of those negotiations in which they have had an interest.

The airlines’ industry body, the Air Transport Association (ATA), has had a representative on all the U.S. negotiating teams. In an interview, an ATA official stated that not only were representatives of the carriers advised at the end of each negotiating session of what had occurred, but more importantly, representatives were involved in what were referred to as ‘formal to informal’ reviews of the progress of the bilateral negotiations. These reviews provided ample opportunity for industry representatives to both inform and seek to influence those officials who were conducting the negotiations.
In seeking to influence the policy process at both the domestic level and during the course of bilateral negotiations, the incumbent U.S. carriers have been at an advantage over newer entrants into the industry. The negotiating process, conducted principally by the State Department, has become institutionalised in the sense that the same officials conduct all negotiations and a regular working relationship has developed between these state actors and representatives of the major U.S. carriers on the trunk routes. As well, the major airlines have experienced an enhanced profile since deregulation with their chief executives having become public corporate figures. The very size of these major incumbent airlines has meant that they have been capable of exerting considerable influence over officials with whom they have regularly come into contact.

Other societal actors with an interest in particular bilateral negotiations (such as municipal authorities) have been given opportunities to express their views in a formalised consultative process. Prior to each set of bilateral negotiations between the U.S. and another country, a public meeting was held in Washington D.C. These meetings, at which societal actors provided their views to state actors involved in the policy-making process, were used to assess public reactions to proposals. Each separate meeting provided opportunities for brokerage between the involved state and societal actors.[Interviews with U.S. Department of Transportation officials]

The influence of societal actors (and especially those from the aviation industry) over the making of U.S. policy has increased since the liberalization and deregulation of the late 1970s. Industry influence upon the Congress undoubtedly contributed to congressional pressure upon the Reagan Administration to move away from the more liberal policy of the previous Carter Administration. Industry actors (and particularly the major carriers) have been in a strong position to directly, and indirectly through the support of influential members of Congress, apply political pressure on the executive and its agencies.234

The U.S. policy process has provided many opportunities for important societal actors involved in the international aviation industry to attempt to influence U.S. policy outcomes. The success of such lobbying, especially by the major carriers, can be seen by the fact that much of the policy has promoted the commercial interests of the major
carriers. The 1978 Act itself referred, as the chief U.S. negotiator of the 1980s pointed out, to a "permanent linkage between rights granted and rights taken away" which, simply translated, means that the impact of any bilateral agreement upon U.S. carriers must be seen as an essential gauge of the agreement's acceptability.[Shane, 1988d, 3]

While there has undoubtedly been a highly commercialized flavor to U.S. international aviation policy, it would be a mistake to conclude that policy has been directed by powerful industry interests. Government agencies and their officials have maintained control over the policy process and have not simply reacted to industry demands. U.S. state actors have obviously considered the promotion of the commercial position of the major U.S. carriers on the Pacific routes as being highly compatible with its policy objective of the liberalization of international aviation. However, U.S. state actors have also had the broader concern of ensuring that, as much as has been possible, a harmonious balance of trading rights has resulted from the bilateral negotiations with other states. State Department officials, who have led the negotiations, have also been keenly aware of the need not to allow bilateral aviation matters to impact adversely upon other aspects of bilateral political and economic relations.[Interviews with State Department officials]

**Australian International Aviation Policy**

**History and Background**

Australia's international aviation industry goes back to 1919 when the first successful international flight was undertaken from northern Australia through to London. It was not, however, until after the Second World War that the then Qantas Empire Airways had become the 'chosen instrument' of the Australian Government and had become wholly-owned by the Australian Government.

At the 1944 Chicago Convention, Australia and New Zealand were fearful that the new global industry, as it was being developed, would become dominated by the major airlines, especially the U.S. carriers. As a result, Australia and New Zealand proposed that an international authority be established to own, operate and regulate air transport
services. This proposal, not surprisingly, failed to gain the support of the major countries and Australia was left to look to the negotiation of bilateral air service agreements as the means by which to secure its aviation rights.

Within the over 40 bilateral agreements which Australia has negotiated over the postwar period, capacity clauses (at the very heart of the agreements) have been determined by one of two approaches. The predeterminist approach, which has been applied in most of Australia’s bilateral agreements including those with the U.S., has provided for parties to agree in advance on the precise capacity to be offered by the airlines concerned. These agreements have normally provided that the capacity to be deployed was to be divided equally between the contracting parties.

The second approach used by Australia essentially allowed for the airlines to decide the frequency/capacity on a route on the basis of their judgment of the traffic market. Capacity would only then be controlled if there were complaints and a subsequent review found a revision was necessary. This was an ex post facto review which could be instigated by either party.296 [Findlay, 1985, 12]

The predeterminist formula suited what has been the regulatory approach of the Australian government to international aviation policy. The formula was extended through agreements with other countries by means of the authorization of direct understandings between the respective designated airlines subject to the overriding need for government approval of such commercial arrangements.[Pyman and Morris, 1984, 480]

It has always been a bipartisan policy that some regulation was necessary so as to maximise the benefits accruing from the exercise of aviation rights. With certain modifications, regulation was endorsed by a 1978 review committee which recommended a third and fourth freedom regime favouring the scheduled operators. Acting on the committee’s report, the Government’s new policy provided for higher load factors and thus lower fares while entrenching the officially perceived need to strictly regulate capacity.
The Australian government’s exclusive control over the right of access to air traffic has meant that certain national political and economic considerations, such as tourism promotion and improving Australia’s balance of payments, have been taken into account in determining general policy and bilateral negotiating approaches. The inclusion of economic factors has been emphasised by the fact that the Australian government, like most national governments, has maintained a direct financial interest in the designated international carrier.[Pyman and Morris, 1984, 470] However, the policy of privatising Qantas, and the eventual opening up of its routes to competition from other Australasian carriers, has been prompted by the prospect of even greater economic benefits (particularly an increase in inbound tourists) than those which have flowed or would be likely to flow from ownership of the one designated airline.[Keating, 1992] This recent change of policy in favour of the privatisation of Qantas has removed the important difference between the major Australian political parties on international aviation policy which had centred around the ownership and control of the single designated carrier, Qantas, rather than around capacity and route entitlement matters.

The 1992 Policy Changes

On 26 February 1992, Australian Prime Minister Keating, as part of a general economic statement, announced a program of accelerated reform of the Australian aviation industry. The important features of the statement which related to international aviation were the permission to Qantas to invest in a domestic Australian carrier and to be able to fly on Australian domestic routes; facilitation of the airlines’ sales process as a prelude to the privatization of Qantas; the renegotiation of bilateral air service agreements with a view to securing multiple designation agreements and a pro-competitive approach directed at achieving enhanced route and capacity arrangements; and the implementation (with the agreement of the New Zealand government) of a single Australasian market. As well, the Government sought, by 1994, to negotiate with other countries involving an exchange of stopover and/or interline rights.[Keating, 1992]

The genesis of this policy shift can be found in the drive for the deregulation and liberalisation of Australian industries as part of the Hawke and Keating Governments microeconomic agenda. Government agencies such as the then Industries Assistance
Commission had for some time targeted the government’s ownership of Qantas as an area ripe for reform. The recommendations of a 1989 Report on Travel and Tourism by the then Industries Assistance Commission (IAC) played an influential part in bringing about the 1992 policy changes. These recommendations included a questioning of the continued government ownership of Qantas and argued for the injection of private capital; the removal of the separation of domestic and international markets for Australian carriers which it considered would result in a progressive increase in competition in international airline services; and the designation of other Australian carriers as international carriers, allowing them to utilise landing rights presently available to Australia but not used by Qantas. The IAC also recommended that Australia should begin negotiating bilaterally to expand capacity and argued that these measures would enable Australian airlines to achieve economies of scale of aircraft, encourage more competition and efficiency and provide a wider range of choices for travellers as well as benefit tourists. [Industries Assistance Commission, 1989, 59-64] This policy change was specifically designed with a view to encouraging both domestic and international competitiveness and to stimulate inbound tourism and trade. [Department of Transport and Communications, 1992, 13]

Legislation which gave effect to this policy change established an independent statutory authority, the International Air Services Commission (IASC) which was empowered, from 1 July 1992, to determine the allocation of international aviation capacity and route entitlements among Australia’s international airlines. Importantly, the establishment of the Commission signalled the government’s gradual withdrawal from the exercise of a direct role in international aviation policy-making. [Brown, 1992b, 50s] However, the Australian government will also have some say in deciding capacity and route entitlements in the sense that the Commission’s ability to allocate these will be dependent, as always, upon the outcome of government-to-government bilateral negotiations.

The new policy reflected the dual aims of both protecting Qantas’ position and promoting new Australasian entrants into the market. Qantas was granted certain international route and capacity rights but after a period of time, these would have to be renegotiated, in line with the government’s policy of encouraging new entrants into
the market. Under the Act, only Australasian carriers were to be granted full cabotage rights. 244

While the government has undoubtedly avowed a pro-competitive policy for this sector, its program of liberalisation is to be staggered, with international routes being made available to Australasian carriers (other than Qantas) on a piece-meal basis as relevant bilateral negotiations are concluded. This, as Ansett Airlines (the strongest potential rival to Qantas) has pointed out, makes it more difficult for it, as a new carrier, to secure sufficient capacity to make its proposed services viable.[Brown, 1992b, 61s]

**Australian International Aviation Policy-Making Process**

**Role of Australian State Actors**

State actors have always been dominant in the formulation and execution of Australia’s international aviation policy, and in the negotiation of aviation rights. This role has been enhanced by the executive’s effective control over Parliament and the government-to-government nature of bilateral negotiations.

The Australian Parliament’s role has been limited to its consideration of bilateral international aviation agreements once they have been ‘laid on the table’ in the legislature. Parliament’s other role has been in the passing of legislation and given the executive’s control over the House of Representatives, this has been little more than a formality in that chamber. In the Senate, while governments have invariably not enjoyed a majority, the bipartisan nature of aviation matters has meant that this chamber’s deliberations have not affected policy outcomes.

The principal department for the formulation and implementation of policy has been the Australian Department of Transport and Communications (DOTAC). An Aviation Policy, Security and Infrastructure Division of DOTAC, and specifically within that an International Relations Branch,245 has been responsible for the formulation of the Department’s international aviation policy.[Department of Transport and Communications, 1992, 7] While DOTAC has always been in charge of the policy-
making process and in leading Australian delegations during bilateral negotiations, its perceptions of its role have changed during the late 1980s. Both government officials and analysts have recognized that the current department had become much less of a constituency department, and thus less unquestionably supportive of Qantas' position, than its predecessor, the pre-1987 Department of Transport. Where the old department had unquestionably helped to provide the airline with a 'political in' to the policy-making circles, this could certainly not be said of the current DOTAC.

Likewise, DOTAC officials acknowledged that by the late 1980s there had been a change in their approach towards policy-making. They considered that they had broadened their view of aviation services trade issues, now seeing such issues as an integral part of national economic policy-making. [Interviews with DOTAC officials] Part of this shift in official focus has been because of a recognition of the importance of the different markets in which Qantas (soon to be joined by other Australasian carriers) has operated and the export gains that have begun to be made, directly or indirectly, through aviation services.245

DOTAC's position within the policy-making process has been strengthened by its recent change of policy. The adoption by the department of a broader view has enabled DOTAC officials to claim that they now addressed broader political and economic concerns rather than simply the commercial interests of Qantas. Officials considered that they had a primary responsibility to relate Qantas' interests to the 'full picture' and to balance all the interests with a stake in the prosperity of the industry.

The Department of Foreign Affairs and Trade (DFAT) has been the other important department involved in international aviation policy-making. Unlike its U.S. counterpart, DFAT has not led the negotiating team and in policy terms, especially as they have related to the bilateral arrangements, has had a subordinate role to DOTAC. DFAT has used essentially three avenues to attempt to influence the content and direction of the policy-making process. The first of these was through the coordinating mechanism in place between DOTAC and other departments with an interest in international aviation policy. Given that international aviation policy impinges directly upon foreign and trade policy issues, DFAT's involvement in the process has been both expected and important.
However, the fact that DFAT officials have been regularly moved from one policy area to another has detracted from their ability to gain a comprehensive understanding of the complexities of international aviation.

While there has been no formal interdepartmental process in place for the consideration of international aviation policy issues, DOTAC has consulted through what has been described as an ‘ad hoc formalised consultative machinery’ with officials of other departments, notably DFAT. [Interview with DOTAC officials] Such consultations have understandably been of a more substantial nature just prior to a set of bilateral negotiations or when government policy was experiencing an overhaul.

The second avenue of influence has been through DFAT’s representation on the negotiating committee for the settling of bilateral aviation arrangements. While DFAT has accumulated general trade negotiating expertise (albeit by certain officials in only some of its divisions), according to U.S. officials involved in the negotiations for the most recent Australia-U.S. agreement, the role of DFAT officials was overwhelmed by both the knowledge and bargaining skills of the Australian DOTAC officials. [Interviews with officials at U.S. ATA and Department of State] Where DFAT has taken the lead has been in both formulating Australia’s position on aviation services within the current Uruguay Round of multilateral trade talks and in negotiating within the services group of the GATT talks. With developments in international aviation having been determined by bilateral negotiations rather than by multilateral agreements, DFAT’s lead role in GATT talks has not strengthened its position within Australian international aviation policy-making.

The third avenue of DFAT’s potential influence over the making of policy, as it has related to Australia-U.S. relations, has been through the involvement of its officials in the Australia embassy in Washington D.C. However, senior DOTAC officials have argued that the extent of the embassy officials’ influence over policy-making has depended upon two important matters. One was the nature of the bilateral relations and possibly the stage at which bilateral negotiations had been reached, while the second matter related to the level of knowledge and interest of the responsible embassy official. [Interviews with DOTAC officials]
Other departments have had only a minor role in the policy process. However, some like the Department of Tourism have a watching brief because of the importance of international aviation to the development of tourism. This department’s role has been enhanced in recent years by the Australian government’s recognition of the economic gains to be had from increased tourism. In a 1989 Ministerial Statement, the then Minister for Transport and Communications, Ralph Willis argued that Australia’s negotiating strategy must have as an important objective the need to "increase net earnings from inbound tourism along with the flow-on benefits to industries servicing the tourism sector." [Hansard, House of Representatives, 1989, 3539] To date, the input of this department into the international aviation policy process, together with other tourism authorities, has been informal. Their importance to this policy process has been identified, however, by analysts as providing counterweights to what are seen as protectionist forces supporting Qantas’ commercial position. [Castle and Findlay, 1988, 122]

Treasury, as with all areas of trade policy-making, has retained a watching brief over international aviation. It has become involved at times when sizeable budget outlays were being considered, such as with the purchase of aircraft by Qantas. The Department of Prime Minister and Cabinet, an important policy coordination department of the 1970s and early 1980s, has performed only a minor international aviation policy role over the past decade.

While international aviation policy-making is seen as being increasingly a part of national economic policy-making and of relevance to general foreign and trade policy formulation, DOTAC has skillfully argued that this has been a policy area which has called for specialized knowledge and skills which only that department has possessed. It may be that international aviation policy is no longer seriously referred to as a discrete issue but in interviews with senior officials of other departments, it was clear that the formulation and execution of this area of policy-making was seen as being within the almost exclusive province of DOTAC. Officials of DOTAC have been keen to portray an understanding of general economic developments and to eschew a narrow sectional interest for the department.
The highly regulated manner in which aviation rights have been traded has encouraged the development of a dominant role for government. The establishment of the IASC will in the medium to long term remove government from some aspects of international aviation policy-making. However, government can be expected to perform at least an indirect role in policy-making through its conduct of bilateral negotiations.

**Role of Qantas and Other Societal Actors**

Until the late 1980s, Qantas was the only significant societal actor involved in the making of Australia's international aviation policy. In the absence of formal arrangements for consultation by Australia's state actors with those involved in the industry, Qantas' influence over policy has (unless involved in bilateral negotiations) been exercised on an informal and ad hoc basis. The recent policy changes and the establishment of an independent regulatory body, the IASC, have acted to lessen the influence of Qantas, or any carrier for that matter, in the policy-making process. Australian state actors now consult with a broad range of societal actors, both within and outside the aviation industry.

By Australia's standards, Qantas has become a major commercial undertaking and in terms of export income earned, has been viewed as a leading player in an important service industry. In 1991-92, the airline posted a pre-tax profit of AUD$262 million which after-tax amounted to AUD$137 million. [Qantas, 1992, 7] Facing increased competition on its routes during the 1980s, the airline has recently experienced a major restructuring and rationalisation which it hoped would bring its costs under control and improve its financial viability.  

Despite efforts by Qantas to maintain its image as a global airline, it has become more of a regional player and the focus of its operations has been directed towards the Asia-Pacific region. In its latest Annual Report, in what would seem to be a parallel with official Australian trade policy, the airline identified this as the area in which it was likely to see the greatest growth. [Qantas, 1992, 10] It has been this regional focus which has seen the airline make a number of strategic investments in other carriers, notably a 19.9 percent stake in Air New Zealand and a 10 percent shareholding in Fiji's
Air Pacific, as well as a number of commercial agreements with Japan Airlines and American Airlines.\textsuperscript{252}[Falvey, 1992, 8]

Qantas’ influence in Australian policy-making has been largely defined by the nature of its relationship with the Australian government. Since the late 1940s, the Australian government and Qantas have enjoyed something of a special relationship. While management of the airline remained outside of the arena of government control, complete ownership of this the only designated Australian international carrier until December 1992, meant that the government had an immediate commercial and political interest in the airline’s continuing viability. Successive Australian governments have sought to use the regulated nature of the international civil aviation industry and the established method of negotiation (bilaterally between governments) to promote Qantas’ commercial development. During this time, the government’s and Qantas’ economic interests were considered to be coterminous.

The diminution of the importance of Qantas’ role has resulted from the change in government policy which now considered any support for Qantas’ position on routes into and out of Australia as determined by the economic benefits which could be derived from the airline’s operation (such as from travel and tourism) rather than simply in terms of enhancing Qantas’ economic viability. Qantas had become, so government officials considered, just one of many interests to be taken into account in the making of international aviation policy.[Interviews with Australian government officials] According to government officials, Qantas has always lacked a political base and has had to rely on the DOTAC for necessary support within the Australian policy-making process. With Qantas’ interests no longer considered by DOTAC officials, and state actors generally, as being vital to Australia’s aviation interests, the airline no longer had the ‘political in’ to the policy-making process that it had once enjoyed.

Senior officials of Qantas have seen the airline’s privatisation in a positive light as providing the airline with a much-needed injection of capital considered necessary for it to meet its international competition. [Interview with senior Qantas officials; Gray and Moffet, 1990, 3] Both government and industry officials considered that privatisation would not lead to a diminution in the importance of the airline to the Australian
government. This was because of its commercial value as an export income earner and its role in promoting Australia as a tourist destination.

The viability of Qantas has remained important to the Australian government despite the change in policy. However, with the sale of 25 percent of Qantas to British Airways in December 1992 and the remaining 75 percent to be sold in a share float in late 1994 or early 1995, the link between the government and Qantas can be expected to become more tenuous in the years to come.[Department of Foreign Affairs and Trade, 1993b, 10; Thomas, 1993v, 5]

The government has moved to strengthen Qantas in a number of ways in the period leading up to the share float of Qantas and taking account of Qantas’ indebtedness. Permission was given for the airline to buy the government-owned domestic carrier, Australian Airlines, in September 1992 for AUD$400 million (which was under value). This provided Qantas with an established network of domestic routes and the expertise of dealing with the Australian domestic market. In late 1992, the Australian government provided Qantas with a AUD$1.35 billion recapitalisation to make the airline more attractive to British Airways for the trade sale and to place it in a healthy financial position for the share float.

The government has optimistically sought to gain something like AUD$2 billion from the trade sale share float and has thus been anxious to not only place Qantas in as good a commercial position as possible but also to control all aspects of the sale process.[Brown, 1992a, 50s] Even after Qantas has been completely privatised, the Australian Government intends to retain a formal interest in the airline’s future through what Prime Minister Keating has reportedly referred to as a ‘golden share’ which will act as a national safeguard.[The Dominion, 1992a, 18]

The decline in influence of Qantas in international aviation policy-making has been evidenced by the fact that the government, in implementing its more deregulatory approach to international aviation, had not consulted with Qantas and had opened up both the trans-Tasman market and international routes at a pace that had suited itself.[Interviews with DOTAC officials] The government’s move towards deregulation
and greater liberalisation has effectively meant that, for the time being, the government has re-emphasised a role independent of any industry actors in international aviation (while at the same time withdrawing from domestic aviation). The government's deregulatory moves have been accepted as necessary by Qantas which has, at least publicly, considered these developments in a positive light seeing the commercial advantages (such as the removal of government constraints on borrowing) as outweighing the problem of greater competition on its routes.

The 1992 policy changes, with their stated aim of providing the opportunity for competition among Australian carriers in the operation of scheduled international air services, will mean that what influence Qantas had been able to exercise in international aviation policy-making will have to be shared with those other airlines who are selected by the IASC to fly routes into and out of Australia. Pre-eminent amongst these is Ansett Airlines which has been seeking to move beyond its domestic Australian operations and has already submitted bids to fly, in particular, to Asia.256[Brown, 1992c, 61s]

The principle that most route allocations would be valid for three to five years has provided Qantas with some protection and there some continuing Australian government concern for Qantas' viability as illustrated in the recent dispute between the Australian Government, Northwest Airlines and the U.S. Administration. Australian Minister for Tourism Michael Lee, while denying that Australia's stand against the U.S. carrier had been driven by the need to protect Qantas, affirmed that it was a "matter of ensuring we strike the right balance between ensuring that Qantas earns export earnings...and the tourism industry benefits from the maximum possible number of tourists coming to Australia."[Thomas, 1993q, 3] This level of government support is likely to diminish, however, after the share float and is not expected to translate across into influence for Qantas in the policy-making process.

A number of smaller carriers have appeared which are seeking designation rights for particular routes.257 Some of these airlines are yet to prove themselves financially viable and are not expected to play a significant role in the development of the industry under the new policy regime.
Australia-U.S. Negotiations and the 1988 Air Services Agreement (ASA)

The nature of Australia-U.S. aviation relations are currently governed by their most recent ASA of 1988. This Agreement sets out the aviation rights of both parties and, importantly for the purposes of this study, provided the capacity and route entitlements for each party: matters which have been crucial to the determination of their traffic rights.

The Problem of Capacity on the Pacific Routes

The U.S. has always approached capacity issues from a position of strength believing that its carriers had suffered from unnecessary capacity constraints which had been imposed through bilateral agreements. The U.S. has thus avoided, wherever possible, making special allowances on capacity and negotiations over capacity on Pacific routes were not considered an exception.

Australia and Qantas, conscious of the relatively weaker position of the Australian airline to that of the U.S. carriers [see Tables R, S and T], have had a very different view about the merit of regulating capacity on the Pacific routes. The problem of excess capacity and the intensified pressure for market share on these routes brought difficulties in Australia-U.S. aviation relations to a head in 1970. Where the U.S. government had argued that the Bermuda I Agreement allowed for airlines to be free to determine for themselves the capacity offered on the agreed routes (with the only remedy being for the government to seek redress by means of an ex post facto review), Australia argued that each government had an obligation to scrutinise airline decisions.

The compromise result reached in 1971 amounted to what has been described as a "gloss" on the original Agreement and provided for problems over capacity to be left to be matters for consultation between the parties. [Pyman and Morris, 1984, 483] Under this arrangement, the U.S. government agreed to review any plans for increased capacity on the Australian route and to make a decision as to whether to approve such a proposal. Once in receipt of this advice, the Australian government would have the opportunity to comment on the proposed increase in capacity. However, should Australia
raise an objection, then the U.S. government would consider the objection, but if
unmoved then the increase would go into effect subject to review if so requested by
either party after a lapse of 6 months. This ex post facto review became the only means
by which a state could control capacity. While this result did not represent an
endorsement of the Australian government’s preferred official policy, it did mean that
governments took responsibility for scrutinising the proposals of airlines for capacity
increases.

The 1980 MOU was particularly defective in failing to take account of the different
priorities and objectives of the parties. It put into place a less restrictive ex post facto
review mechanism for capacity increases which assisted the U.S. policy of satisfying the
requests of U.S. carriers to increase the number of flights without being subjected to
intergovernmental negotiations. Without a provision allowing one government to veto
schedules for capacity increases transmitted by the other government, Qantas felt under
increasing pressure from the large U.S. carriers which were regularly filing for increases
on the Pacific routes.

The 1980 Agreement was predicated on an assumption that the parties would cooperate
in good faith to ensure that the commitments contained in it would be given due
effect. [Kohona and Sadurska, 1988, 57] Australia became frustrated with the
ineffectiveness of the 1980 MOU to maintain some control over capacity increases and
believed that the increasing demands for capacity increases by U.S. carriers (United and
Continental Airlines) during the 1980s, continually breached the original understanding.
Australia believed that the U.S. carriers were exploiting the inadequacies of the MOU
and blatantly dumping capacity on the Pacific routes. 258 [Interviews with Australian
government officials]

In the late 1980s, Qantas was maintaining market shares on the routes serving Australia
and the U.S. only by incurring losses and believed that the essential understanding
underlying the 1980 MOU no longer contained any currency in terms of U.S.
practice. [Interview with Qantas official] In 1987, Australia formally terminated the
Agreement so that the U.S. Government and the U.S. carriers would take Australia’s
objections more seriously and a new Agreement could be negotiated.
The 1988 Air Services Agreement (ASA) between Australia and the U.S., as with previous ASAs, contained a capacity control clause. This clause, inserted at Australia’s insistence, represented an example of Australia’s favoured predeterminist approach to the setting of capacity and was much more precise than its predecessor. Certain guidelines were provided but precise capacity for each designated airline would be determined by the governments through negotiation and not by the carriers, exercising their commercial judgement.

In a departure from the previous Agreement, competition between the Australian and U.S. carriers was made subject to a form of regulation which could only be adjusted through bilateral governmental negotiations. U.S. government and industry officials have expressed their concern at the existence of the provision and have denied that Australia (read Qantas) was in such a weak position as to require this form of regulation. In their view, the capacity clause was contrary to U.S. international aviation policy and represented a bargaining victory for the Australians.[Interviews with U.S. government and industry officials]

Integral to any agreement on capacity was consideration as to the number of designated airlines and the capacity that each would be permitted both initially and during the life of the Agreement. Until a recent policy change, Australia had always designated Qantas as the sole carrier while the U.S. had continued to insist that any agreement should include the right for each party to designate more than one airline to operate on the routes between the two countries.

The 1970 agreement included a multiple designation clause which enabled the U.S. to introduce a second U.S. carrier, American Airlines, on the South Pacific route and in 1974, Continental Airlines introduced services after American Airlines withdrew. Australia reluctantly accepted the introduction of multiple U.S. carriers but concerns over financial viability have remained and were again aired in the 1988 negotiations.

It was decided at the 1988 negotiations that for the first three years, each party would be limited to one new designated airline. Any such new airline (not including an airline
which already served a trans-Pacific route) would be permitted to have an entitlement to four services per week (without a limit as to aircraft type) on the South Pacific route.

The nature of this clause with its gradual relaxation on the number of new entrants into the route was to the long-term advantage of the U.S. carriers which had excess capacity which they were keen to apply to this, the most direct route between Australia and the U.S. Qantas was concerned that the three year period would only be an exception with, at the expiration of this period, there being no such limit upon the number of new carriers which could enter the market. There have been changes in the designation of U.S. carriers with Northwest, American (for the second time) and Hawaiian Airlines having entered the market in the late 1980s. For principally financial reasons, the latter two carriers have since withdrawn. While there has been a new and aggressive player in the form of Northwest Airlines, Qantas’ concerns on this matter were exaggerated given both the financial problems of a number of U.S. carriers and the recession-induced reduction in passenger demand for travel on this route. The more recent adoption by Australia of its own multiple designation policy indicates a greater preparedness on its part to let the market decide the question of financial viability.

A related matter, the specification of routes between Australia and the U.S., has also been a complex and contentious matter. Australia, located at the terminal point of long-haul routes, has had to negotiate rights to pick up traffic and transit stops at the intermediate points, where applicable, on the routes between the two countries. The strong bargaining positions of the countries controlling those points has been reflected in their access to fifth freedom traffic (being the right to carry traffic to and from one country in the course of serving another), which has served to diminish Australia’s overall share of the market on the route/s.

Australia has also been concerned over the substitutability of routes. In terms of the 1988 Agreement with the U.S., one case which has been highlighted was Continental Airlines’ services between Guam and Australia. These linked with its Tokyo-Guam route and thereby challenged Qantas’ lucrative Australia-Japan market.260

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Capacity on the South Pacific Route

As to existing carriers on the South Pacific route, the Agreement provided that there could be capacity increases so long as they did not result in that airline receiving 62 1/2 percent or more of the traffic offered jointly by the U.S. and Australia. As well, capacity increases could be disapproved if the revenue passenger traffic of the other party had not increased by 6 percent or more over the recent twelve months. The capacity mechanism also stipulated that each designated airline was entitled to four round trip frequencies per week without any limit on the type of aircraft used. A designated airline would be entitled to operate any level of capacity that it had operated on the South Pacific route over the past 18 months.

Another capacity provision on the South Pacific route stipulated that a designated airline would be entitled to operate any level of capacity necessary to reduce its load factor to 70 percent of regularly scheduled services on this route. This was provided that an average 55 percent or more of the revenue of the passenger traffic aboard was U.S.-Australia uplift or discharge traffic. Results providing a residue of 50 percent or more of the seat capacity of the aircraft would entitle that airline to operate an additional weekly frequency. Subject to maintenance of percentage of traffic requirements, capacity can also be increased by the existing designated carriers within any 12 month period (so long as they have had 4 years’ continuous service) by 2 additional B-747 equivalent round-trip services per week; or by the total percentage growth in revenue traffic on this route during the most recent 12 months.

The South Pacific route was the fastest route between the two countries and attracted the most public demand. In Australia’s view, a capacity mechanism was required which would ensure that no airline was penalised as carriers sought to meet any increased demand. In replacing the ex post facto review of the 1980 MOU, this new mechanism allowed for an objecting party to prevent the introduction of any new service, should such an increase in capacity not be otherwise provided in the Agreement and after consultations had been held.
Applications for increased services by designated U.S. carriers appeared soon after the signing of the Agreement. In October of 1988, Continental and United Airlines were granted permission to put additional capacity on the South Pacific route. This moved Continental’s total frequencies per week to 19 (11 of these were B-747 aircraft) and United’s to 14 B-747 frequencies per week (United increased this by an additional 4 B-747 services from June 1, 1989), while Hawaiian provided 210 seats per week and Qantas had 22 B-747 frequencies.\footnote{263}

Capacity increases on the South Pacific route have been solely to the advantage of the U.S. carriers. The U.S. carriers, in contrast to Qantas, have had excess capacity, (generated from their domestic market operations) which they have sought to dispose of on the Pacific routes. The entry of two other U.S. carriers, American and Northwest, on to the South Pacific route has exacerbated Qantas’ problems. However, partly due to overcapacity on the route and resultant unprofitability, March 1, 1992 saw American Airlines cease operations to Australia while Continental and Northwest have both reduced their services on the South Pacific route.\footnote{264} United Airlines increased its services having opened up Brisbane as a gateway with 3 new weekly services to the U.S. Both Australia and the U.S. have continued to voice their different concerns over capacity on the South Pacific route.\footnote{265} These differences over capacity on the South Pacific route have not, however, been as great as those found with respect to capacity issues on the North Pacific route.

**Capacity on the North Pacific Routes**

Capacity increases on the North Pacific route were regulated in similar fashion to those on the South Pacific route. However, in contrast to the South Pacific route, there was no minimum capacity provision in the Agreement and the proposals of all new entrants as well as proposed increases had to be justified. This has reflected Qantas’ sensitivity to traffic increases on the Japan-Australia route,\footnote{266} given that it has constituted the most lucrative of all Qantas routes and its profitability has been important in balancing losses Qantas has made on other routes. Principally for this reason and partly because Japan has been reluctant to increase the number of designated airlines picking up and discharging passengers on this route, Qantas has been able to secure more restrictive
provisions than was the case with the South Pacific route. Where, for example, on the South Pacific route, an airline could increase capacity by the equivalent of 2 B-747 round-trip services per week, on the North Pacific route capacity can only be increased at most by the equivalent of 1 additional B-747 round-trip service per week.

As in the case of the South Pacific route, capacity increases on this route would be disapproved if they would give that carrier 62 1/2 percent of total capacity offered on the route by Australia and the U.S., and if the revenue traffic of the other party had not increased by 6 percent or more on that route in the most recent 12 months. Likewise, the same load factor percentage limits and Australia-U.S. uplift and discharge factors also applied. As well, a designated airline was permitted to operate any level of capacity that it had operated on that route in the previous 18 months.

The Agreement also provided a capacity mechanism for the Guam and Commonwealth of the Northern Marianas route (the Guam route). Each party was permitted to designate an airline which would provide 3 DC-10 round-trip frequencies or their equivalent per week operating from April 1, 1989 with another becoming available on April 1, 1990. A further increase was not available in 1991 but would be so in following years if certain conditions were met. Most importantly of these, the airline seeking the increase must have operated in its own right over the preceding 12 months at an average revenue passenger seat factor of 67 1/2 percent or more and 70 percent or more when the total number of services on the route reached 7 per week.

To qualify for an increase on this route, an applicant was required to show that not less than 55 percent of its passenger traffic carried on the Guam route over the most recent 12 months was Australia-Guam/Northern Marianas uplift or discharge traffic. The Agreement explicitly excluded from consideration traffic between Australia and third countries which used Guam or the Northern Marianas as a stopover of less than 2 consecutive nights.

The new capacity mechanism was a direct result of the 1988 negotiating process between Australia and the U.S. Australia considered it to be an improvement on the old provision which had so obviously failed to contain the ambitions of the U.S. carriers and
which had in turn placed heavy strains upon Qantas’ ability to compete. The 1988 mechanism was, however, a compromise and Qantas has become increasingly dissatisfied with the effect of its operation. The Australian carrier has found itself faced with an increased number of U.S. airlines on trans-Pacific routes. In July 1991, Northwest Airlines began 4 services per week to Sydney from Honolulu replacing Hawaiian Airlines. In October 1991, Northwest began through services (thrice-weekly flights) from the U.S. to Australia via Japan. Also in October 1991, United Airlines received a further approval to operate 2 services per week to Australia via Japan but, arguing that twice-services were uneconomical, has not commenced this service.

Dumping of capacity may have been prevented by this new mechanism but provisions in the Agreement have acted to force Qantas to increase its capacity so as to maintain market share on both the South and the North Pacific routes. Since the late 1980s, Qantas has been losing overall market share on these routes. Given that the Pacific market constituted 30 percent of Qantas’ total operation, the losses have prompted moves by the Australian government to have the Agreement strictly adhered to by the U.S. carriers.

**Disputes over Capacity on North Pacific Routes**

The most serious of the disputes between Australia and the U.S. has been about whether the ASA provided for the U.S. airlines to have unlimited access to the air corridor between Australia and Japan. It involved Northwest Airlines and its New York-Osaka-Sydney route which it commenced on a thrice-weekly basis in October 1991, not long after it began flying on the South Pacific route.

From the beginning of these services, the Australian government has been concerned that Northwest was breaching the 1988 Agreement with less than 50 percent of its passengers being through traffic to either Australia or the U.S. on the Osaka-Sydney route, thus effectively taking valuable business away from Qantas. In December 1992, the Australian Government gave Northwest notice that it was in breach of the 1988 ASA and that from February 1, 1993 it would be banned from picking up passengers for the Osaka-Sydney leg on one of its 3-weekly flights and that there would
be a 50 percent limit on such passengers on the 2 other weekly flights. [Thomas, 1993k, 7] As a result of this notice, Northwest filed a complaint with the U.S. Department of Transportation which was subsequently upheld by the U.S. Transportation Secretary.  

Talks between Australia and the U.S. in early February and late March 1993 failed to produce an resolution to the problem. The talks produced an offer by Australia to take the matter to international arbitration.  

However, before arbitration was begun, the Australian Government announced that the sanctions would apply against Northwest as from June 30.  

Northwest had already sought an injunction against the Australian Government directive in the Australian Federal Court while the U.S. Government retaliated by announcing that Qantas must drop 3 of its 10 weekly non-stop Sydney-Los Angeles flights as from the same day. Northwest, while not denying that the 1988 ASA contained provisions restricting the airline’s access to the Australia-Japan route, has been reported as arguing that an Australian government official gave Northwest verbal assurances that the 50 percent condition would not be applied. [Thomas, 1993o, 7]

The U.S. Transportation Department’s decision to curtail 3 Qantas Sydney-Los Angeles non-stop flights brought a strong condemnation from the Australian government. Australian societal actors generally supported the Australian government’s stand with Qantas calling for the government to maintain its stance and the head of the Australian Tourism Industry Association referring to the bully-boy tactics of the U.S. Government.

By mid-June 1993 and before sanctions could be imposed, Australia and the U.S. struck a temporary truce. A new agreement between the parties provided Northwest Airlines with a 6-month extension subject to the 50 percent rule together with a temporary freeze on further U.S. services on the North Pacific route until the end of 1993. While Northwest has given a written assurance that it would seek to build the proportion of through passengers on the route (partly through switching the U.S. departure point to Detroit), significantly, both the airline and the U.S. government have continued to regard the 50 percent requirement as ‘impermissible’ under the bilateral air services agreement. [Thomas, 1993r, 4]
Australia has not gained anything from this agreement and questions have been raised as to why the Australian government suddenly withdrew from what seemed a highly committed position and agreed to a truce. This decision was made without any great likelihood that further negotiations would solve the central problems (interpretations of the 1988 ASA and the restrictions to Northwest’s flights) of the dispute. There is a good chance that the dispute will resurface and escalate as before. The U.S. did not back down over this provision for fear of setting a precedent for other Asia-Pacific states, notably Japan and there is no guarantee that Northwest Airlines will meet the 50 percent condition (as averaged) over the 6-month period. The U.S. has gained from this new agreement by having managed to stop Australia from taking the matter to international arbitration. Attempts at settling the dispute will now be made bilaterally, something which the U.S. has always preferred.

The brinkmanship practised by both the Australian government, Northwest Airlines and the U.S. government in this dispute have revealed more fundamental disagreements about the interpretation and application of the 1988 ASA. Northwest’s provocative action, in particular, has encouraged the view that there may be more broader calculations behind Northwest’s moves on this matter. This dispute may well be being used as a means of pushing relations between the U.S. and Australia to a point where a new agreement would have to be negotiated. Such calculations by Northwest may be partly based on the belief that with the new Clinton Administration, the political climate is conducive to the making of a new, more favourable ASA. General Clinton Administration statements about aiding the competitiveness of U.S. industries and the hardline taken by U.S. Transportation Secretary Frederico Pena in this dispute and in United’s dispute with Japan have certainly encouraged U.S. carriers.

The other dispute, concerning United Airlines flights between New York-Tokyo-Sydney, has been simmering for a number of years and has involved Australia, both directly and indirectly. Soon after the 1988 ASA was signed, United Airlines had sought to offer a twice weekly service on this route. Like the Northwest dispute, the issue has been about the picking up of traffic for the Sydney-Japan route, effectively taking business away from both Qantas and Japan Airlines. Despite Qantas’ expressed concerns, the Australian government approved a 2-day per week service by United believing that Qantas and
Japan Airlines would be only marginally affected because United would be unable to offer Tokyo-only flights. While United has argued that these frequencies would be insufficient to operate the service profitably, Australia has refused to grant further frequencies. For Australia, this dispute has been less important than that with Northwest but has the potential to create similar problems for Australia on the principal North Pacific route, the Japan-Australia corridor. Australia’s dispute with United Airlines has, however, been pushed into the background during the late 1980s and early 1990s by the aviation dispute between Japan and the U.S.

The matter came to a head in September 1992 when Japan set limits on the percentage of passengers that could be picked up by United in Tokyo and transported to Sydney.[Reuters, 1993d] Negotiations had failed to resolve the matter and United responded in November of that year by filing a complaint against Japan with the U.S. Department of Transportation. The Department ruled in February 1993 that Japan’s restriction constituted a violation of the Japan-U.S. ASA, arguing that the ASA gave United the right to serve markets beyond Japan and threatening to retaliate against Japan’s flights to the U.S.[Trautman, 1993a]

As with the other case, this dispute is unlikely to be either quickly or cleanly settled with both sides having too much at stake to give in to the other easily. Japan runs a deficit with the U.S. in the aviation sector and this dispute has represented an attempt by Japan to reduce it. United Airlines, experiencing fare wars in its domestic market and the general impact of the recession, combined with the importance of the Japanese market to its general operations, also has much tied up with a satisfactory result.[Carlson, 1993] In terms of Australia-U.S. relations, this dispute is important for if United should succeed in establishing its service, this would then place pressure on Qantas’ operations on this route and would undoubtedly resurrect the Australia-U.S. dispute which had been overtaken by the Japanese action of September 1992.
Routes Entitlements

Restrictions on the three trans-Pacific routes served by the Australian and U.S. carriers was also on the agenda of the 1988 negotiations. The bilaterally defined and imposed routes and gateways constituted an issue not unrelated to capacity and was the next most important matter for discussion.

Negotiations over routes, or rather which airlines were entitled to fly on which routes, through which points and to which destinations were matters keenly fought over in 1988 and since then fiercely maintained. The Australians and the Americans were both aware that gaining access to purely domestic traffic as well as international routes behind the homeland could enhance an airline’s international competitiveness.

The entitlement to fly on particular routes was a matter related to the issue of landing rights for those airlines granted the route entitlement. Derived from a state’s sovereign legal right of control over the airspace within its borders, landing rights have been properly considered by states as bargaining chips in any route negotiations. The trans-Pacific routes have been considered by both states to be growing markets (with demand exceeding capacity) and this has enhanced the bargaining power of associated landing rights. States have valued landing rights not only in terms of their economic benefits, but also because they can be used to limit capacity and the degree of competition their designated carrier/s would face on a particular route.[Centre for International Economics, 1988, 32]

Australia and the U.S. stand in quite different positions not only in terms of economic power but also in terms of geographical location. On the related issues of routes and landing rights, Qantas officials considered the airline was particularly vulnerable because of Australia’s geographical position, being most often at the terminal point of long-haul routes. To gain transit stops and rights to pick up traffic at intermediate points, Australia has in turn had to grant landing rights to the designated carriers of those states in which it has secured landing rights. In effect, Australia has thus had to cede bargaining power to these other states over access to fifth freedom traffic for their airlines.
The U.S.'s geographical position is different in that it has often been a market through which foreign airlines have wished to travel and pick up traffic thus providing U.S. negotiators with a very effective bargaining chip in the form of the large U.S. domestic market. The U.S.'s central position on the globe’s trunk routes has meant many more states have sought to gain access to U.S. airspace and gateways than has been the case with Australia. The large land mass of the U.S. and its dispersed population (more so than Australia) has placed it in a stronger position than Australia when dealing with states at intermediate points on the trans-Pacific routes.

The U.S. has made full use of the bargaining resources of its large domestic market and central geographical location, making it difficult for Australia to negotiate access to U.S. gateways. In fact, most foreign carriers have less than 10 gateways to the U.S., the exceptions being British Airways (which has 18) and KLM (which benefits from an ‘open skies’ agreement between the U.S. and the Netherlands). Qantas has in fact been restricted to operating through only a very few gateways and has also been prevented from picking up any U.S. domestic traffic while on route. Australian negotiators suggested, in interviews, that access to the U.S. domestic market was seen as the main regulatory issue between the parties. The chief U.S. negotiator of the late 1980s has also readily acknowledged the importance of access to the U.S. market as a negotiating weapon. [Shane, 1988d, 6]

**U.S. Route Entitlements**

In the 1988 Agreement, the trans-Pacific routes were considered separately. On the South Pacific route, the U.S. carriers received Brisbane and Cairns as 2 new gateways and were entitled to an additional 8 points (or destinations) to be served from any of the specified gateways, being Sydney, Melbourne, Darwin, Perth and, of course, Brisbane and Cairns. These 8 additional one-stop points could be changed at any time.

On the North Pacific route, about which Australia was especially sensitive because of the huge growth in traffic on the Japan route, U.S. carriers were granted any 2 points in Australia chosen from Sydney, Melbourne, Brisbane and Cairns. Continental Airlines was quick to take advantage of the decision and started services from Brisbane.
and Cairns to the U.S. while United Airlines, the other major carrier then serving the routes, opted to concentrate on Sydney and Melbourne. All of these flights could have been routed through either Japan, Canada or Southeast Asia.

With respect to the Guam/Northern Marianas route, the Agreement provided U.S. carriers with an entitlement to fly from Guam or the Northern Marianas to any 2 points to be chosen from Sydney, Melbourne, Perth, Darwin, Brisbane, Cairns or a point to be selected by the U.S. government. Beyond rights were also granted but these were to be without traffic rights.

**Australia’s Route Entitlements**

On the South Pacific route, Australia was granted landing rights to Honolulu, San Francisco, Los Angeles, New York and three points (or ‘primary gateways’) to be selected by the Australian Government and beyond to Canada, Britain and Europe and beyond. These can be exercised through either New Zealand, New Caledonia, Fiji, American Samoa, Canton Island, French Polynesia or Canada. Qantas was granted an additional eight points (or destinations). While these could only be served through one of the specified gateways and may operate beyond the U.S. without traffic rights, they could be changed at any time.²⁸⁵

Qantas faced certain restrictions on the South Pacific route between 1991 and 1993. Unless Qantas used San Francisco and New York beyond Los Angeles to Britain and Europe and beyond, it could only operate to Europe and beyond but not to Britain from September 1991; to Europe and beyond and up to 4 flights per week to Britain from September 1992; and to both Britain and Europe and beyond without restriction from September 1993.

On the North Pacific route, Qantas could operate via any one point in Asia (including Hong Kong, Japan, Korea, and Taipei and these could be changed) to any 2 points in the U.S. chosen from Honolulu, Los Angeles, San Francisco and New York. However, Qantas services could only begin when the U.S. carriers on the route were operating a total of 8 weekly frequencies. Qantas has strongly criticized this aspect of the
Agreement claiming that the U.S. carriers could determine when and if Qantas would have access to these routes. While Qantas has not been so constrained, the U.S. carriers could conceivably prevent Qantas from taking advantage of these rights by keeping their total frequencies on these routes to less than 8 per week.

The Agreement gave Qantas 15 landing points which access approximately 10 percent of the U.S. market. In return, the U.S. carriers were effectively given access to the total Australian market. These differences in coverage were not surprising given the huge population disparity between the countries. However, the different proportions were distorted by the fact that the U.S. policy of equivalence on landing rights was the product of a restricted route mechanism which has effectively amounted to limiting the access of foreign carriers to the U.S. domestic market as much as possible.

On the Guam and Northern Marianas route, Australia was also given access to these islands and beyond to any 2 points to be chosen from Tokyo, Nagoya, Fukuoka, Seoul, Taipei, Beijing and one additional point to be specified. These beyond points could be changed at any time. Despite Qantas concerns over encroachment by Continental Airlines on Japan-Australia traffic (which already had flights to Tokyo from Guam through its subsidiary Air Micronesia), Australian government officials have argued that the Guam route was not sufficiently developed to raise concerns. [Interviews with Australian government officials]

**Australia’s Bargaining Approach to the U.S.**

**The Bilateral Approach**

As with the making of Australia’s international aviation policy, the government takes the lead in formulating Australia’s approach to particular bilateral negotiations. However, as government officials readily admitted, Qantas and other industry interests have had an important, though indirect, influence over the formulation and execution of Australia’s position in any set of bilateral talks. [Interviews with Australian government officials] In particular, Qantas has been consulted by DOTAC as the government developed a line of argument for forthcoming bilateral talks. Once established, the
approach to be adopted was, in general terms, referred to other government departments for comment.

In its bilateral bargaining with the U.S., Australia has adopted a more restrictive approach to the central issue of capacity determination than that of the U.S., though the U.S. has itself been highly protective of its own domestic market. Australia’s initial approach overtly sought to protect the market position of Qantas. However, in recent years, and especially since the 1989 change in negotiating policy and the adoption of its multiple designation policy in 1992, the Australian government’s position has reflected a desire to ensure that Australia received what it perceived as its fair share of the market returns from travel and tourism.

In June 1989, the then Minister for Transport and Communications, Ralph Willis formalised a new Australian approach to international aviation negotiations. These new ‘riding instructions’, as they have been called, reflected changing government objectives in relation to the negotiation of aviation rights. In effect, this new approach sought to replace the old emphasis upon trading ‘like for like’ with a broader approach which sought, so the Minister argued, to encourage new services by foreign carriers where these would lead to improved tourism and trade opportunities for Australia. As well, the new policy sought to develop arrangements with other countries to give airlines greater commercial freedom to respond quickly to market demand. This broader view entailed seeing Qantas’ economic interests as only one of many interests (including the tourist industry) to be taken into account in negotiating aviation rights. However, Minister Willis added that while the approach would be more liberal, the benefit to Australia from a trading arrangement would be the dominant consideration. [Hansard, House of Representatives, 1989, 3539-40]

The latest 1988 round of negotiations between Australia and the U.S. were concluded less than a year before the announcement of this new approach. While this change of policy was undoubtedly already in the ‘policy pipeline’ and the 1988 Agreement contained some liberalising provisions, it is doubtful whether it had any effect upon the approach taken by Australia in these negotiations. Australia’s chief aim had been to negotiate a more secure capacity regulatory mechanism which would check the strong
expansionist thrust of the U.S., derived as it was from both the Reagan Administration’s pro-competitive policy and the powerful influence of U.S. industry interests over that policy. The established ‘trading of rights’ approach was then considered the best way of ensuring that the U.S. carriers did not gain an undue advantage over Qantas from the negotiations.

The new more liberalised negotiations policy began to appear in Australia’s approach to its international aviation dealings with the U.S. even before a new bilateral agreement was negotiated. The most obvious example of this new policy was that of Northwest Airlines’ application to fly a New York-Osaka-Sydney route. In October 1991, when Australia granted Northwest conditional approval to fly 3 times a week on this route, the new approach, emphasising general economic benefits to the Australian economy over that of protecting Qantas from competition, encouraged Australia to accede to Northwest’s request.286

Australia’s approach to the 1988 negotiations with the U.S. had undoubtedly been affected by the fact that the negotiations had been brought about as the result of an Australian complaint over U.S. dumping of capacity and the perceived imbalance of rights (between 3rd and 4th and 5th freedom traffic) on the Pacific routes.287 Equally important, the U.S. carriers had themselves begun to call for changes to the then existing arrangements, believing that a new ASA would better cater for growth on the Pacific routes.

Qantas initially took a leading role in the 1988 talks, partly because the then existing Australian approach was still primarily concerned with maintaining Qantas’ market share. In particular, with the talks centred around the issue of capacity and with Qantas as the party aggrieved by the capacity increase of U.S. carriers, the airline was involved in supplying the commercial information for the Australian case. Government representatives (jointly from both DOTAC and DFAT) took over the lead shortly after the commencement of the talks and moved the negotiations beyond capacity issues to include other issues such as that of finding ways of meeting the increased tourist demand for air travel.
Australia’s approach to its aviation negotiations has been, and is likely to continue to be, dominated by state actors. Qantas has been influential to the extent that it has performed a valuable advisory role to government in the development of Australia’s bilateral approach. However, Qantas, and obviously less important societal actors, have not been so influential as to be ascribed a role in determining the approach taken by Australian state actors.

The strength of the U.S. negotiating position (derived from the sheer economic power of the carriers and the important bargaining advantage of a large and geographically centrally-located domestic market) has been interpreted by Australian negotiators as meaning that Australia must likewise show determination especially if it desired the inclusion of provisions objected to by the Americans. The Australian view was that the U.S. would not move on such proposed provisions unless they were considered absolutely necessary to the making of an agreement. Recognizing Australia’s relative economic weakness, Australian officials have realised that to secure a favourable trading outcome in such negotiations a committed approach in their bargaining was required. In interviews with Australian aviation negotiators, they conceded that bargaining with the Americans over aviation rights also entailed a good deal of ‘damage control’ as Australia sought to secure the best possible capacity route entitlement provisions in the face of U.S. pressure for increased capacity and landing slots.

The changes in Australia’s negotiating policy have been in the direction of providing greater liberalisation of the airways. While this has encouraged a view favourable to the expansion of capacity on routes into and out of Australia, such expansion of capacity is unlikely to be acceptable to Australia if the result means Qantas or other Australasian carriers will have a reduced market share. This Australian position was clearly in evidence in the Northwest dispute of 1992-93.

The mercantilist strains in Australia’s negotiating approach are unlikely to be completely or hastily removed as it edges towards a more liberalised aviation market. These policy lines have been obvious in Australia’s dealings with the U.S. given what Australian negotiators have considered to be the U.S.’s own regulatory and protectionist policy positions.\(^{289}\)
Australia and the U.S. enjoy a good political relationship with each other. As in the other trade sectors of this study, this relationship has assisted by providing Australia with a high-level hearing within U.S. policy making circles. However, as with the other trade sectors, it has not ensured that Australia’s interests have been seriously considered in the making or execution of U.S. international aviation policy. Australian government officials no longer consider aviation issues to be distinct or discrete from other trade issues though they are still principally handled by DOTAC rather than by DFAT. While references to the broader relationship, or to other trade issues, may in fact assist rather than hinder Australian negotiators in dealing with the U.S., (as was evidenced by the ‘please explain’ notes sent to the U.S. negotiators from their political masters during one stage of the 1988 negotiations) there has been no evidence of any direct references to the Australia-U.S. political relationship as serving to either enhance or diminish Australia’s trade outcomes in the aviation sector.

Australia’s bargaining approach to the U.S. over aviation rights has become a broader one, incorporating non-aviation issues, and like the formulation of international aviation policy, can no longer be considered in isolation from general trade policy. However, the policy change has not meant that in bargaining, and especially with a relatively stronger state like the U.S., Australia has completely dispensed with its protective stance towards its own designated carriers.

The Multilateral Approach

In marked contrast to Australia’s strong stand on commodities trade reform (especially in relation to agricultural commodities) in the Uruguay Round of GATT talks, its approach to multilateral services trade reform has been very low key. While aviation services trade is one of the matters being considered by the Group Negotiating Services (GNS) in the Round, Australian government officials conceded that neither they nor Qantas expected it would appear in the final package. Even if multilateral reform was produced in other areas of services trade, Australian government officials saw bilateralism as having too tight a hold over the regulation of aviation rights for states to allow it to be overtaken by Uruguay Round developments.[Interview with Australian government officials]
As with other trade matters on the table in the GATT talks, the Department of Foreign Affairs and Trade (DFAT) has handled Australia’s approach to reform of aviation services trade. Apart from important exceptions such as Australia’s aviation trade with New Zealand, DFAT officials stated that all aspects of Australia’s aviation services trade had been brought under the purview of the GNS in the GATT Round. [Interviews with DFAT officials]

Australia’s approach to the reform of services trade has generally called for a strong but broad agreement which would outline key principles and provide a few specific rules (on matters such as subsidies and dispute settlement). Australian government officials have anticipated that individual states would be left with sufficient latitude to ensure that such a package would be consistent with its presently existing bilateral arrangements. Both Australian and U.S. officials have emphasised that any GATT agreement on aviation services trade should not have a ‘grandfather’ clause which would affect existing bilateral arrangements. [Interviews with Australian and U.S. officials]

A liberalisation package coming out of the GATT talks would only improve Australia’s trading outcomes with the U.S. if, in return for general liberalisation, greater access to the U.S. market was to result. The extent to which this could occur and be consistent with current bilateral provisions is not something that Australian officials have seriously considered. [Interviews with government officials]

DFAT officials charged with responsibility for conducting Australia’s negotiations in the GATT Round, have understandably argued that the reform of aviation services trade is a relevant matter to be considered multilaterally. Officials for the Department of Transportation and Communications (DOTAC), on the other hand, have given the matter a very low profile but have differed over whether multilateralism is a future possibility. While some government officials considered multilateralism would only be of relevance to international aviation regulation on a regional basis, if at all, others argued that multilateralism may come to have an effect by the late 1990s as states, such as Australia, sought to retain some control over developments arising from the many changes occurring within the international aviation industry.
Conclusion

This study has concerned Australia's access to the U.S. aviation market as well as its competitiveness with the U.S. on the trans-Pacific air routes. Its importance has been in revealing particular opportunities as well as problems for Australia as it seeks an improvement in its outcomes in each of these two dimensions of Australia's aviation trade relations with the U.S. In contrast to the other sectoral relationships of this study, Australia and the U.S. stand in not only a more competitive but also a more equal bargaining relationship. Each has sought increases in capacity and improvements in route entitlements while bargaining access to its own domestic market. This has meant that the bargaining process, mainly though not exclusively conducted through formal bilateral negotiations, has been capable of taking on a dynamic of its own, largely independent of the respective power-capable positions of the states.

Capitalising on the strong international position of major U.S. carriers, the U.S. has been the leader in promoting the deregulation and liberalisation of national airline industries and the privatisation of airlines. Such ideas for reforming the international aviation industry have been in line with the ideology of economic rationalism, so dominant in many western countries and beyond over the period of the 1980s. The Australian government, and to a lesser extent Qantas, have responded positively to these ideas and to the global developments which accompanied them, though imperatives have related to domestic economic adjustment as well as trade expansion.

The U.S. pro-competitive policy has made the U.S. a more aggressive partner to Australia in bilateral negotiations and more successful in negotiating increases in capacity on the Pacific routes as well as greater access to the Australian market and to those of third countries on route. While critical of the regulatory nature of the bilateral bargaining process, U.S. state and societal actors have used the process to maximize their benefits through the trading of aviation rights and to promote a liberalising tendency (albeit protectionist in terms of the matter of access to the U.S. market) in the resultant agreements.
Where the U.S. executive’s concern with aviation policy matters has been directed towards the economic welfare and competitiveness of U.S. carriers (as revealed in the recent Northwest Airlines dispute with Australia), Congress has remained largely unconcerned with such policy matters unless they have involved a major economic power. Thus, the trading of aviation services between the U.S. and Australia, has not presented itself as an issue of foreign policy significance for either the U.S. executive or legislature such as to assist Australia in seeking to influence the U.S. policy-making process.

Emphasising the export competitiveness of U.S. carriers, the U.S. policy has used the U.S. domestic market as leverage to promote this interest. There are no opportunities within this policy for Australia to negotiate favourable access to the U.S. market unless it can make liberalising concessions in return. Australia has little to concede which the U.S. would be prepared to accept (or does not already have) in return for a relaxation of U.S. policy.

The U.S. industry has been opposed to the multilateral liberalisation of international aviation (fearing an imbalance as foreign carriers move into the U.S. domestic market), while many U.S. state actors have questioned the feasibility of solving the problems of international aviation through multilateral means. Serious doubts have been raised as to whether the GATT regime, with its norms such as Most Favoured Nation (MFN) treatment, would be appropriate to regulate trade in aviation services.

While the executive and the Congress have both been generally receptive to industry appeals for policies and negotiating positions that support their economic interests, the U.S. policy of liberalisation has not been simply the result of U.S. industry pressure but the result of a separate and genuine commitment to the liberalisation of the international aviation market by U.S. state actors. U.S. airlines have undoubtedly been influential in having the policy objective of global liberalisation translated into a policy of access to the U.S. domestic market by foreign carriers and used as a bargaining tool to lever reform from negotiating partners.
International developments, including U.S. deregulation and liberalisation and its impact upon U.S. carriers, have placed additional economic pressures upon Australia and its designated carrier/s to compete in the world market. These developments have prompted Australian state actors to broaden the range of economic interests to be taken into account in formulating their negotiating positions and have thereby affected the domestic relationship between Australian state and societal actors.

Seeking greater economic returns from its international aviation activities, the Australian government has moved beyond a policy approach which sought to protect Qantas’ market position to one which has encouraged new Australasian entrants into the industry and has more generally sought to promote travel, trade and tourism. While it is inconceivable that an Australian approach would be adopted which ran contrary to the vital interests of important societal actors, there has been a loss of influence by the airline industry as state actors, perceiving aviation services trade as a potential area to improve Australia’s balance of payments, have taken cognizance of other economic interests. However, Australian state actors have still been unable to effectively reconcile the desire to maximize the export revenue received from increased travel and tourism to Australia with the other goal of ensuring that Australasian carriers maintain, if not increase, their market shares.

The changed domestic bargaining relationship, with its strengthening of the role of Australian state actors and lessening of the importance of state-industry actor bargaining in determining Australian policy outcomes, has, in turn, influenced the nature of the strategies which Australia has adopted in seeking to maintain, if not improve, its competitive market share as against the U.S. A greater preparedness by Australia to allow U.S. carriers to develop new markets on particular Pacific routes, even if there was no reciprocal benefit for an Australian airline, was one result of the changed Australian approach. While Australian negotiators may have considered that they had little option but to concede this concession at the time, there is little doubt that in light of developments on the North Pacific routes, Australian negotiators would now be more concerned in extracting greater reciprocal access to the U.S. market.
The political relationship between the two countries has been a sound one which, as in the case of the other sectors examined, has provided Australia with access to top U.S. decision-makers. While the centralised nature of U.S. international aviation policy-making has certainly made access to the decision-makers easier than in other sectors, the nature of the U.S. policy has meant that Australia, understandably viewed by the U.S. as a competitor, has been unable to influence a favourable change in that policy. Both countries have been wary of making linkage from aviation policy issues to other trade and foreign policy issues and the bilateral negotiating framework has enabled the countries to keep the determination of aviation trade relations largely discrete. Where Australia was not able to take advantage of its good political relationship with the U.S. to secure more favourable outcomes, this lack of linkage to other foreign or trade policy issues has helped Australia to keep the matter of aviation trade at least partially insulated from the U.S. promotion of global liberalisation and given the Australian government more control over the pace of reform in the sector.

The bilateral negotiating process has allowed Australia some element of control over the determination of aviation rights (and the opportunity for the exercise of skill by its negotiators) towards the improvement of its trade outcomes. The bilateral mechanism has, in particular, provided opportunities for Australia to apply its high level of commitment to capacity regulation. This occurred in the 1988 formal negotiations where a favourable predeterminist capacity regime was established.

Yet, the issue must be addressed as to why Australia has not received a better share of the U.S. domestic market and why Qantas is under pressure from U.S. carriers on, particularly but not solely, the lucrative North Pacific route to Japan. Certainly, the strength of the U.S. carriers (with their abilities to cross-subsidize routes from the domestic U.S. sector and to offer cheap U.S. connections) and the U.S. negotiators' bargaining power because of the sheer size of the U.S. domestic market and its geographical location have been important reasons for Australia's problems.

Another factor, however, was Australia's obvious preparedness in the late 1980s and early 1990s to go some distance towards embracing liberalisation of international aviation and apply it in negotiations with the U.S. U.S. carriers were given extensive
access to the Australian market without a commitment from the U.S. negotiators that their advocacy of such international liberalisation would be applied in the U.S. domestic market and in Australia's interests. This raises the question as to whether Australia has used its bargaining resources as efficiently as it could have in both the 1988 negotiations and subsequent talks. Australia does not appear to have ensured that Qantas gained the equivalent in effective (that is, affordable) access to the U.S. domestic market in exchange for virtually total access to Australia by U.S. carriers.

Australian state actors have identified the principal regulatory problem in negotiating with the U.S. as the U.S.'s restrictive approach to access to the U.S. domestic market. The other major problem that Australia has experienced with the U.S. in this sector has been the alleged dumping of capacity on the Pacific routes by U.S. carriers.

The international aviation sector offers Australia greater bargaining leverage for an improvement in trading outcomes than either the agricultural or steel sectors. This is because of the importance of the formal bilateral negotiation process to the determination of outcomes: a process which allows Australia some control over sectoral outcomes. Like Australia, the U.S. must bargain and make concessions in order to secure desired outcomes and cannot simply rely upon the application of its greater power-capable resources. The fact that the U.S. perceives a cost in not reaching an agreement with Australia, not to mention the possibility of a full or partial denial of market access to U.S. carriers, has assisted Australia.

Neither the bilateral lobbying nor, and to an even lesser extent, multilateral negotiations, offer the same potential for Australia to apply its sectorally-specific resources to exact any benefits. The difficulty for Australia is that U.S. international aviation policy effectively applies a protectionist approach to U.S. market access in order to lever increased access to other states' markets and while conducted by U.S. state actors, is directed at maximizing returns for U.S. carriers.

Australia has few resources capable of effective application in its bilateral lobbying to change this fundamental U.S. policy approach: it has difficulty in showing any cost to U.S. taxpayers or consumers of any denial of U.S. market access to Australian carriers;
there are no U.S. domestic actors with whom Australia could form a coalition; and little remaining Australian market access with which to bargain with the U.S.

The regulatory framework which has governed bilateral aviation negotiations between these two countries over the postwar period has allowed Australia to apply a level of commitment to some form of capacity control and to bargain for benefits in return for access by U.S. carriers to the Australian market. At the same time, Australian state actors have been able to selectively moderate this commitment so as to encourage the international competitiveness of Australian airlines and the promotion of other Australian economic interests.

This sector has provided a unique example of where bilateral negotiations can act as an intervening variable and provide opportunities for a weaker state to apply sectorally-specific resources to lever an improvement in sectoral outcomes. Australia's trade outcomes have derived from its bargaining leverage provided by means of the formal negotiating framework and the bargaining chip of access to the Australian aviation market. It is unlikely that Australia could achieve similar outcomes in other sectors unless there was a formal framework for negotiations with the U.S. through which a tradeable item, sought by both countries, could be bargained.

In like fashion to Australia's attempts to gain improved import access to the U.S. in other sectors of this study, Australia has been concerned to promote a translation of ideas of free trade and liberalisation, held by many within U.S. international aviation policy-making circles, across into a policy of liberalisation of the U.S. domestic market. However, Australia has been concerned that global liberalisation in this sector, as promoted by the U.S., may allow those with a comparative advantage in international aviation, such as the U.S., to dominate the marketplace. Thus, even at the cost of undermining its argument for the opening up of the U.S. domestic market as part of global liberalisation, Australia has continued to push a protectionist approach to capacity regulation when dealing with the U.S.

Liberalisation of the international aviation market thus obviously offers a mixed picture for relatively weak traders such as Australia. Australian state actors, while moving the
local aviation sector in this direction, remain unconvinced that global liberalisation of the sector will necessarily offer improved outcomes for Australasian carriers. While aviation, as with a number of other service issues, had been included within the multilateral talks of the Uruguay Round, it was expressly excluded from the final Agreement.

States with developed aviation industries, such as Australia and the U.S., have grown accustomed to bargaining for their economic rights without external interference. In Australia’s case, its low key approach to multilateral reform of aviation in the Uruguay Round was indicative of the lesser importance given to multilateral reform as a means of improving trading outcomes with the U.S. It was, to some extent, a reflection of the limited success that Australia has achieved through bilateral negotiations.

There is, thus, little prospect that a multilateral forum, such as the GATT, would be given the role of conducting the exchange of economic rights between states even though multilateral organizations covering technical, safety and pricing aspects of international aviation have existed for some time. However, the multilateral reform process does hold some appeal for Australia as it may facilitate the removal of certain trade barriers as well as the resolution of problems more amenable to being dealt with globally. It may also, in the future, provide a means of regulating developments arising from the changing economics and technological innovations of international aviation.

Direct appeals by Australia to U.S. international aviation policy-makers or to the GATT forum for reform have not, and cannot, at least in the medium term, be expected to produce improved outcomes for Australia in this sector. Bilateral negotiations with the U.S., and the mechanism they have provided Australia to either maintain or increase Qantas’ share of the traffic on the Pacific routes have produced some favourable outcomes. On the other hand, the attempt to use the bargaining mechanism to influence a change in U.S. policy so as to improve Australia’s access to the U.S. domestic market, has met with the same resistance found in other sectors and has not been successful. However, despite these problems, both Australian state and industry actors consider
that the bilateral negotiating process has provided Australia with greater control over the trading of its aviation rights.

While the competitive bargaining with the U.S., as conducted through the bilateral negotiations process, has not resulted in entirely satisfactory outcomes for Australia, it has (specifically) provided the best means of checking the competitive pressures of U.S. carriers on the Pacific routes. More generally, this process has provided Australia with opportunities to apply sectorally-specific resources towards improved trading outcomes. Whether conducted formally or informally, these negotiations have remained the best possibility for Australia to improve its outcomes from its aviation services trade with the U.S.
NOTES

199. In 1991-92, Australian services exports totalled AUD$14,135 million (with another AUD$15 billion coming from the export of services embodied in manufactured goods) which was 20 percent of its export income, and equalled the proportion of exports that came from manufactures. The largest contributor to Australian services revenue has been tourism, a service industry closely related to the aviation industry. In 1991-92 travel expenditure earned export income of AUD$5.5 billion which amounted to 39 percent of Australia's service exports.[Department of Foreign Affairs and Trade, 1993b, 5]

200. This recent liberalizing process in Australia has paralleled a similar, but more extensive, process which began in the U.S. in 1978.

201. The British had sought a regime which would allow a certain degree of government intervention while the Americans wanted the adoption of an 'open skies' policy which would have guaranteed commercial landing rights everywhere to the world's airlines without restriction.

202. The common clauses of these agreements were the Administrative and Technical Clauses (such as the mutual recognition of licences and qualifications and the exemption from taxes) and the Tariff Clause as well as the more contentious Route Description and Capacity Clauses. Another Clause of importance was the one which stipulated that designated carriers would be under the 'substantial ownership and effective control' of nationals of the designating country.

203. While state ownership has been significant in understanding the state’s involvement in aviation policy, it does not fully explain the protective approach of governments to their designated airline/s. The privatization of airlines and the subsequent emphasis upon the need for the airlines to be profitable has meant governments have had to negotiate agreements which would facilitate this goal.

204. The Bermuda I type of Air Services Agreement was subject to differing interpretations and these came to a head in 1976 when Britain formally denounced it as providing an 'imbalance of benefits' in favour of the U.S. In particular, Britain argued that British carrier access to U.S. gateways was too limited and that U.S. carrier capacity and Fifth Freedom rights for the U.S. had been too generous. The subsequent 1977 agreement between the U.S. and the U.K. (Bermuda II) was more in line with Britain's regulatory approach and included limitations on designated airlines and controls on price and capacity.

205. The impetus for this new policy came from both the free market ideology and strong commercial position of the U.S. carriers as well as the personal philosophy of President Carter. It was given statutory form with the Airline Deregulation Act of 1978.

206. The predeterministic type of agreement is one which only allows those route and capacity entitlements, and increases thereto, as prescribed in the agreement.

207. These changes relate to the structure of the industry, size and nature of the key players, and the marketing and information technologies applied in the industry.
208. Services trade issues were included on the agenda of the Uruguay Round of talks as a result of pressure from the U.S., the EC and Japan. However, their chief concerns to have services trade reformed related to services such as investment trade and intellectual property rights.

209. Tables M and N show the general increase (apart from 1991) in international air passenger traffic over this period.

210. Continental Airlines emerged from two and a half years of bankruptcy protection on April 27 1993. Importantly, Continental has been strengthened by the injection of US$450 million of investment funds from Air Canada and Fort Worth investors Air Partners LP.[Zellier et. al., 1993, 69]

211. Refer to Table O for the effect of this War on passenger load factors.

212. The International Air Transport Association (IATA) has been reported as stating that financial recovery for the airline industry is unlikely before 1994 with losses in 1992 around SUS2 billion despite a rise in passenger traffic of 8 percent. [The Australian Financial Review 1992, 60s]

213. This September 1992 agreement provided airlines of both countries the freedom of the Atlantic Ocean, in effect allowing them to operate whatever services they liked between the two countries, and to set their own fares without government interference.

214. The world’s largest carriers are listed in Table P and their rise to prominence is outlined in Chart E.

215. The British Airways bid to invest US$750 million for a 44 percent stake in USAir, which would have effectively made it the world’s biggest airline, faced rejection by the U.S. Government as it came under pressure from the major U.S. carriers who have argued that a successful bid would be unfair given their limited access in the U.K. [The Economist, 1992c, 10] While the U.S. "hard-ball" approach occurred in the last days of the Bush Administration, there was every indication that U.S. industry opposition to the deal would be heeded by the Clinton Administration and the deal would only be allowed if there was a reciprocal lifting of restrictions to U.S. carriers operating in the U.K.[Durie, 1992c, 34] In December 1992, British Airways abandoned this deal and struck a new deal to invest US$300 million for a 24.6 percent stake in the airline.[Markillie, 1993, 17]

216. These U.S. carriers were able to service the U.S. domestic market as well as fly on international routes.

217. Even in the late 1980s, about 40 percent of all passengers in the world who get on a plane on any given day, do so in the U.S.

218. In the 9 years to 1987, the market share of the 5 largest U.S. carriers increased from 63.5 percent to 71.7 percent.[Kasper, 1988b, 37]

219. The first of these ‘open skies’ agreements with the Netherlands in 1978 and others which followed included provisions such as the elimination of capacity controls
and the designation of several carriers for the same route or routes.[Fischer, 1984, 13]

220. The CAB’s economic regulatory functions over entry (including the old distinction between trunk and feeder services), pricing, route and other restrictions were left to be determined by the forces of marketplace competition.

221. Airlines ascribe great importance to their computer reservation systems (CRS) (which each airline has usually owned or part owned) as they have provided each with a means to gain a priority listing with potential customers (through the use of their CRS by travel agents) and enabled an airline to maximise the yield it gains on each flight.[The Economist, 1992e, 23-24] Each CRS has an inbuilt potential for bias (such as the use of the "first screen" by the airline owning the system) which could act against efforts to liberalize international air passenger transport.[Centre for International Economics, 1988, 11]

222. These ancillary markets included the provision of airport facilities and services.

223. Reference was made to such matters as discriminatory airport charges.

224. They have been referred to as ‘professional negotiators’ in the sense that their sole responsibilities have been to negotiate aviation agreements with other states.

225. An example of the influence of U.S. carriers in the making of U.S. policy can be found in the fact that in negotiations, any problems affecting the incumbent U.S. carriers have had to be dealt with before consideration would be given to new entrants. While this may be a logical policy, it has reflected the political power of the incumbent airlines.

226. Former chief negotiator Jeffrey Shane has referred to the paradox where "a global enterprise boasting some of the world’s most advanced science and engineering...operates according to a set of anachronistic, mercantilist rules."[Shane, 1988a, 1]

227. Examples of such barriers included what have been generally termed the ‘doing business’ type of arrangements (such as baggage handling and catering) which may act to disadvantage the operations of certain carriers at airport terminals in foreign countries.

228. Another possibility, to which U.S. government officials referred, was the negotiation of a services plurilateral, encompassing several but not all states. This was only considered a possibility if the Uruguay Round failed to adequately deal with services trade issues.

229. It should also be noted that the U.S. President holds a national security veto over all aviation legislation.

230. Each of these committees have subcommittees on services policy which covers aviation. All 18 industry sector advisory committees dealing with services were serviced by the USTR.
231. Bilateral aviation agreements are considered to be treaties and, as such, are not subject to Senate ratification.

232. The Carter, Reagan and Bush Administrations have all referred to their policies as an 'open skies' approach. However, that of the two most recent Administrations has been somewhat more restrictive. Foreign countries have become concerned that the recently-installed Clinton Administration may be even more restrictive.[Carlson, 1993, 4; Durie, 1992c, 34] In the Asia-Pacific region, concern about "lop-sided agreements" which have enabled U.S. carriers to build substantial market share across the region prompted the Orient Airlines Association, a regional grouping which includes Australia, to urge member countries to push for "new, fairer" air service agreements with the Clinton Administration.[Thomas, 1993a, 8]

233. For example, Congress has not provided a regulatory solution to possible competitive problems arising from the increased concentration of the U.S. industry in the post-deregulation era, preferring to leave the matter of anti-trust issues to be dealt with by the courts.[Fischer, 1986, 9]

234. The important position of the airlines has been enhanced due to the fact that U.S. civilian airliners may be requisitioned should U.S. national security be threatened.

235. The capacity is itself determined by reference to the aircraft size multiplied by frequency in a given time period.

236. A third approach, 'free determination' which is of recent origin and has involved controlling neither the number of carriers on a route nor the capacity they offer, has not been favoured by the Australian government.

237. The review committee report, the International Civil Aviation Policy (ICAP) Report, constituted the first comprehensive postwar consideration of Australia's international aviation policy.

238. Implementation of the policy was to be in 3 stages with the immediate 1992 changes allowing Qantas to buy Australian and implementing a multiple designation policy and the opening of new bilateral negotiations for better route and capacity entitlements; the second stage in 1993 was to provide Qantas with domestic market access and multiple designation across the Tasman Sea to New Zealand (Ansett Airlines will probably take this up in November 1993 with flights between Sydney and Wellington); and the final stage was the implementation of a single Australasian aviation market by November 1994.[Department of Transport and Communications, 1992, 12]

239. The recommendations of a 1989 Report on Travel and Tourism by the then Industries Assistance Commission (IAC) played an influential part in bringing about the 1992 policy changes. Significant amongst the IAC recommendations was a questioning of the continued governmental ownership of Qantas and the need to allow the injection of private capital; the removal of the separation of domestic and international markets for Australian carriers which it considered would result in a progressive increase in competition in international airline services; and the designation of other Australian carriers as international carriers, allowing them to
utilise landing rights presently available to Australia but not used by Qantas. The
IAC also recommended that Australia should begin negotiating bilaterally to
expand capacity. The IAC argued that these measures would enable Australian
airlines to achieve economies of scale of aircraft, encourage more competition and
efficiency and provide a wider range of choices for travellers as well as benefit
tourists.[Industries Assistance Commission, 1989, 59-64]

240. Under the International Air Services Commission Act, the Commission is required
to report to Parliament annually on its determinations. The Department of
Transport and Communications has the responsibility for developing and
maintaining a register of available capacity on the routes that the Australian
Government has negotiated with 41 other countries.[Department of Transport and
Communications, 1992, 11]

241. It should be noted that the Australian Department of Transport and
Communications has the power, by virtue of each bilaterally-negotiated agreement,
to grant a temporary permission for a designated Australasian airline to operate on
a particular route. In July 1993, DOTAC exercised this power in respect of Qantas
flights to Seoul.

242. Qantas, in its latest Annual Report, has argued that the new policy was biased
towards new entrants, while admittedly recognizing that there remain real
difficulties for new players in the international market.[Qantas, 1992, 17]

243. The International Air Services Commission Act guarantees for Qantas 5 years
those international route and capacity rights it was using as at 26 February 1992,
after which they could be contested at the renewal stage by new entrants to the
industry. Those rights granted to Qantas in 1992 but after 26 February of that year
would be contestable after 3 years.[Department of Transport and Communications,
1992, 11]

244. Cabotage is the right to pick up and set down domestic traffic.

245. Within this Branch, an Americas and Pacific Section has the principal
responsibility for Australia’s relations with the U.S. Other sections, International
Policy Coordination and Multilateral Relations, have also exercised policy
responsibilities which impinge on these relations.

246. In a recent speech, DOTAC Associate Secretary Roger Beale referred to the real
potential for growth in terms of visitors to Australia from overseas and highlighted
the importance of inbound tourism which had generated foreign exchange earnings
of AUD$17.9 billion (up 14.5 percent on 1990) and accounted for 10 percent of
Australia’s total export earnings.[Beale, 1992, 11-12]

247. Interviews with both past and present occupants of this embassy position as well
as with officials of DOTAC and DFAT provided no evidence to suggest that the
Washington embassy had been influential in the making of Australia’s
international aviation policy over recent years.
248. In recent years, the advice of the Department of Tourism (now with a Minister of Cabinet rank) has been taken more seriously in the making of both domestic and international aviation policy. A section of the department deals with aviation matters and an aviation advisor has responsibility for ensuring that aviation policy is not made without considering the implications for tourism.

249. The recent dispute between Australia and Northwest Airlines involved a direct appeal from the airline company to the Australian Prime Minister. While his Department had undoubtedly been monitoring developments in the dispute, there was nothing to suggest that the Australian approach, led by the Minister for Transport and Communications and his department, was in any way challenged by the Prime Minister and his department.

250. Just as analysts have argued that the profit level from the 1991-92 year has been exaggerated, so the cost-cutting has been considered to have provided only one-off benefits to the airline and the more difficult decisions on staff reduction have not been broached. More importantly, Qantas' share of total available seats was reported as having slipped from 44 percent to 38 percent over the previous decade. With growth in the total travel market (into and out of Australia) this has meant that Qantas had fallen behind. [Chapman, 1992, 38]

251. Qantas has referred to growth from the Asia-Pacific region as being almost double its global network average and this was expected to increase.

252. The code-sharing arrangement with American Airlines was Qantas' principal response to the restrictiveness of the U.S. domestic market and has enabled the Australian carrier to link its trans-Pacific routes with the domestic network of the U.S. carrier. The arrangement was considered to be important for Qantas' development of its trans-Pacific routes as was its continued participation in the extensive American Airlines' 'AAAdvantage Frequent Flyer Program'.

253. In so doing, the Government considered the fact that Qantas had posted losses in recent years as well as the uncertainty of the international market. While Qantas' debt-capital ratio was higher than that of the major Asian airlines, it compared well as against the major U.S. carriers. The takeover of profitable Australian Airlines was itself expected to pull back Qantas' ratio from 86 percent to 70 percent. [Thomas, 1993h, 8]

254. This amalgamated Qantas group brought together staff of 27,000 (many of whom have been or will be retrenched as part of a rationalisation), annual revenue of more than AUD$5.6 billion and more than 125 aircraft. [Chapman, 1992, 38] Australian Airlines has provided Qantas with a domestic network of over 100 destinations.

255. The Australian Government has been reported as effectively giving Qantas a "AUD$200 million balance-sheet windfall" by removing $1.55 billion off its debt as well as the $1.35 billion boost to shareholders funds. [Thomas, 1993h, 8]

256. Ansett Airlines has already been considered an important, though potential, player in certain markets. This was recently illustrated by the fact that Ansett's chairman Ken Cowley felt entitled to comment on the Australia-U.S. dispute over
Northwest’s New York-Osaka-Sydney flights, viewing the broader dimensions of the dispute as possibly affecting Ansett’s future operations in Asia.[Falvey and Della-Giacoma, 1993, 7]

257. These new carriers include Indian Ocean Airlines, Air Australia, Bentide, Australia World Airlines, Pel Air, and the Northern Territory Department of Transport and Works.

258. Australian government officials saw Continental Airlines as an aggressively competitive airline and became concerned at the capacity of this carrier and the volume of traffic (mostly local) it was carrying between third countries, especially New Zealand and Fiji.

259. Australia had continued to argue that financially viable operations under the U.S. multiple designation proposals would be impossible because of an ‘excess’ capacity situation. The U.S. responded by arguing that the introduction of services by a second carrier, then American Airlines, would promote traffic on the route.[Pyman and Morris, 1984, 478]

260. Continental Airlines’ Tokyo-Guam and Guam-Australia flights have not constituted a threat to Qantas given that these flights have been catering to a certain niche market: Japanese honeymooners who spend two nights on Guam before flying on to Australia.

261. Passenger load factor is passenger-kilometres expressed as a percentage of available seat kilometres. Passenger-kilometres flown is obtained by multiplying the number of revenue passengers carried on each flight stage by the flight stage distance. Available seat-kilometres is obtained by multiplying the number of passenger seats available for sale on each flight stage by the stage distance.[IATA, 1992, 95,96]

262. These calculations have been complicated by the fact that Australia and the U.S. have calculated the revenue passenger seat factor differently. Where the U.S. has referred to the total traffic on board into and out of Australia, Australia has referred to the total traffic on board between the two given destinations.

263. This contrasted with 1987, before the new Agreement, when Qantas had 21 flights per week while Continental had 18 and United 8.[Interviews]

264. Continental Airlines, which had been in Chapter 11 bankruptcy in the U.S. over the past two and a half years, dropped services to Cairns and reduced those to Brisbane. Northwest has reduced the number of its Sydney-Los Angeles non-stop services which were launched with what Qantas has referred to as unprecedented low fares.[Qantas, 1992, 11]

265. As at the end of 1991, Qantas share of traffic on the South Pacific route was less than that carried by the U.S. carriers. With fare discounting among the fiercely competitive U.S. airlines, the share of traffic carried by the U.S. airlines was expected to increase, placing additional cost pressures on Qantas.
266. The Japan-Australia route has been the most profitable of all sectors for Qantas with the airline expected to secure AUD$670 million or about 15 percent of its total revenue from this route in its 1992-3 financial year. [Melbourne Age, 1993, 15] Not surprisingly, Qantas has become very concerned at the slowdown in the growth of Japanese travellers to Australia as a result of the recession being experienced in Japan.

267. Australia has not, in fact, sought strict compliance with this capacity limit. [Beale, 1992, 5-6]

268. In terms of the different methods of calculating the revenue passenger seat factor, the U.S. has referred to the total traffic on board into and out of Australia while Australia referred to the total traffic on board between Australia and Guam/Northern Marianas.

269. This provision permitted Continental Airlines, which operated Japan-Guam flights, to connect on to flights to Australia. Qantas has expressed its concern that Continental was using its position on Guam in order to take a share of the lucrative Australia-Japan traffic. Continental was granted 3 services per week to Guam/Northern Marianas and a fourth in April 1990.

270. The trans-Pacific services were, in contrast, only about 2 percent and 4-5 percent respectively, of United and Continental Airlines’ total operations.

271. The Australian Government has subsequently argued that Northwest was given approval to fly to Australia through Japan so that the airlines could develop markets between the U.S. east coast and Australia and not the regional Japan-Australia market. [Melbourne Age, 1993, 15]

272. It should be noted that a provision stipulating a condition of at least 50 percent through traffic on these routes was not included in the 1988 Agreement between Australia and the U.S. A written acceptance of the condition was given to the Australian government by Northwest Airlines on October 24, 1991.

273. Northwest’s specific response was that the proposed restriction would jeopardise the airline’s entire Australian service and that Australia’s action had gone against a commitment not to unilaterally enforce compliance with the restriction. [Reuters, 1993a]

274. This right to take a dispute to a third party for international arbitration was established by Article 12 of the 1952 Australia-U.S. ASA but had fallen into disuse. The U.S. government has been reportedly concerned about involving a third party to find a solution through arbitration as it could set a precedent for dealing with future disputes on bilateral issues. [Thomas, 1993j, 8] An independent arbiter (the president of the World Travel and Tourism Council) was appointed to attempt to reach a settlement between the parties.

275. Northwest had been asked by the Australian Government to refile a schedule for one less weekly service on the Sydney to New York via Osaka route by June 30, 1993 as punishment for breaching the terms of its approval. [Gill and Thomas,
1993, 1] The remaining 2 services would also be cancelled if Northwest failed to comply with the 50 percent rule limiting Osaka-Sydney passengers to half the total traffic on the route.

276. Australian Foreign Minister Gareth Evans accused the U.S. of falsely claiming its position in the dispute was based on free trade principles when it was really "based on an unashamed and unblushing protection of U.S. commercial interests." Evans also stated that the U.S. Government had taken an "extremely hard-headed and self-interested approach" to aviation issues in the past and that the attitude taken by the U.S. government in aviation negotiations over the years has not been a particularly defensible one.[Middleton, 1993b, 3] Australian Transport Minister Bob Collins referred to the U.S. retaliatory proposals as "unfair and disproportionate".[Thomas, 1993p, 3]

277. With the Australian Opposition parties supporting the Government's line against the U.S., the only voice of opposition among state and societal actors to the Australian moves came from the Inbound Tourism Organisation which said it opposed any moves which reduces the number of tourists to Australia.[Middleton, 1993b, 3]

278. In fact, U.S. Transportation Secretary Pena has been reported as acknowledging that the U.S. "get tough" policy in the dispute with Australia was aimed at sending a signal to Japan in respect of forthcoming bilateral negotiations.[Thomas, 1993t, 8]

279. Northwest Airlines has recently applied to fly 4 times per week between Detroit (Northwest's U.S. hub) or New York and Brisbane via Tokyo from July 4, 1993. With the problems over the New York-Osaka-Sydney flights, this new application is likely to be rejected, something which Northwest would undoubtedly have anticipated.[Falvey, 1993a, 5]

280. The view that Northwest's motivations include a desire to see a freshly negotiated ASA is strengthened by reports that the other 2 U.S. airlines flying to Australia, United and Continental Airlines, have not come out in support of Northwest's argument that the dispute was simply about the access of U.S. carriers to the Japan-Australia route.[see for example, Thomas, 1993d, 4] However, this does not mean that a viable operation on the U.S.-Japan-Australia route is not of great importance to Northwest Airlines. In fact, Northwest argued that the proposed restrictions made the operation no longer a viable one and given Northwest's general economic problems, (it has been reported as having had to cancel or defer US$6.2 billion worth of aircraft orders and has recently shed 1,000 staff: Thomas, 1993e, 7) it could be expected that the airline would be determined to avoid revenue losses on this service.

281. Secretary Pena was quoted as saying that "Northwest has an absolute right to continue its flights without the restrictions imposed by Australia."[Ballantyne, 1993, 5] Secretary Pena was also reported as stating that the U.S.'s tough policy, and specifically the retaliatory threat to axe 3 of Qantas' non-stop Sydney-Los Angeles flights, was a key factor in the eventual settlement of the dispute.[Thomas, 1993t, 8]
282. The U.S. carriers were concerned at what they saw as the commercial consequences of the ‘open skies’ policies of the former Bush Administration. They are keen to take advantage of any difference in approach by the Clinton Administration and have been reported as asking Transportation Secretary Pena to re-regulate the industry and establish a Commission of Experts to examine ways of providing assistance to the industry.[Dabkowski, 1993, 16]

283. This contrasts with overall Japan-U.S. trade where Japan has experienced a surplus currently running at about US$43 billion.

284. At the time of the Agreement, Qantas was operating more flights per day to Japan than it was to London. Japan has become the largest source of incoming traffic for Qantas.[Qantas, 1992, 11]

285. For example, as a result of the dispute with Northwest Airlines and the threat of retaliatory sanctions against Qantas (the loss of 3 of its non-stop Sydney to Los Angeles services), Qantas sought to use this provision to replace the three ‘slots’ at Los Angeles with three at San Francisco. However, before the dispute was settled, the U.S. Government appeared intent on blocking this move and demanding that these services be applied for separately as new services requiring notice.[Falvey, 1993b, 1]

286. On October 1991, there was no direct service between Australia and Osaka, Japan’s largest business centre. There were also no take-off and landing ‘slots’ at Osaka available for Qantas and Northwest’s service not only opened up a new source of Japanese tourism for Australia but also new Australian freight export potential.[Dorman, 1993, 22]

287. Australia’s concerns over increasing loss of market share by Qantas were supported by the breakdown of traffic statistics on these routes.

288. This advice has chiefly concerned matters of commercial intelligence relating to traffic flow, load factors, market shares and profitability on particular routes.

289. In particular, Australian negotiators have identified the U.S. protectionist position over access to its domestic market.[Interviews with Australian government negotiators]

290. According to Australian negotiators, these ‘please explain’ notes were delivered during the negotiations and sought an explanation of why the U.S. negotiators had refused to compromise on a particular issue.

291. For example, in the final stages of the Northwest Airlines dispute of 1993, Australian Trade Minister Peter Cook said the dispute (plus problems for Australian agricultural exports due to U.S. barriers and export subsidies) with the U.S. called into question the continued alliance between Australia and the U.S. but then reportedly backed down by claiming he referred to the trade alliance (which in fact does not exist) rather than the security alliance.[Sheridan, 1993, 9; Stutchbury, 1993b, 5]
292. Australia's call for international arbitration in the recent Northwest Airlines dispute should be seen as reflecting the exceptional circumstances of the dispute rather than as part of a policy shift.

293. Such problems include those relating to the facilities available at airports for foreign carriers.

294. Other Australian societal actors, such as those in the travel and tourism industries, in calling for a more liberal approach to trade in aviation services, have remained largely unconcerned as to whether the traffic to Australia is carried by Australasian or foreign airlines.
CONCLUSION

Introduction

Australia’s trade relations with the U.S. have always been important and the latest difficulties, as discussed in this study, are but another episode in a story of the continuing difficulties which Australia has experienced in trading with the U.S. over the past century. There is an enduring importance about Australia’s trade relations with the U.S. which derives not only from the place occupied by the U.S. within the global economy but also from the nature of the sectoral trade relations between the two countries. The importance of a study of Australia’s trading relations with the U.S. has been enhanced rather than diminished by the recent attention by Australian trade policy-makers to integrating Australia into the economic dynamism of the Asian-Pacific region.

Despite the impressions which may have been produced by recent rhetorical statements by Australian Foreign Affairs Minister Evans and Trade Minister Cook, Australia’s approach to the U.S. on trade and other economic matters, as with its approach on military and security affairs, has generally been conservative and predictable. J.D.B. Miller probably captured the essence of the approach when he spoke generally of foreign policy as having been ‘derivative, cautious, capitalist, bourgeois and anti-revolutionary’. [Miller, 1992, 117] Minister Evans, while referring to the need to manage the U.S. relationship, has argued that it is fundamentally no different from other relationships. [see for example, Evans and Grant, 1992] However, Australians do perceive the U.S. relationship differently from others seeing themselves as relying upon the U.S. in a security sense and while Australian policy-makers have, from time to time, expressed concern at Australia’s treatment by the U.S., they have been anxious to profess a particular closeness between the two countries.

While the frustration felt as a result of U.S. protectionist policies has promoted strident comments by Australia’s political leaders against these policies, there has been an unspoken assumption about the importance of the relationship, be it in its political, economic or strategic dimensions. This has prompted Australia’s leaders to disavow
linking the trade problems with the U.S. to any other aspects of the overall political-economic or even strategic relationship. Minister Cook’s recent ‘flashing’ of the security alliance card over frustration with, particularly, the impact of U.S. barriers to agricultural exports [see, for example, Lyons, 1993c and Stutchbury, 1993d] and then its hasty withdrawal provided an example of the delicate manner in which Australia has approached the U.S.295 Australia’s frustration with how U.S. protectionist policies have adversely affected Australia’s trading outcomes has not prompted a serious linking with other aspects of the Australia-U.S. relationship. This has revealed an acknowledgment by Australian policy-makers of the overall weakness in Australia’s bargaining power in relation to the U.S.

There is no doubt that the Australian government (regardless of political colour) has considered the U.S. security alliance to be fundamental. As J.L. Richardson has commented, this alliance has little relevance for Australia’s foreign economic policy-making and diplomacy.[Richardson, 1991, 291] However, Australia’s policy-makers remain fearful that bringing that alliance into question through linkage to problem trade areas will, at best, illustrate that Australia’s need of the alliance is greater than that of the U.S. and, at worst, upset the sound political relationship with the U.S., and possibly incur a domestic electoral backlash. While the Australian Liberal-National Opposition has recently become more critical of the U.S. relationship, it still considers itself more supportive of that relationship than the Labor Government. Any action by an Australian Labor Government to upset the U.S. relationship may still be a potential rallying point for the opposition parties.

The economic importance to Australia of the U.S. bilateral trade relationship is undeniable as are the large deficits which Australia has recorded across almost all sectors of trade.296 The imbalance in Australia’s trade with the U.S. [see Table A] has been partly caused by the fact that Australia’s exports to the U.S. have been principally primary commodities (and from a few commodity groupings), while its imports from the U.S. have been of a more value-added nature. While trade with Australia is itself of little consequence to the U.S. and meeting Australia’s specific demands could be made without great cost to the U.S., the major items of Australia’s export trade are in sectors where there is a good deal of domestic U.S. political sensitivity. Even if the U.S. was
disposed towards acceding to Australia's demands, the overriding concern would be whether such concessions could be limited to Australia.

While Australia has not opened up its economy and removed its own protectionist barriers as much as has been claimed [see for example, Ravenhill, 1992; Snape, 1989], there has been an important recognition of the structural nature of Australia's problems and efforts made to resolve these problems without, at the same time, insulating industry from international competition. From the early 1980s, the newly-adopted Australian attitude promoting economic liberalisation was not only applied domestically but became an important part of Australia's approach to improving its trade outcomes with the U.S. (as well as with others), the more so as the Australian government sought economic gains which would help to ease the pain being suffered by industry as a result of domestic adjustment.

As this study has discussed, the major trade problem for Australia in dealing with the U.S. has been the growth in the use of non-tariff barriers in sectors of primary export interest to Australia. In seeking to address these problems, Australia has sought to make its bilateral and multilateral approaches compatible and, more recently, to bring a regional strategy into service to promote liberalisation and the access of Australian exports to foreign markets.

Australia's bilateral approach to the U.S. to improve trade outcomes, while conditioned by the nature of the U.S. sectoral trade policy and process as examined in this study, has also changed over the period of the 1980s. Rather than simply concentrating upon the U.S. administration (where Australia has generally received its most sympathetic hearing), the importance of lobbying the U.S. Congress has been recognized and these efforts have become institutionalized. Likewise, efforts at encouraging domestic support, with like-minded U.S. societal actors and through the dissemination of ideas of liberalisation, have been promoted in a more comprehensive and sophisticated manner over this period.

In the first chapter of this study, a number of theoretical propositions were employed to assist in explaining Australia's trade policy-making towards the U.S. These
propositions were located within either the international system, state-centred or society-centred approaches. In this final chapter, these propositions will be evaluated against the empirical evidence presented in the five sectoral studies.

The structural explanation and its limitations

Australia and the U.S. stand in vastly different positions within the structure of the global political economy, characterised as it is by an uneven distribution of capabilities across states. With a much larger economy than Australia and a lesser dependence upon international trade, the U.S. has been not only a major exporter and importer of goods and services but has often also been a major (if not the major) producer.

The U.S.’s position of strength within the global political economy allows it some capacity to both withstand adverse international developments and avoid institutional constraints imposed by other states, thereby exporting the costs of adjustment on to other states. It has greater freedom to both restrict imports and support exports without retaliation from other states. In relation to weaker states, such as Australia, the U.S. can be expected to be able to impose its demands while resisting those demands placed upon it by such states. The U.S.’s greater economic strength combined with the fact that for most of the postwar period it has provided Australia with a security guarantee, has, generally speaking, given it greater leverage over Australia (both multilaterally and bilaterally) than can be said in reverse for Australia.

This U.S.’s structural power has enabled it to make a substantial contribution to defining the structure within which each of the bilateral relationships with Australia has occurred. For example, in each of the cases where Australia has exported to the U.S., (the sugar, beef and steel sectors) U.S. structural power has enabled the U.S. to use the nature of its U.S. policy and policy-making process to hamper, if not obstruct, the ability of Australia to improve upon its sectoral outcomes. An important way in which this has occurred has been by the imposition of voluntary restraint agreements (VRAs) in both the beef and steel sectors. To these could be added the legislation which has limited the U.S. administration’s discretion to negotiate improved outcomes for non-predatory traders.
Australia, on the other hand, is much more likely to be affected by developments in the global political economy over which it has little or no control. Australia has a limited capability to structure its relationships with the U.S. and the only sector in this study where Australia has come close to making a substantial contribution to structuring the relationship has been the international aviation sector. The particular formalised nature of bilateral aviation bargaining has enabled Australia to resist (at least partially) U.S. demands for capacity increases on the Pacific air routes.

International regimes, such as the GATT, have been used to advance the interests of the strong while these strong states have managed, on occasion, to claim immunity from their application. A stronger state may also be able to circumvent the application of a regime to a sector altogether by resorting, for example, to a VRA as in the case of the U.S. steel and beef programs of the 1980s. International regimes, while being capable of constraining the behaviour of weaker states, such as Australia, may not be able to guarantee their rights or entitlements under its agreements.

However, a regime such as the GATT may not always directly reflect the interests of the stronger parties and may be of value to a weaker trader. For Australia, the most obvious example has been the opportunity provided through the GATT’s Uruguay Round to promote agricultural trade liberalisation, both individually and through Australia’s leadership of the Cairns Group. Australia has also sought to use the Multilateral Steel Talks (which were conducted in parallel with the Uruguay Round) for the similar liberalisation of that industry sector, though these talks have yet to produce any meaningful results.

A regime has also provided opportunities for a weaker state which has been discriminated against to use the regime’s processes and cite its rules to embarrass a stronger state. For example, Australia used the GATT dispute panel process to seek reform of U.S. sugar policies. A regime’s rules may also serve to encourage those state and societal actors within the stronger state who advocate policies favoured by the weaker state. The liberal rules of the GATT have, for example, provided intellectual support to those U.S. domestic actors who have advocated free trade and the reform of U.S. protectionist policies.
While this study has revealed the greater capabilities of the U.S., across a number of sectors, it has been noted that this preponderance of economic and political capabilities does not automatically translate into control over sectoral outcomes. This has been largely due to the ability of a sectoral bargaining process between the two states to act as an intervening variable and provide opportunities for the weaker state to improve upon its outcomes within that sector. The extent to which Australia, as the weaker state, has been able to take advantage of these opportunities and dilute the U.S.’s control over trading outcomes has depended upon its ability to mobilize sectorally-specific resources within either or both its bilateral and multilateral approaches to the U.S.

Australia has not, however, been uniformly successful in applying sectorally-specific resources towards an improvement in outcomes. In this study, sugar and beef were the two sectors which reflected most closely the relative bargaining power of Australia and the U.S. and revealed the greatest difficulty for Australia in seeking to mobilize sectorally-specific resources towards improvements in outcomes. These were both cases of import politics with policy constraints upon foreign exporters to the U.S. (sugar’s import-quota and then tariff-quota; and beef’s import quota). These policies have been produced by coalitions of U.S. state actors (principally in the Congress) and societal actors. Australian lobbying and the mobilization of certain sectorally-specific resources have failed to prevent both a diminution of Australia’s share of the U.S. sugar import market and continuing restrictions and difficulties with the beef voluntary restraint agreement.

Steel is another sector where Australia has faced a coalition of U.S. state and societal actors promoting protectionist policies against foreign exporters. However, in the case of steel, Australia’s weak bargaining position has not been the principal determinant of its U.S. trade outcomes with much more powerful foreign exporters faring no better than Australia. While another case of protectionist import politics, the responsiveness of U.S. policy-makers to foreign exporters’ demands has had nothing to do with the exporter’s relative share of the U.S. steel market just as it has had nothing to do with their relative power-capabilities vis-a-vis the U.S. In this sector, the fact that Australia has not improved its trade outcomes does not mean that efforts by Australian state and societal actors (both equally important in determining Australia’s bargaining strategies) have
been of no consequence. On the contrary, the mere maintenance of market share and ‘damage control’ from the effects of sectoral measures would seem to have demanded such efforts.

Wheat and international air passenger transport were two sectors where Australia has been in export competition with the U.S. There is evidence to suggest that in the case of wheat, Australia has lobbied with some success to avoid worst-case scenarios which could have resulted from Australia’s relative weak bargaining position. Given the export-orientation of U.S. wheat policy, Australia has been able to apply its high level of commitment to international trade liberalisation, both multilaterally and bilaterally, towards a moderation of U.S. policies.

In its multilateral approach to improving wheat trade outcomes, Australia has applied this high level of commitment by means of its coalition-building in the Cairns Group. Australia’s leadership of the Cairns Group made a substantial contribution to keeping agriculture at the top of the Uruguay Round agenda thereby helping to make possible a deal which included the reform of U.S. wheat support programs. Bilaterally, Australia has promoted itself as an efficient trader and informed U.S. state actors of the cost of their support programs, while providing both political and intellectual support to those U.S. state and societal actors favouring reform of U.S. wheat policies. Australia’s lobbying to improve its wheat trade outcomes has been uniquely successful in drawing some recognition from U.S. state actors that wheat trade issues are of some political significance for Australia-U.S. bilateral relations.

The international air passenger transport sector has been the trade sector in this study which has produced the most favourable outcomes for Australia. While by no means producing completely favourable results, these outcomes have been effected by means of a formal bilateral bargaining framework which has intervened to modify those outcomes which could be expected to have resulted from the application of Australia’s relative power-capabilities vis-a-vis the U.S. In particular, Australia’s high level of commitment to a capacity mechanism was applied to contain U.S. services on the trans-Pacific routes, resulting in a bilateral agreement somewhat more restrictive than that sought by the U.S.
In three of the sectors (wheat, steel and international air passenger transport), this study has shown that sectoral trading outcomes between Australia and the U.S. have resulted from factors other than those derived from the relation of asymmetrical interdependence. In the wheat sector, Australia has benefitted, albeit only partially, from both its self-promotion as an efficient and non-predatory trader and its commitment to international liberalisation. While Australia has not received favourable trading outcomes in the steel sector, this has not been because of the asymmetrical power-capabilities of Australia and the U.S. but rather because of the strength of the U.S. societal actors promoting industry protectionism and, more importantly, the perceptions of U.S. state actors about the nature of the world steel market and those foreign traders exporting to the U.S. In the international air passenger transport sector, the nature of the bilateral bargaining process has enabled Australia to apply a high level of commitment to capacity regulation to limit (albeit only partially) the capacity increases of U.S. carriers on the Pacific routes.

The fact that outcomes in some sectors of Australia-U.S. trade have resulted from factors other than those derived from the relation of asymmetrical interdependence has undermined the explanatory value of the international system approach. The international system has, however, provided a certain contextual background for the consideration of Australia-U.S. sectoral trade relationships. While not deterministic of trade policy outcomes, the context formed by the international system is capable of influencing both the domestic and international bargaining processes. The global market realities which have confronted Australia in each sector have, for instance, had a direct bearing on the strategies adopted by Australia and resultant bilateral outcomes.

The ideas of economic rationalism and trade liberalisation have constituted another international influence upon Australia-U.S. bargaining. Australia, in all sectors but especially in the agricultural sectors, has accepted the importance of these ideas and has, in varying degrees, applied them to its domestic industries to encourage their efficiency and international competitiveness, while also promoting them globally. The promotion of these ideas, both domestically and multilaterally in the GATT Round, has provided support to domestic U.S. actors supporting free trade. It has also helped to establish a U.S. position favourable to agricultural trade reform in the Round, evidenced by the
1992 Blair House Accord which itself helped produce a satisfactory result in the Round for Australia.

Ideas of economic rationalism have undoubtedly had an impact upon U.S. wheat policy, with wheat support policies having become more market-oriented after 1985, and U.S. steel policy with the U.S. administration’s refusal to extend the VRA program beyond March 1992. In its wheat trade, Australia’s own self-promotion as a relatively lightly-subsidized trader and advocate of trade liberalisation has had some marginal influence with the removal of some potentially harmful provisions from the 1988 U.S. Trade Bill and the more recent U.S. decisions not to target the EEP program against some markets, such as Indonesia, where Australia has enjoyed a major market share.

Neo-mercantilist ideas have also been an important international influence in all sectors but especially in terms of the U.S.’s efforts to maintain and increase its global market share in wheat and steel. Such ideas were also present in U.S. policy positions in respect of restrictions on the access of foreign airlines to the U.S. market and on the share of the U.S. market available to foreign sugar and beef exporters.

The presence of a sectoral bargaining process between Australia and the United States, acting as an intervening variable, may well serve to confirm a result derived from the condition of asymmetrical interdependence which exists between Australia and the U.S. This has been in evidence in the sugar, beef and steel sectors. However, the process can introduce other factors (both domestically and internationally-based) into the determination of bilateral outcomes and these may assist the weaker state by allowing the exercise of sectorally-specific resources towards an improvement in its outcomes. Australia has applied its high level of commitment to multilateral agricultural liberalisation and promoted itself as an efficient and lightly-protected exporter to influence (either directly or indirectly through multilateral reform) a change in U.S. policy. Australia’s promotion of agricultural liberalisation (chiefly through the Cairns Group) has contributed to the Uruguay Round result and the likely reform of some U.S. agricultural policies, such as those relating to wheat support. In the aviation sector, there was evidence of skilful bargaining by Australia’s negotiators and the promotion of a
committed position on capacity regulation which enabled Australia to resist, albeit only partially, the expansionist plans of U.S. carriers on Pacific routes.

Australia’s negotiations with the U.S. over international air rights have provided further opportunities for Australia to improve upon its outcomes because of the nature of the bilateral negotiation process. Involving joint decision-making by both states, the process has had the capacity to undermine U.S. structural power by requiring the reciprocal granting by both parties of landing rights and route entitlements. The process has meant that Australia has been able to avoid focusing its bilateral bargaining directly upon the U.S. policy process and provided opportunities for Australia to apply sectorally-specific resources within the formal negotiation process towards an improvement in outcomes.

This formal process also allowed Australia to terminate the 1980 Agreement in 1987, thereby enabling it to exploit the U.S.’s desire for an agreement and apply Australia’s high level of commitment to a regulatory mechanism to achieve a result more favourable to Qantas Airways. The successful insistence by Australia on a government-to-government mechanism for regulating route capacity was an instance of a procedural opportunity afforded the weaker state to influence, if not set, the agenda of the negotiation process.

Australia’s use of the bargaining process as an intervening variable to improve its trading outcomes has, however, varied across the sectors of this study. With the varying limitations upon Australia’s use of the sectoral bargaining process to deliver satisfactory outcomes, this study’s examination of the bargaining process across sectors will serve to reveal the various sectoral opportunities and problems which confront Australia and which act, or hold the potential, to improve or frustrate the achievement of desired outcomes. To exploit these opportunities and minimise the effects of problems, Australia has sought to mobilize certain sectorally-specific resources. While many of these resources (such as emphasising Australia’s high commitment to trade liberalisation or its self-promotion as an efficient and lightly-subsidised producer) have been found in more than one sector, they have varied to the extent that they have been able to enhance Australia’s bargaining outcomes.
There have been instances where, because of U.S. structural power, the process has either been given too limited an application to benefit Australia as the weaker state or has simply assisted the U.S. as the stronger state to secure more favourable outcomes. U.S. trade laws in the sugar, beef and steel sectors produced programs which provided few, if any, opportunities for Australia to bargain for an increased share of the U.S. market. The VRA programs for beef and steel tightly proscribed bilateral negotiation, while the sugar tariff quota offered no opportunity for negotiation between the U.S. and foreign exporters.

Efforts to modify Australia’s structural weakness when bargaining with the U.S. have been most successful in those sectors where there has either been a formal bilateral bargaining process (as in the international air passenger transport sector) or where Australia has been able to apply resources capable of striking a strong resonant chord with important U.S. state and/or societal actors (as in the wheat sector). In the international air passenger transport sector, Australia was able to exercise some control over trading outcomes by means of the formal bilateral bargaining process between the two countries, and thereby retain a regulatory framework over airline capacity increases on the trans-Pacific routes. In the wheat sector, Australia’s commitment to and coalition-building for the multilateral liberalisation of agricultural trade together with its self-promotion and informing strategies have been given currency by those U.S. state and societal actors keen to see reform of U.S. wheat policies. The relatively close linking of U.S. wheat policies to a successful Uruguay Round result and the (partial) avoidance of further targeting by the U.S. of traditional export markets are counted as positive results of Australian bilateral and multilateral lobbying.

In the sugar, beef and steel sectors where Australia has experienced greater difficulties, it has sought to mobilize resources which, while ostensibly aimed at improving outcomes, have more immediately sought to minimize the harm to Australian economic interests from the implementation of U.S. trade policies. Trading outcomes in each of the sugar and beef sectors have reflected the U.S.’s greater power-capabilities. In each of these sectors, Australia has been unable to successfully forestall or influence a change in U.S. policies, resulting in either reduced market share (as in the sugar sector) or increased difficulties and pressure on market share (as in the beef sector). While steel
sector outcomes have not reflected relative power-capabilities, Australia has experienced difficulties along with other foreign exporters (strong and weak alike). These problems have resulted from policies set in place by U.S. state actors who, while admittedly influenced by important U.S. societal actors promoting industry protection, have perceived that U.S. policies need to support U.S. industry against what has been considered an unfair and corrupted world steel market.

**Australia’s bargaining with the U.S.**

Australia’s trade bargaining with the U.S. in the sectors reviewed in this study has involved approaches conducted either bilaterally to the U.S. or multilaterally, principally through the GATT’s Uruguay Round of multilateral talks. Within each of these approaches Australia has adopted a number of strategies towards the attainment of certain sectorally-specific objectives as part of the overall aim of maintaining, if not improving, sectoral trade outcomes. These objectives may have related either to Australia’s share of the U.S. import market as in the sugar, beef and steel trade; Australia’s share of the global export market as in the wheat trade; or Australia’s share of aviation rights on Pacific routes and access to the U.S. market as in the international air passenger transport sector.

The opportunities available to Australia to bargain for an improvement in its sectoral trading outcomes have been largely a product of whether the principal issue at stake has been access to the U.S. market or global (and possibly regional) market share. In those sectors (sugar, beef and steel) where Australia’s principal, if not only, objective has been the increase or maintenance of U.S. market share, Australia has experienced greater difficulty in applying its sectorally-specific resources to effect an improvement in outcomes. The U.S. has been able to apply its structural power in these politically-sensitive sectors to support or appease important societal actors and block efforts by foreign exporters, including Australia, to effect a modification of U.S. policy.

In those sectors where Australia has largely been in export competition with the U.S. and where its principal aim has been the maintenance, if not increase, in global or regional market share (the wheat and international air passenger transport sectors), it has
had more success in overcoming the exercise of U.S. structural power to modify the impact of U.S. policies. This partially successful application of Australia's sectorally-specific resources has been effected either by means of its bilateral lobbying, a multilateral negotiations process or a formal bilateral bargaining process. Of all the sectors, wheat has been the one where U.S. policies have been the most responsive to the reform proposals developed in the multilateral talks of the Uruguay Round. Coupled with some U.S. sensitivity to Australian complaints about the harm of U.S. wheat policies, the multilateral developments have served to enhance the effectiveness of those resources applied by Australia towards an improvement in its trading outcomes in this sector.

The international air passenger transport sector has been unique in that Australia has been able to take advantage of the formal bilateral bargaining process which has placed Australia in a more equal bargaining position with the U.S. over the trading of aviation rights. Australia's chances of improving outcomes in this sector have been hampered, however, by the need to trade access to the Australian market for access to what has largely remained a protected U.S. domestic market.

Bargaining with the U.S. in each of the sectors of this study has not been conducted in a vacuum away from the influence of relative power-capabilities. Concerned, however, to limit the extent of the influence of the U.S.'s greater power-capabilities, Australian state actors have devised strategies to either take advantage of opportunities or counter problems arising within each sector, and to mobilize sectorally-specific resources towards an improvement in sectoral outcomes. In seeking to explain how Australia bargains with the U.S. across sectors and over time, this study has examined the three broad categories of influence upon each of the Australia-U.S. sectoral bargaining relationships: the nature of the U.S. policy and policy-making process; influences arising from the Australian domestic bargaining process; and cognitive factors.
Nature of U.S. policy and process

The importance of the nature of the U.S. policy and policy-making process in determining the opportunities available and constraints upon Australia’s bargaining approaches has varied across sectors. In each of the agricultural and steel industries, Australian state and societal actors have sought either positive discrimination for Australia by the U.S. and/or a liberalisation of U.S. protectionist programs. While state actors have taken the lead in advancing Australia’s various bargaining strategies, societal actors have been involved, either jointly or independently, in Australia’s advocacy to the U.S. for an improvement in trade outcomes.

The U.S. sugar import quota has been used to control the supply of sugar coming on to the U.S. domestic market. This diminishing quota is set each year without negotiation with foreign exporters and reflects pressure on the inefficient U.S. sugar industry from alternative U.S. sweeteners. The U.S. sugar policy has provided no opportunity for Australia to improve its share of the U.S. market. The administration of the sugar program by the U.S. Department of Agriculture (USDA) has reflected concern that the quota remain an effective mechanism to control imports rather than whether foreign exporters were efficient and reliable suppliers.

Where Australia has achieved some limited success in respect of the U.S. sugar policy has been in having the import quota converted to a tariff-quota. Achieved as a result of the successful case by Australia and other sugar exporters before a GATT dispute panel, this tariffication offers the hope that the tariff will eventually be reduced to zero, removing the restriction on U.S. sugar imports.

U.S. beef trade policy, like the sugar policy, sought to restrict imports by means of a quota which was calculated by reference to the annual domestic beef supply. When, for instance, Australian imports looked like exceeding a certain trigger level, Australia was obliged to enter into a VRA with the U.S. government if it wanted to gain an additional 10 percent access over the quota level. The discretion available to the President to improve a foreign exporter’s access to the U.S. beef market was restricted by legislation.
effectively providing the U.S. cattle industry with an opportunity to organize political resistance.

Australia has regularly been required to enter into a VRA as its beef exports to the U.S. market move towards the trigger level. The program caused administrative difficulties for Australia while also having a depressing effect upon the prices received in both the U.S. and other export markets. There is no appeal mechanism nor an opportunity for the U.S. government to recognize Australia’s reputation as a reliable and efficient exporter of beef and provide partial or full immunity from the program’s operation.

U.S. wheat policies have represented ‘export politics’ in practice with the executive having greater control over policy formulation than in the case of the sugar, beef and steel sectors. The U.S. wheat support programs of the 1980s have stimulated production unrelated to prices received in the marketplace. Despite some partially successful efforts at production control, these programs have resulted in additional wheat being supplied to world markets despite a fall in demand. While these policies linking income support to production have been damaging to the price Australia has received on the global wheat market, the most harmful U.S. wheat policy for Australia has been the export subsidy program, the Export Enhancement Program (EEP). While directed at specific targeted markets (in competition with the EC), the U.S. has also used the program against non-targeted markets, either displacing Australia from a particular market or significantly reducing its market share, while also generally acting to depress the prices received by Australia on the world wheat market.

The assertiveness of Congress in making U.S. agricultural trade policy over the 1980s has created difficulties for Australia in its efforts at influencing a change or modification of policy. The Congress has always been a much more domestically-focused political institution than the executive. Agricultural producers have taken advantage of Congress’ focus and proved themselves some of the most articulate and organized and thus the most influential of societal actors towards the Congress. As well, the rural bias of the Senate has assisted U.S. domestic producers in their efforts to influence U.S. agricultural policy-making. Where there has been congressional assertiveness as well as active domestic industry lobbying (as in the sugar and beef), the U.S. executive has been
unprepared to seriously move for reform of a program even where it has openly argued for such reform.

The fragmented congressional system has allowed agricultural commodity programs to be essentially dealt with by the subcommittees of the Agriculture Committees,\(^{392}\) subcommittees which have proved sympathetic to the commodity programs for which they have been responsible. The sugar and beef import control programs were two such programs which benefited from the decentralized nature of congressional policy-making. U.S. wheat, beef and, particularly, sugar producers have gained from the placing of agricultural trade legislation within omnibus bills. The nature of these bills has encouraged the bargaining for support for commodity programs amongst members of Congress.

While the executive has successfully sought the amendment of the wheat domestic support program to encourage wheatgrowers to be more responsive to the market, it has actively supported and promoted along with Congress the wheat export assistance measures (principally the EEP). U.S. wheat trade policy has reflected the executive’s greater concern at improving U.S. global market share rather than with reforming the protectionist and inefficient nature of the program.

Thus, despite the executive’s free trade rhetoric and greater preparedness to consider the views of foreign, non-disruptive traders such as Australia, greater executive assertiveness in agricultural trade policy-making may well not provide further opportunities for Australia to improve its trading outcomes. For example, the U.S. Department of Agriculture (USDA) as the agency charged with the implementation of most U.S. agricultural commodity programs, has generally adopted a conservative approach to trade policy matters, acting restrictively towards the implementation of import controls and expansively towards the provision of export subsidies. Any greater involvement of the USDA in agricultural policy-making thus may be contrary to Australia’s best interests.

The U.S. agricultural policy-making process has also provided opportunities for, as well as constraints upon, Australia to bargain for an improvement in its trading outcomes. In all three sectors, the relatively open nature of U.S. policy-making has meant that
Australia has been able to access state decision-makers to lobby for the reform of the policies. More importantly, in the sugar and beef sectors, there have been organized and articulate U.S. societal actors opposed to the continuation of the sectoral policies. Australia has sought loose coalitions and information-sharing with these societal actors (especially in the beef sector), seeking to capitalise on the domestic industry credentials of these U.S. actors in order to promote their shared interest in having the U.S. policies reformed.

In the sugar sector, a debate over the sugar program provided an opportunity for Australia to seek to influence a change in policy. Australia has executed a dual strategy of informing state actors of the costs to U.S. taxpayers and consumers of a sugar program which supports inefficient sugar growers, while promoting itself as a relatively efficient exporter deserving an expanded quota share. These messages found a receptive audience in the executive and amongst some prominent members of Congress and have helped, along with the lobbying pressure of U.S. anti-protection societal actors (such as the industrial sweetener users), to keep the sugar policies controversial and susceptible to change.

However, a change in the sugar program is unlikely given the level of influence of the coalition supporting the sugar program within the Congress. Short of multilateral sugar reform the program will only be reformed when it can no longer be sustained by further reductions in the import quota and must make a call on the U.S. budget for support. Australia has targeted the U.S. sugar policy as the most inefficient U.S. agricultural policy which should be removed, if not unilaterally, then as part of a package of agricultural liberalisation coming out of the Uruguay Round.

In the wheat sector, Australia has lobbied hard to have the EEP removed. Representations have been made at the highest levels and often jointly by both Australian Ministers and industry leaders during visits to Washington. The executive’s dominance of this policy sector has made lobbying easier, partly because the policy-making is centralised and partly because the executive is generally more attentive to Australian appeals. Australia’s concerns about the effects of the EEP have been recognized by the U.S. executive. Many within the executive and Congress have
recognized the EEP as an expensive and highly protectionist program. However, with the program focused primarily upon the perceived predatory practices of the EC and its success in disposing of surplus U.S. grain and in clawing back U.S. market share, the executive is unlikely to heed calls for reform of EEP unless as part of a multilateral reform package.

Acknowledging its frustration at failing to have the EEP amended or removed short of a Uruguay Round agreement, Australia has undertaken an extensive information campaign in Washington against the EEP. This has involved both personal lobbying of influential members of Congress and the executive, and importantly, the wide dissemination of publications, such as those of Australia’s Bureau of Agricultural and Resource Economics (ABARE), detailing the costs of EEP to U.S. taxpayers as well as its impact on Australian exports and the world wheat market. These publicity and lobbying campaigns are further intensified each time the U.S. announces that it will use the EEP in one of Australia’s export markets.

Coupled with Australia’s informing strategy has been its self-promotion as a non-predatory and lightly-subsidized wheat exporter, unfairly caught in the cross-fire between the U.S. and the EC. Australia’s coalition-building, particularly the Cairns Group of Fair Agricultural Traders, has also been an important strategy to encourage U.S. movement towards realistic proposals for agricultural trade liberalisation and the eventual removal of policies such as the EEP. Together with Australia’s self-promotion as an efficient agricultural producer highly committed to multilateral agricultural liberalisation, this coalition-building strategy has formed Australia’s multilateral bargaining approach towards the U.S. for an improvement in its agricultural trade outcomes.

The U.S. steel sector’s program of voluntary restraint agreements was effectively a program of binding bilateral arrangements with foreign exporters of steel to the U.S. The alternative for foreign exporters to signing up to the VRA program was the prospect of harassing and expensive trade suits. The program was predicated on an overall limitation (or quota) on import penetration to the U.S. market. The legislation under which the program was established did not allow the U.S. government a discretion to make special allowance for a reliable, lightly-subsidising small trader such as Australia. For Australia,
the policy was executed in such a way as to be both inflexible and administratively frustrating.

The unfair trade suits which effectively replaced the VRA program in 1992 have also provided little opportunity for Australia to improve its trading outcomes. Like the VRA program, the prosecution of these suits represented a U.S. preference for dealing with ‘import politics’ problems through bilateral means. A procedural bias in these suits in favour of U.S. claimants and a broad definition of ‘material injury’ by the International Trade Commission (ITC) have made it difficult for foreign exporters to escape prosecution.

As in the case of wheat policy-making, U.S. steel trade policy-making has involved the executive taking a leading role in the promotion of a program of protection for the domestic industry. This reflected both executive concern at the U.S.’s role as a steel exporter (rather than as an importer), and sensitivity to domestic industry pressure. Both the executive and Congress have been prepared to provide import relief for U.S. steel producers rather than some other form of legislated or budgetary assistance. Concerned to address domestic industry complaints about ‘predatory’ foreign exporters, neither the executive nor Congress has felt compelled to discriminate in favour of non-disruptive and non-predatory exporters such as Australia.

However, over the late 1980s and early 1990s, prominent members of the U.S. executive and even members of Congress’ steel caucus moved away from providing unquestioned support for the steel VRA program. This provided fertile ground for Australia to lobby for the ending of this program and for U.S. support for the multilateral liberalisation of the steel trade. The debate of the late 1980s between U.S. societal as well as state actors over whether the VRA program should be renewed provided further openings in the U.S. steel policy-making process. Australia sought to exploit these openings to pursue its information campaign as to the costs of the steel policies to U.S. consumers as well as foreign exporters; promote the removal of impediments to multilateral steel liberalisation (such as the VRA program) and; equally importantly, promote itself as a small and lightly-subsidized trader, deserving of exemption from the necessity of entering into a VRA.
With the effective replacement of the VRAs by unfair trade suits in 1992, Australia has lobbied against its inclusion in these U.S. industry suits and has argued that the suits present an obstacle to any multilateral agreement on steel trade liberalisation. Australia’s principal bargaining strategy has been to continue to promote itself as a small, non-disruptive, reliable and lightly-subsidized exporter of steel to the U.S. market. Australia has argued that a category of such exporters should be recognized by the U.S. and that members of this category (including Australia) should be exempted from the application of unfair trade suits before the ITC. As in the days of the VRA program, lobbying on behalf of Australia (be they embassy staffers or BHP’s own Washington lobbyist) has concentrated upon the executive branch, from which a change of policy was considered more likely to come.

While U.S. international air passenger transport policy has ostensibly sought to gain more liberal bilateral air service agreements and has argued for an expansion of opportunities for its carriers on Pacific routes (as elsewhere), the U.S. has been highly protective of access by foreign carriers to its own domestic market. The U.S.’s trading of rights approach to the granting of access to its own market (and restrictions on the granting of cabotage to foreign carriers) has meant that Qantas Airways has found it difficult to make its services to the U.S. cost-effective.

Policy-making in the international air passenger transport sector has been centralised in the executive (particularly the Departments of State and Transportation). With Congress taking little or no interest in the policy-making process, (apart from placing additional political pressure upon the executive), societal actors (principally the airlines) have been able to focus their attention almost solely upon the executive and its bureaucratic agencies and develop informal networks with the relevant state actors. Control has been left in the executive’s hands so long as it has acted within the general pro-competitive/trading of rights policy framework. The approach, like that in wheat, has been export-oriented and has focused, understandably, upon improving U.S. market share on international routes rather than with the issue of foreign carriers’ access to the U.S. market.
There have been extensive opportunities for the U.S. airlines to influence U.S. negotiating positions. The airlines' industry organization has occupied a place on the permanent group which has negotiated the bilateral agreements for the U.S. while the major airlines whose route and capacity entitlements were being negotiated have always been in the background, consulted and briefed at various stages of negotiations. Public hearings have also provided opportunities for a range of societal actors to inform, advise and influence executive state actors in respect of forthcoming bilateral negotiations.

The export policy orientation of the U.S. international aviation sector, the centralised nature of the policy-making process and the close relationship between U.S. state actors and the major U.S. airlines, have all acted as constraints upon Australia in its efforts to improve trading outcomes by direct approaches to the U.S. government.

The formal bilateral bargaining process has, however, placed Australia in a more equally competitive position with the U.S. and has provided the avenue through which Australia has been able to mobilize sectorally-specific resources and devise strategies towards an improvement in outcomes. Australia has, for example, been able to exploit the U.S.'s need of an agreement to promote its high level of commitment to a capacity clause and to ensure that all future capacity developments be considered by government-to-government negotiations.

**Bargaining between Australian state and societal actors**

Australia's bargaining with the U.S. for an improvement in trading outcomes has also been affected by the domestic bargaining relationship between Australian state and societal actors in each of the sectors. Societal actors within each sector have sought not only involvement (with varying degrees of success) in the formulation of Australia's trade policy towards the U.S., but have played a role in the mobilization of issue-specific resources and the development of strategies towards an improvement in Australia's returns.

In each of the sectors, Australia's trade policy has been formulated principally by state actors. Likewise, within the bilateral and multilateral approaches to improving trading
outcomes, Australian state actors have retained control over the formulation and implementation of policy. However, there have been sectoral variations as to the degree of control exercised by state actors and conversely, differences in terms of societal-actor influence in the formulation of strategies to improve trading outcomes.

State actors have exercised greater control in the agricultural sectors and in international aviation trade policy-making than in the steel sector. Within the agricultural sectors, the Australian government has had greater freedom to move on policy in the wheat and beef sectors than has been the case in sugar. These differences relate partly to the nature of the industry. For example, BHP has been the major steel producer and only exporter in an industry considered of strategic importance. The steel and, especially, the sugar industries have also had both locational and historical characteristics which have enhanced the role of producers while the involvement of the Queensland Government in sugar policy-making has also been a significant factor in determining state-societal actor relations.

In all of the sectors, certain societal actors (usually the producer interests) have had privileged access to those state actors making trade policy. This may have been formalized as in the case of the Rural and Allied Industries Council, the Queensland Sugar Corporation, representation on the AWB and the AMLC or Qantas’ representation on negotiating panels. As well, there has been informal networking between state and societal actors within each of the sectors. This has provided opportunities for these societal actors to not only influence the making of Australia’s trade policy but to also influence the state-actor trade strategies.

Australia’s trade policy framework, as established by state actors over the past decade or so, has been directed at generally applying an economic rationalist philosophy towards the reduction of levels of protection and support for Australian export (as well as import-competing) industries. All industries studied have been considered part of the Australian economy and not immune from the perceived need to undergo structural adjustment to make them more efficient and productive. Societal actors, while consulted in the course of trade policy-making, have come to appreciate that this consultative role has come at the price of their industries’ conformity to the Australian government’s economic rationalist policy framework.

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As something of a trade-off for the conformity of Australia’s export industries to this trade policy framework, Australian state actors have engaged in trade promotion activity including both the promotion of Australia as an efficient and lightly-subsidised exporter and that of the liberalisation of global markets. Rather than insulating Australian industry from the global market (which had been the previous policy), the Australian government sought to both advance Australia’s export interests and lobby for the removal of barriers to export markets. This has particularly been the case with respect to the wheat and beef and, to a lesser extent, sugar industries. The steel industry, while having been supported during the Steel Plan, has also been promoted to both the U.S. and globally as efficient and lightly-subsidised.

In the international aviation sector, state actors have increasingly considered the airlines (until recently only Qantas) as only one economic interest among many deserving of promotion in bilateral negotiations. The economic restructuring and eventual privatisation of Qantas, together with the adoption of a competitive multiple designation policy, have all been carried out pursuant to the Australian government’s liberalisation agenda. However, in contrast to the other sectors, this has not provided Qantas (or for that matter any other airlines) with privileged access to the Australian policy-making process. Australian state actors’ desire to promote travel and tourism to Australia has enhanced the importance of the aviation industry, but not that of the individual carriers. While the Australian government has sought to maximize the export revenue from this increased travel and tourism and has certainly moved towards a more liberal interpretation of bilateral aviation agreements, it has yet to reconcile this with strategies aimed at maintaining, if not increasing, the market shares of Australasian carriers.

Societal actors have served to enhance Australia’s state-actor bargaining with the U.S. through their provision of the commercial intelligence on developments in U.S. and global markets. In the wheat sector, information and analysis supplied by the AWB has provided valuable supporting evidence to Australia’s arguments that U.S. wheat policy has had a damaging effect upon Australia’s market share and upon world wheat prices. Likewise, BHP’s commercial information and analysis on the U.S. and world steel markets has been necessary to substantiate Australia’s claims that Australia’s industry has become efficient and should not be classed as a predatory trader.
Information supplied by the AMLC to the Australian government on the quantity and timing of beef shipments to the U.S. has supported Australia’s claim that the operation of the U.S. beef VRA has continued to have a disruptive and costly effect upon Australia’s cattle growers. CSR has performed a similar role in supplying information to the U.S. as to the efficient nature of the Australian sugar industry while also supporting the Australian government’s claims as to the harm caused to Australia by both the reduction of the sugar quota and the depressing effect of the U.S. sugar support program on world sugar prices.

Increasingly, the commercial intelligence provided by societal actors in all sectors has become a necessary component of three important strategies adopted by Australia to promote the amendment, if not removal, of protectionist U.S. policies: informing the U.S. of the inefficient nature of its programs and their costs to U.S. taxpayers and consumers; Australia’s promotion as an efficient and lightly-subsidised exporter; and in emphasising Australia’s commitment to a liberalised international trading system.

Many societal actors have not found the Australian government’s liberalising strategy a very comfortable one. However, the mutual interests of Australian state and societal actors in seeking improved trading outcomes with the U.S. (as well as globally) has prompted a new accommodation between these actors (except in the international air passenger transport sector). What is important to note, however, is that each sectoral accommodation of interests has resulted from these societal actors having bargained their information, advice and general political support in order to maintain or further extend their access to the Australian trade policy-making process.

Ideas and Perceptions and Australia’s Bargaining

Australia’s efforts to improve its trading outcomes with the U.S. have been affected by certain ideas prevalent within the global political economy. Of particular interest have been those ideas which have, over time, affected the policy positions adopted by both state and societal actors in Australia and the U.S.
During the postwar period, ideas of liberalism and free trade have become dominant in the international trading system. The U.S. played the major role in the establishment of an institutional framework which would reflect the dominance of these ideas. The GATT became the principal trade regime and was given the brief to promote the liberalisation of global trade. While the GATT norm of liberalisation has, from the beginning, been compromised in the practices of states, the general adoption of the ideas of freer trade by the major western countries has served to place mercantilist ideas on the defensive.

Australia has itself changed its multilateral approach in the 1980s, having been prompted by GATT’s failure to deal with nontariff barriers to agricultural trade. This new approach involved effectively foregoing concessions to keep tariffs on domestic manufacturing in order to advance greater liberalisation seen as essential for its agricultural exports. As part of this overall approach, Australia undertook a process of coalition-building which resulted in the role of the Cairns Group as a ‘third force’ promoting agricultural trade liberalisation in the Uruguay Round of GATT talks.

The institution of the GATT and particularly its most recent manifestation, the Uruguay Round of multilateral talks, has served to direct states’ attention to the need for trade liberalisation. The placing of agriculture on the Round’s agenda has been seen by Australia as providing an important opportunity for the promotion of more liberalised trade in all agricultural sectors. Of all the sectors studied, wheat has offered the best prospects of reform through the translation of ideas of trade liberalisation into the multilateral removal or reduction of domestic industry support measures.\(^{395}\)

Liberalisation of the U.S. steel market through a Multilateral Steel Agreement does not offer Australia nearly the same benefits as agricultural reform, while there is even less of a likelihood that the promised liberalisation of a successful GATT Round will improve Australia’s share of the Australia-U.S. aviation market. In the aviation sector, Australia has been lukewarm to allowing ideas of liberalisation to seriously affect the bilaterally-determined outcomes unless they offer the prospect of delivering improved access by Australia’s carriers to the U.S. domestic market.
Australia’s reduction of industry protection, influenced as it has been by international ideas of economic rationalism and liberalisation, has been used by Australian state actors to support its arguments for the removal by U.S. state actors of their own domestic distortions to free and open trade, particularly in the agricultural and steel sectors.

Australia’s approach to the U.S. in the aviation sector does not, however, fit well within this pattern. Despite the economic restructuring of Qantas Airways and the adoption by Australian state actors of a broader, more liberal approach to negotiating aviation rights, Australia has continued to have a mixed view of the benefits of economic liberalisation within this sector.

Taking account of sectoral variations, Australia’s application of these ideas of liberalisation and rationalisation to make its domestic industries more responsive to international market forces has been used to promote Australia’s own (relatively) efficiently produced exports and high level of commitment to international liberalisation: two important strategies in Australia’s bargaining with the U.S.

The adherence of many U.S. state actors to the ideas of liberalisation, as promoted both within and outside the GATT, has been considered as providing fertile ground for Australia to promote studies indicating the cost to U.S. taxpayers and consumers of U.S. agricultural and steel policies. However, the extent to which U.S. state actors were prepared to pursue reform, especially in the face of opposition from powerful societal actors and a compliant Congress, varied across sectors.

Only in the steel sector with the 1992 expiration of the VRA program (and to a much lesser extent in the wheat sector) was there evidence of state actors successfully acting contrary to powerful societal actors. U.S. debates within the sugar and steel sectors over the 1980s also provided opportunities for the influence of ideas of liberalisation as anti-protectionist U.S. societal actors became more organized and articulate.

Against the influence of ideas of liberalisation has been the growing trend towards neo-mercantilism within U.S. trade policy-making. This has been particularly strong in the wheat (export subsidies to win market share), sugar (artificial support to the U.S. sugar
price) and steel (the ‘process protectionism’ of the unfair trade suits) sectors while the 
‘negotiated’ protection of both the previous steel VRA and that of the beef VRA 
program and the restrictions on access to the U.S. domestic market for foreign airlines 
have all exhibited neo-mercantilist sentiments. U.S. protectionism generally has been 
fuelled by like developments within the EC and Japan. While the protectionist trend of 
the programs in each of the sectors (other than aviation) have been defended as being 
in place to lever reform from other traders within the GATT talks, they have each 
served to exacerbate Australia’s trade problems.

The perceptions or beliefs of the policy-makers in each of the two countries have served 
to influence Australia’s bargaining with the U.S. In a limited sense, perceptions and 
beliefs can help to explain both the opportunities and difficulties faced by Australia in 
its bargaining. While it has been beyond the scope of this study to consider the cultural 
backgrounds and personal experiences of each country’s policy-makers, these personal 
factors can influence how each individual or group of policy-makers will see an issue 
and what, if anything, each believes should be done to improve trading outcomes.

That U.S. state actors did not perceive the problems of market access and market prices 
faced by Australia in each of the sectors were as serious as claimed, has been a common 
cause of concern for Australian state and societal actors. The case of the U.S. 
government’s dismissal of Australian concerns as to the effect of the U.S.’s EEP 
program for wheat exports was the most glaring example of a difference in perception 
which impeded Australia’s bargaining. To a large extent, this situation was rectified 
through an Australian campaign to detail the effect of subsidised U.S. wheat sales upon 
Australia’s export market share and the world wheat price.\textsuperscript{307} A strategy of informing 
U.S. state and societal actors of the cost and inefficiency to U.S. consumers and 
taxpayers of U.S. agricultural and steel programs has also been an important weapon 
used by Australia to counter misperceptions about the effect of the sectoral programs.

Australian interests have also been harmed by U.S. state actors’ failure to recognize that 
the trading practices of certain steel exporters, including Australia, have not been 
predatory and, as small suppliers, deserve to be considered for special dispensation from 
the application of the U.S. unfair trade laws.
The beliefs and perceptions of U.S. policy-makers (as with all policy-makers) are often mixed and cannot be easily separated from their resultant courses of action. This has made lobbying by Australia for a change of policy that much more problematic. In the agricultural and steel sectors, Australia has, over the late 1980s, intensified its lobbying and information campaigns to highlight the trading problems which have arisen from the nature and effect of U.S. programs. However, even where some alteration in the perceptions of U.S. state actors has occurred, Australia has not had the political resources necessary to complement its information campaigns and prompt a change in any of the sectoral programs of this study.

The aviation sector has provided unique opportunities for Australia to correct some perceptions of U.S. policy-makers and promote others more conducive to the improvement of Australia’s trading outcomes. These have arisen because of the important role performed by the bilateral negotiation process in the determination of outcomes. Australia’s termination of the 1980 Agreement with the U.S. in 1987 certainly corrected the U.S. misperception that Australia was not serious about its concerns over route capacity. More importantly, within the negotiation process, there were opportunities to promote certain perceptions within the minds of the U.S. negotiators, such as in 1988 when Australia convinced the U.S. that a capacity regulatory mechanism was essential for an agreement.

Equally, the negotiation process can produce misperceptions in the minds of the other party’s negotiators which have caused subsequent problems. For example, in negotiations over Northwest Airlines’ rights to fly on the Sydney to Tokyo route, Northwest Airlines and the U.S. negotiators had been led to believe that Australia would not enforce the requirement that a certain minimum percentage of passenger traffic be Australia-U.S. through traffic. As the subsequent dispute showed, such misperceptions (deliberate or otherwise) as to Australia’s position can have a deleterious effect upon relations and potentially jeopardise trading outcomes.
Australian trade policy-making: state actors, institutional structure and domestic bargaining

This study of Australia’s trade relations with the U.S. has also involved an examination of Australia’s trade policy-making process, both generally and with particular reference to the five sectoral studies. It provided an opportunity to assess the relative importance of the roles performed by state and societal actors, the impact of their institutional context, and other international and domestic influences upon policy-making.

State actors stand in a unique position in that they have been principally responsible for both the formulation and implementation of Australian trade policy and have taken the lead in both domestic and international bargaining. State actors’ position of dominance within the Australian trade policy-making process has been assisted by the fact that the Westminster system of government has centralised power within the executive. While societal actors have accordingly focused their attention on the executive and the bureaucracy rather than divide it between the government and the legislature, state actors within the executive branch have been in a stronger position than if there had been a serious sharing of power between the executive and legislature.

The position of state actors in the formulation of policy has been strengthened by the adoption of the ideas of economic rationalism and trade liberalisation as official policy. Aware of Australia’s economic vulnerability, not only with respect to trading with the U.S. but globally, Australian state actors began to respond positively to structural changes in the international economy. These responses, in the form of domestic economic adjustment, sought to open up Australia and make the domestic economy more compatible with the international economy, thereby enabling it to cope more effectively with these changes.

Australia’s adjustment strategy (in particular, tariff reductions and industrial restructuring) while somewhat delayed in being introduced, served to complement Australia’s efforts in the late 1980s to use what resources it had to promote international trade liberalisation through the then new multilateral GATT Round of talks. As Australia has sought to improve its access to the U.S. market as well as remove U.S. export subsidies, as discussed in this study, it has used its own unilateral strategy of
liberalisation as proof of its commitment to a multilateral liberalisation (as part of an overall strategy of self-promotion as an efficient, lightly-subsidised exporter) in sectors, especially agriculture, where Australia has suffered from U.S. protectionist policies (amongst others).

Australian societal actors involved in the five industry sectors studied have conditioned their demands upon Australian state actors to not only the relevant global developments but, more particularly, to the state-actor imperative that state assistance to industry conform with global economic liberalisation. The Australian National Farmers Federation, for example, has been mindful that any demands for assistance for agriculture would not be allowed to act in such a way as to insulate Australian primary industries from their respective global markets. BHP as the major player in the steel industry was likewise well aware that assistance given in the early 1980s by means of the Steel Plan was for a limited time and conditional upon the meeting of certain commitments by both industry and the relevant unions. In the international aviation sector, Qantas and other societal actors have had to compete for the attention of state actors as the Australian government has sought to advance a broader range of economic interests (most notably increasing travel and inbound tourism) through national aviation policy.

State actors in each sector have been principally responsible for the strategies devised to seek to improve the outcomes from Australia’s dealings with the U.S. In bargaining with the U.S. for an improvement in Australia’s trading outcomes, state actors have also had their position strengthened (vis-a-vis Australian societal actors) by the nature of the U.S. trade policies and programs in some of the sectors. The U.S. administration’s policy of negotiating steel voluntary restraint agreements with other governments meant that BHP, Australia’s steel exporter, had to liaise more closely with Australia’s state actors than had previously been necessary.

Likewise, Australian state actors negotiated the beef voluntary restraint agreement with the U.S. as well as Australia’s share of the U.S. sugar import quota. While the nature of these U.S. programs have provided little latitude for the exercise of the Australian state actors’ political and negotiating skills, their negotiating role has enhanced their
position within the Australian domestic bargaining process. The nature of the international aviation bilateral negotiations has always meant that state actors have exercised an important role in Australia’s trading of aviation rights.

The institutional structure within which Australian trade policy has been made has been capable of not only conditioning the behaviour of state and societal actors but also of influencing how these actors interact and how much power each has had within particular policy sectors. The institutions can confer authority upon certain state actors, such as members of the bureaucracy, and legitimacy upon certain societal actors (principally through privileged access).

The Australian government’s apparently overriding concern with adjusting the structures of the Australian economy to make them more responsive to the global marketplace has served to enhance the already powerful position of the Treasury both within the federal bureaucracy and within economic policy-making circles.399

Within the sectors examined in this study, some institutions have been able to condition the demands for protection made by societal actors upon the state. The Australian Industry Commission (IC) has been the most important institution in this regard. The removal of almost all protection from Australia’s agricultural industries owed much to the influence of the IC upon the Australian government and, with the partial exception of sugar, societal actors in these sectors have been unable to withstand this anti-protectionist thrust.310

The IC’s anti-protectionist campaign brought Australia’s national carrier, Qantas Airways, within its sights over the late 1980s. The Commission’s arguments that Australia’s international aviation policy must move away from protecting the airline and take a broader range of economic interests into account undoubtedly influenced subsequent decisions of the Australian government to encourage competition among Australasian carriers on international routes.

Institutions can also favour some societal actors over others. The Australian Steel Industry Authority (SIA) established to oversee the 5-year Steel Plan, was one such
institution which favoured the steel industry (principally BHP) and steel unions but did not include the steel-using industries. In the agriculture sector, producers have representatives on the Rural and Allied Industries Council but agribusiness and consumers, for example, are not represented despite their legitimate interest in this sector. In the international aviation sector, a recently established International Air Services Commission (IASC) has already begun to condition the behaviour of both Qantas and new entrants as they jostle for route entitlements.

The institutions of the Australian state can influence not only the strategies adopted by Australian state and societal actors within the domestic Australian political economy, but also the type of strategies adopted to improve outcomes in international negotiations. The anti-protectionist thrust of Australian institutions, such as the Industry Commission (IC) and the Australian Bureau of Agricultural and Resource Economics (ABARE), contributed to Australia’s high level of commitment to trade liberalisation and the concomitant informing strategy used to promote such liberalisation both in the U.S. and elsewhere.

The contribution of the institutional approach to explaining Australia’s trade policy-making must be modified to take account of the fact that institutions themselves change over time and are capable of being affected by both international and domestic influences beyond their control. The influence of institutions has been found to vary across sectors and bears some relation to the nature of the interaction between state and societal actors within that sector. In the steel sector, for instance, the relationship between state actors and societal actors (especially BHP) was such that the influence of the IC over policy-making was much less important than in the case of the agricultural sectors, where societal actors were generally less significant.

Societal actors have also performed an important role in the Australian trade policy-making process and in approaches made to improve trading outcomes. While their effectiveness has varied across sectors, an understanding of the interaction between state and societal actors within each sector has been critical to obtaining a complete explanation of the nature of Australian trade policy and how it has been made.
While Australian state actors have taken the lead role in the formulation and implementation of trade policy, they have needed to accommodate the interests of important Australian societal actors in order to effectively perform these roles. The bargaining process within each sector has determined the nature of this accommodation between state and societal actors and has influenced the nature of policy produced. The extent to which societal actors can influence state actors in the exercise of their policymaking functions will admittedly vary across sectors and over time.

In the steel sector, the Hawke Government sought to provide some assistance to the steel industry without, at the same time, insulating it from the world market. BHP, the largest actor in the industry, strengthened the state’s position by agreeing with the industry’s unions to the proposal for a five year plan, despite its own publicized request for 10 years of assistance. Their willingness to compromise enabled the Australian government to implement its 1983 Plan and move ahead with its industry reform agenda. In this way, societal actors can provide necessary support to state actors in both the formulation and implementation of policy choices. Societal actors can, however, also have the opposite effect. In the sugar sector, the canegrowers together with a subnational state actor (the Queensland state government), have thwarted moves by the Australian government to bring comprehensive reform to the sugar industry.

Political and economic circumstances have obviously been critical in determining the success of societal-actor strategies in influencing the choices of state actors. Despite Qantas’ economic restructuring and public endorsement of the Australian government’s policies of multiple airline designation and greater competition, Qantas has been unable to influence any aspects of the government’s new policy. The Australian government has remained steadfast in its belief that the economic gains to be made from competition amongst Australasian airlines and from the promotion of travel and inbound tourism outweigh the economic returns from protecting Qantas’ hitherto unique position.

In all sectors of this study there has been a recognition by Australian state actors of the importance of the market (be it the U.S. or global market) and the need to be apprised of developments within each relevant market. Important Australian societal actors in each sector (usually the dominant industry actors) have operated as autonomous, or
partially autonomous, commercial undertakings within these markets and have provided the necessary commercial intelligence required by government in its bilateral and multilateral bargaining.

This market intelligence has assisted in the devising of strategies by Australia towards the maintenance or improvement of market share. This information has been used both directly in sectoral bargaining and indirectly (except in the international aviation sector) as ammunition to promote both Australia’s relatively subsidy-free industry and non-disruptive market presence and, more generally, global market liberalisation. In the wheat sector, for example, the Australian Wheat Board (AWB) has provided the necessary market intelligence for the Australian government to assess the likely impact of the U.S. wheat export subsidies and other global developments upon both Australian exports and the world wheat price. In the beef sector, the Australian government has relied on another statutory authority, the Australian Meat and Livestock Corporation (AMLC), to monitor the U.S. domestic beef market and Australia’s beef exports to that market to assess if and when the beef import quota will be reached for any year. Through its New York office, the AMLC has also directly promoted the Australian product in the U.S.

Societal actors have also been able to secure favourable decisions, if not preferential treatment, by state actors because of their capacity to marshall electoral support for or against a government policy position. The promise of electoral support (financial or promotional) or the threat of adverse publicity and promotion of political opponents may well have induced state actors to take notice of the demands of particular societal actors. Mass unemployment in certain government-held electorates would have resulted had BHP carried out its threat to close its integrated steel mills in early 1983.\textsuperscript{112} This threat was considered serious enough for the Australian government to decide to ignore advice from bodies such as the Industry Commission and propose a recovery plan for the steel industry. Likewise, the canegrowers were able to secure a freeze in the sugar industry’s tariff reduction program by threatening an electoral backlash in several critical government-held seats in the 1993 Australian election.\textsuperscript{113}
Whether state actors have had to accommodate the interests of societal actors in the making of Australian trade policy has largely depended upon whether it has been a policy area where state actors have traditionally relied upon the information and expertise which only societal actors can efficiently and accurately provide. The agricultural sectors and the steel sector have been important in this regard. Another factor determining the influence of societal actors has been the extent to which they have been organized and articulate in both their representative and policy advocacy functions. Societal actors in each of the agricultural sectors have been effective advocates of the interests of their constituents and have pressured the Australian government to maintain the ‘political heat’ on the U.S. over a number of protectionist programs.\textsuperscript{314}

The industrial organization of societal actors has also been important in determining how influential they have been in Australian export policy-making. In the wheat and beef sectors, two statutory authorities (the AWB and the AMLC respectively) with sole export marketing rights have used their market position and market intelligence to bargain for influence in the Australian policy-making process. In the steel and sugar sectors, two independent corporations (BHP and the Colonial Sugar Refining Company (CSR) respectively) have been in an even stronger position having traditionally acted independently from state actors as the sole Australian exporters into the U.S. market, as well as globally. Over the period of this study, these corporations traded their market information and analysis for influence and generally cooperated with Australian state actors in the making of the government’s trade strategies towards the U.S.

\textbf{Alternative regional and bilateral arrangements}

Partly as a result of the frustration in securing an improvement bilaterally in trade outcomes with the U.S. and partly from concern over the nature and extent of the reform package to result from the current GATT talks, Australia has been keen to link the U.S. into the Asia Pacific Economic Cooperation (APEC) initiative. While not argued in terms of removing U.S. protectionist policies (or of those of other economies in the region), part of Australia’s interest in advancing the cause of APEC is to promote
liberalisation in all, but especially the most powerful, economies of the Asia-Pacific region.\textsuperscript{315}

APEC is particularly important for Australia in that it includes both Japan and the U.S., its two major trading partners. This form of economic regionalism has also been advanced by Australia because, as J.L. Richardson has suggested, it may be an insurance policy against Australia being left out of a number of developing trading blocs, especially the EC and the North American Free Trade Agreement (NAFTA).[Richardson, 1991, 296]

In respect of its trade problems with the U.S., the APEC 'movement' offers Australia the prospect of helping to arrest the drift away from a 'rules' based trade policy by the U.S. (as under the GATT) to a greater use of U.S. economic power in determining trade outcomes. However, as Stuart Harris has recently commented, if the U.S. does undertake the necessary domestic adjustment, this itself may encourage further U.S. domestic protectionist pressures.[Harris, 1991, 43] In such a scenario, the solution to Australia's trade problems with the U.S. may lie with the relative influence of U.S. societal actors favouring free trade and internationalisation over protection.

As with APEC, a thorough consideration of a possible Australia-U.S. FTA or the North American Free Trade Agreement (NAFTA) upon Australia's trade outcomes with the U.S. has been beyond the scope of this study. However, upon brief examination, a Free Trade Agreement (FTA) with the U.S., as a means by which Australia could seek to improve its trade outcomes, would most certainly be of greater economic consequence to Australia than the U.S. While the U.S. is a major market for Australia, the Australian proportion of overall U.S. imports is quite insignificant.\textsuperscript{316} More importantly, the chances of an FTA providing the requisite benefits for Australia are diminished by the fact that, as this study illustrates, the major barriers to Australian exports continue to be in the form of nontariff restrictions in sectors which are particularly sensitive politically. If NAFTA can be taken as a guide, then an FTA with the U.S. would probably exclude reference to such sensitive policies and programs.
If any of these nontariff barriers were removed for Australia as part of an FTA (not a very likely scenario) or preference was given to Australia within the existing nontariff barriers, then, as Richard Snape has argued, those countries already enjoying U.S. concessions, such as Canada, Israel or certain Caribbean countries, would be justified in arguing that the FTA effectively undermines their position in those products in which they directly compete with Australia.[Snape, 1989] In the sugar and beef sectors, for example, Australia has been a significant exporter to the U.S. and open access under an FTA could result in a direct threat to the nature of the U.S. sectoral support structures, thus inviting considerable domestic U.S. political reaction. The problem for Australia is that an FTA without agricultural trade liberalisation is of no value, while that is one area where there would be intense resistance to change from within the U.S.

The debate over whether Australia should join with the U.S. in an FTA has been overtaken by events, notably the U.S.-Canada FTA and its expected conversion, with the addition of Mexico, into NAFTA. Almost all of Australia’s major exports to the U.S. are in competition with Canadian or Mexican exports and U.S. import barriers (of a nontariff nature) are important for many of these products. However, while there would be both direct, indirect and possible systemic effects for Australia from the formation of this bloc, this does not mean that Australia is a logical future member of NAFTA (in terms of geographical location or trade profile).[Snape, 1993]

With the chance still remaining of a successful conclusion to the Uruguay Round, moves towards joining NAFTA (despite the difficulties for Australia) would be premature. Multilateral trade liberalisation via the GATT Round would seem to still be Australia’s first best option for improving trade outcomes, both in respect of the U.S. as well as globally. Australian moves towards NAFTA could prove counterproductive at this stage, possibly being viewed as contributing to any ‘trade diverting’ signals which the present NAFTA negotiations may be sending to countries of the Asia-Pacific region and elsewhere. This could damage Australia’s case for the successful conclusion of the GATT Round while not providing any compensatory benefits. As a recent Australian government-commissioned report argues, preferential agreements such as NAFTA should be carefully assessed before joining to see whether in operation they are compatible with the multilateral trading system.[Snape et.al., 1993]
This study of Australia’s trade policy-making towards the U.S. has examined how Australia has sought to bargain for an improvement in its trading outcomes with the U.S. Australia has devised various bargaining strategies within either its bilateral and/or multilateral approaches to attempt to take advantage of opportunities offered and to counter problems experienced in its trade with the U.S. The five sectors of the study have been drawn from agriculture, manufacturing and service industries and have provided important illustrations of the types of problems experienced by Australia in trading with the U.S. over the past decade.

The asymmetrical power-capabilities of Australia and the U.S. within the structure of the global political economy has certainly been important in shaping outcomes and in providing the context within which their trade relations have been conducted. However, the states’ relative power-capabilities should not be seen as determining sectoral outcomes for within each sector a bargaining process between Australia and the U.S. has acted as an intervening variable between power-capabilities and trading outcomes. In the aviation sector a particularly formalised bilateral bargaining process has placed the two states in an even more competitive position, each with a high degree of control over bargaining outcomes.

Within each Australia-U.S. bargaining process, the opportunities available for and constraints upon Australia improving its sectoral trade outcomes have been determined by the nature of the U.S. sectoral trade policy and process; the nature of the domestic bargaining process between Australian state and societal actors; and to a lesser extent, prevailing ideas and the perceptions of the negotiating parties.

Whether Australia has sought to increase its share of the U.S. import market (as in its sugar, beef and steel trade), its share of a global export market (as in its wheat trade) or its share of trans-Pacific aviation rights, it has found it necessary to attempt to exploit those opportunities offered from within the U.S. policy-making process. The relatively open nature of that policy-making process and ease of access to decision-makers in most of the sectors has allowed Australia to intensify its lobbying over the 1980s. These lobbying opportunities have enabled Australia to apply its strategies of self-promotion
as a relatively unsubsidized trader and loose coalition-building with U.S. societal actors opposed to particular U.S. trade policies, as well as its informing strategy to support those state and societal actors in favour of free trade.

In bargaining with the U.S. for an improvement in its trade outcomes, Australian state actors have needed, with some variation across sectors, to accommodate important Australian societal actors in return for market intelligence and electoral support. This accommodation has not only affected the nature of the bargaining strategies adopted by Australia to seek to improve trading outcomes, but has been necessary for the effective implementation of these strategies.

Trading with the U.S. over the 1980s and into the 1990s has been fraught with difficulties for Australia. There have been enduring problems which have been supplemented by the growth in various forms of old and new U.S. trade protectionism. The task of seeking to overcome these difficulties and advancing Australia’s trading interests has continued to be conducted within the framework of broad bilateral and multilateral approaches. However, as this study has shown, Australia’s bargaining with the U.S. for an improvement in outcomes has increasingly focused upon addressing problems and capitalising on opportunities as these have appeared within each sectoral bargaining relationship. The story of Australia’s trade policy-making towards the U.S. has become one which must be told in terms of bargaining strategies developed to maximize the opportunities and minimize the obstacles to an improvement in Australia’s sectoral trading outcomes.

...
NOTES

295. Further recent evidence can be found in Australian Prime Minister Keating’s downplaying of the U.S. antidumping duties against Australia as being ‘normal trade shenanigans’ and his statements during a recent visit to Washington where he emphasised the Australian and U.S. interest in Asia-Pacific Economic Cooperation (APEC) rather than the problems of access to the U.S. market for certain Australian exports.[Tingle, 1993]

296. At 30 June 1993, Australia’s trade deficit with the U.S. for the previous 12 months had risen to AUD$8.1 billion.[Department of Foreign Affairs and Trade, 1993d, 5]

297. As Richard Snape has pointed out, even after the late 1980s program of Australian tariff reductions has been completed, U.S. tariffs will still be lower than Australia’s for most products.[ Snape, 1989, 171]

298. For example, while all states are formally equal under Article XIX of the GATT (the emergency clause which allows import restrictions if domestic producers are being injured), a weak exporting country can do very little if the stronger importing country seeks to maintain its protection on a long-term basis. Reciprocity may be available to the weak exporter under the GATT but is of little practical use given that country’s relative weakness.

299. An important example in the case of the GATT was the agricultural waiver which the U.S. gained in the early days of the regime.

300. Similarly, Australia was able to influence the agenda of the multilateral talks on agricultural reform in the Uruguay Round through its leadership of the Cairns Group.

301. Even when the U.S. changed the quota to a tariff-quota, following a GATT panel decision against the U.S., this instrument proved to be just as restrictive to foreign sugar exporters.

302. In effect, few members of Congress actually considered each agricultural program on its merits, and where they did, the decision-making was more often than not the subject of bargains and trade-offs with supporters of other commodity programs.

303. It should also be noted that the nature of the domestic bargaining relationship within each sector will itself be affected by the degree of success or failure which Australia has experienced in dealing with problems created in exporting either to the U.S. market or to the global market.

304. The work of the Australian Trade Commission (Austrade) as the government’s trade promotion arm and the Australian government’s export financing provisions have been important aspects of this policy.

305. Due to both the nature of the support programs and the nature and level of their support, neither the sugar nor beef programs offer the same prospects for multilateral reform.
306. This anti-protectionist position has since been seriously undermined by the subsequent acquiescence of U.S. state actors in the U.S. steel industry’s prosecution of unfair trade suits.

307. This campaign may have been a factor in the Clinton Administration not extending the EEP program to the Indonesian wheat market, an important one for Australia, as originally expected.

308. With the attempted implementation of domestic adjustment strategies by Australian state actors, it has become more difficult for societal actors to claim that their industry sector should remain separate and apart from the rest of the Australian economy and insulated from global economic developments.

309. The ‘colonization’ of ‘econocrats’ from the Treasury to other important posts throughout the bureaucracy has further heightened the influence of this agency and its policy preferences in the making of national economic policy.

310. Agricultural industries, apart from calls for continued marketing regulation and certain forms of temporary relief in some sectors, have joined the anti-protection lobby calling for the removal of all industry assistance (which would, not coincidentally, reduce the costs of their inputs).

311. Even the trade sale and planned float of Qantas have been conducted by state actors without reference to the stated views of the airline’s management.

312. More generally, the Australian government was anxious to be seen to be supporting manufacturing industry and their employees.

313. While the Hawke and Keating governments have not relied on the rural vote, there have been a number of country-based federal seats where the electoral outcome has been directly affected by the prosperity or otherwise of particular rural industries. As well, Australian governments of the 1980s and early 1990s have been keen to appear sympathetic to the plight of the farmer and to secure his/her support for the continuing program of microeconomic reform.

314. The National Farmers Federation and the Grains Council of Australia have been particularly effective in pressuring the Australian government to lobby against the U.S.’s Export Enhancement Program.

315. Australia’s promotion of regional liberalisation has also been linked to its strategy of self-promotion as a country having converted to liberalisation and undergoing domestic economic restructuring.[see, for example, Higgott, 1991]

316. Australia has been supplying a smaller proportion of imports to the U.S. than it has globally and there has been a distinct trend away from exporting to the U.S.

317. It should also be noted that the prospects for new FTA negotiations between the U.S. and any other country are remote in the near future. They would need a further renewal of the fast-track authority in U.S. trade law and such renewal is not expected to be considered favourably by the Congress for either regional or bilateral negotiations.[Hufbauer and Schott, 1993, 153] As well, it appears that any
new member of NAFTA would be confronted with accession provisions different from those for the founding members.[Snape et.al., 1993]
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## APPENDIX

Table A: *Australia's Trade with the US*

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<tr>
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<th>Exports (Millions of US Dollars)</th>
<th>Imports (fob)</th>
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<tr>
<td>1981</td>
<td>2,438</td>
<td>5,477</td>
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<tr>
<td>1982</td>
<td>2,248</td>
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<td>2,389</td>
<td>5,235</td>
</tr>
<tr>
<td>1987</td>
<td>3,001</td>
<td>5,784</td>
</tr>
<tr>
<td>1988</td>
<td>3,508</td>
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</tr>
<tr>
<td>1991</td>
<td>4,271</td>
<td>9,455</td>
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</table>

For years 1987 to 1989 *International Monetary Fund, Direction of Trade Statistics Yearbook 1991.*
### Table B: World Wheat Production, Trade and Carryover Stocks

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#### 1. Production

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<tr>
<td>China</td>
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<td>85.4</td>
<td>90.8</td>
<td>96.5</td>
<td>93.0</td>
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<td>EC</td>
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<td>79.2</td>
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<td>USSR</td>
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<td>84.4</td>
<td>92.3</td>
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<td>88.0</td>
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<td>USA</td>
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<td>49.3</td>
<td>55.4</td>
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<td>57.5</td>
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<tr>
<td>India</td>
<td>45.6</td>
<td>46.2</td>
<td>54.1</td>
<td>50.0</td>
<td>54.0</td>
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<tr>
<td>E. Europe (^2)</td>
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<td>38.2</td>
<td>38.4</td>
<td>34.7</td>
<td>33.8</td>
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<tr>
<td>Canada</td>
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<td>16.0</td>
<td>24.6</td>
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<td>14.1</td>
<td>14.2</td>
<td>15.4</td>
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<td>8.4</td>
<td>10.3</td>
<td>11.3</td>
<td>10.0</td>
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<tr>
<td>Others</td>
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<td>68.5</td>
<td>68.8</td>
<td>69.1</td>
<td>71.3</td>
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<td><strong>Total</strong></td>
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<td><strong>505.8</strong></td>
<td><strong>544.3</strong></td>
<td><strong>596.6</strong></td>
<td><strong>555.1</strong></td>
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#### 2. Trade

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<td>39.2</td>
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<tr>
<td>EC (^3)</td>
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<td>19.4</td>
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<td>5.6</td>
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<tr>
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<td>5.5</td>
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<tr>
<td>Iraq</td>
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<td>3.4</td>
<td>3.4</td>
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#### 3. Total Gross Exports 105.7

#### 4. Stocks (Carryover)

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<td>61.2</td>
<td>40.1</td>
<td>35.2</td>
<td>51.4(^4)</td>
<td>48.7(^4)</td>
<td></td>
</tr>
</tbody>
</table>

**Source:** International Wheat Council end September 1990.

2. Excludes former German Democratic Republic from 1990-91.
3. Excludes inter-trade, exports under "inward" processing arrangements and shipments of products other than wheat flour. Includes unified Germany from 1990-91.
4. Excludes carryover for Argentina when less than 50,000 tonne.
5. Estimated.
6. Forecast.
Table C: Export Wheat Prices

<table>
<thead>
<tr>
<th>Year</th>
<th>(US$/Tonne)</th>
</tr>
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<tbody>
<tr>
<td>1981-82</td>
<td>160.08</td>
</tr>
<tr>
<td>1982-83</td>
<td>163.71</td>
</tr>
<tr>
<td>1983-84</td>
<td>152.02</td>
</tr>
<tr>
<td>1984-85</td>
<td>145.22</td>
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<tr>
<td>1985-86</td>
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<tr>
<td>1989-90</td>
<td>156.45</td>
</tr>
<tr>
<td>1990-91</td>
<td>128.17</td>
</tr>
</tbody>
</table>

Source: Australian Wheat Board.
1 1 October to 30 September.
2 Simple averages of daily asking prices for ASW; Free on Board.
3 1 December 1981 to 30 September 1982.

Table D: Australian Sugar Production Statistics

<table>
<thead>
<tr>
<th>Season</th>
<th>Area harvested for milling (hectares)</th>
<th>Cane crushed (tonnes)</th>
<th>Raw sugar produced * (tonnes 94 nt)</th>
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<tbody>
<tr>
<td>1980</td>
<td>289,294</td>
<td>23,050,687</td>
<td>3,329,144</td>
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<tr>
<td>1981</td>
<td>315,952</td>
<td>25,139,385</td>
<td>3,433,925</td>
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<td>1982</td>
<td>318,692</td>
<td>24,907,748</td>
<td>3,555,832</td>
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<tr>
<td>1983</td>
<td>306,852</td>
<td>24,190,188</td>
<td>3,169,763</td>
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<tr>
<td>1984</td>
<td>312,093</td>
<td>25,512,077</td>
<td>3,548,113</td>
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<tr>
<td>1985</td>
<td>304,021</td>
<td>24,413,782</td>
<td>3,378,646</td>
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<tr>
<td>1986</td>
<td>309,672</td>
<td>25,413,044</td>
<td>3,371,904</td>
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<tr>
<td>1987</td>
<td>316,394</td>
<td>25,669,124</td>
<td>3,440,344</td>
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<tr>
<td>1988</td>
<td>316,590</td>
<td>28,070,866</td>
<td>3,678,841</td>
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<tr>
<td>1989</td>
<td>331,777</td>
<td>27,622,172</td>
<td>3,797,428</td>
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<td>1990</td>
<td>338,398</td>
<td>25,197,917</td>
<td>3,347,191</td>
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</table>

Source: Sugar Board.
Sugar Year Book 1991.
Canegrowers

* New South Wales figures not included in raw sugar produced.
Table E: *Australian Raw Sugar Exports*

<table>
<thead>
<tr>
<th>Country of Destination</th>
<th>1988</th>
<th>1989</th>
<th>1990*</th>
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<tr>
<td>Canada</td>
<td>506,824</td>
<td>503,865</td>
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<td>China</td>
<td>498,163</td>
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<tr>
<td>Japan</td>
<td>675,125</td>
<td>723,688</td>
<td>555,128</td>
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<td>Korea</td>
<td>371,714</td>
<td>414,889</td>
<td>343,056</td>
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<tr>
<td>Malaysia</td>
<td>490,917</td>
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<td>477,874</td>
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<td>New Zealand</td>
<td>83,963</td>
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<td>78,681</td>
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<td>Singapore</td>
<td>109,378</td>
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<td>USA</td>
<td>47,982</td>
<td>112,835</td>
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<tr>
<td>USSR</td>
<td>-</td>
<td>197,928</td>
<td>318,978</td>
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<td>Venezuela</td>
<td>-</td>
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<tr>
<td>Egypt</td>
<td>-</td>
<td>25,540</td>
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<tr>
<td><strong>Total</strong></td>
<td><strong>2,784,066</strong></td>
<td><strong>2,973,561</strong></td>
<td><strong>2,739,250</strong></td>
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Source: Sugar Board Annual Report.
*Figures subject to change.*
### Table F: Australia - Meat Exports By Destination

<table>
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<tr>
<th>Destination</th>
<th>Chilled Beef (includd in Beef and Veal)</th>
<th>Chilled and Frozen Meat</th>
<th>Canned</th>
<th>Miscellaneous meat*</th>
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<tbody>
<tr>
<td>UK</td>
<td>4165</td>
<td>4465</td>
<td>5486</td>
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<td>France</td>
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<td>Germany</td>
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<td>369</td>
<td>531</td>
<td>379</td>
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<tr>
<td>Italy</td>
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<td>Benelux</td>
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<td>Yugoslavia</td>
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<td>Romania &amp;</td>
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<td>Malta</td>
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<td>34</td>
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319

<table>
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<tr>
<th>Destination</th>
<th>Chilled Beef (included in Beef and Veal)</th>
<th>Chilled and Frozen Meat</th>
<th>Year ended June</th>
<th>Canned meat</th>
<th>Miscellaneous meat*</th>
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<tr>
<td></td>
<td>Chilled Beef</td>
<td>Beef and Veal</td>
<td>Buffalo</td>
<td>Mutton and Hogget</td>
<td>Lamb</td>
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<td>Yemen ARYE &amp;</td>
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<td>204</td>
<td>171</td>
<td>87</td>
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<td>Yemen PYEM</td>
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<td>Jordan</td>
<td>232</td>
<td>659</td>
<td>23</td>
<td>-</td>
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<td>Lebanon &amp; Syria</td>
<td>16</td>
<td>63</td>
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<td>-</td>
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<tr>
<td>Egypt</td>
<td>573</td>
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<td>Israel</td>
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<td>South Africa</td>
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<td>1090</td>
<td>204</td>
<td>229</td>
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<td>Other Africa</td>
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<td>Pacific Isthmus</td>
<td>1096</td>
<td>5492</td>
<td>-</td>
<td>78</td>
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<tr>
<td>New Zealand</td>
<td>337</td>
<td>627</td>
<td>580</td>
<td>731</td>
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<tr>
<td>Total countries</td>
<td>13</td>
<td>18</td>
<td>20</td>
<td>221</td>
<td>-</td>
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</tbody>
</table>


* Miscellaneous includes such items as corned, cooked, boiled or salted meat, bacon, ham and other smallgoods.
† includes airfreight.
### Table G: Imports of Meat Subject to Meat Import Law

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<td>Australia</td>
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<td>51.6</td>
<td>367.4</td>
<td>53.4</td>
<td>261.9</td>
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<td>355.2</td>
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<td>New Zealand</td>
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<td>204.7</td>
<td>29.7</td>
<td>207.1</td>
<td>40.0</td>
<td>178.0</td>
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<td>Costa Rica</td>
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<td>21.0</td>
<td>3.1</td>
<td>16.8</td>
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<td>EC</td>
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<td>2.6</td>
<td>0.4</td>
<td>0.2</td>
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<td>Mexico</td>
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<td>16.4</td>
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<tr>
<td>Other countries</td>
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<td>0.3</td>
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<tr>
<td><strong>Total</strong></td>
<td>657.4</td>
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<td>517.6</td>
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<td>591.4</td>
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Source: US Customs Service.  
* Not subject to MIL from January 1 1989.

### Table H: United States Meat Supply and Consumption

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<th></th>
<th>Production Thousand tonnes</th>
<th>Consumption</th>
<th>Kilograms per capita</th>
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<tbody>
<tr>
<td></td>
<td>Beef and Veal All meats*</td>
<td>Beef and Veal All meats* Total Thousand tonnes</td>
<td>Beef and Veal All meats*</td>
</tr>
<tr>
<td>Average 5 years ended December</td>
<td>1980 10921 17457 989 1227 11944 18599 53.7 83.5</td>
<td>1985 10601 17508 872 1240 11413 18595 48.6 79.2</td>
<td>1990 10331 17815 1033 1533 11516 18919 46.8 76.8</td>
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<tr>
<td>Year ended December</td>
<td>1986R 11292 17824 978 1506 12036 19075 49.8 78.9</td>
<td>1987R 10884 17546 1040 1602 11660 18788 47.8 77.0</td>
<td>1988R 10880 18146 1091 1630 11641 19323 47.3 78.5</td>
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</table>

Source: AMLC Statistics Review 1990-91 and USDA.  
* Includes fresh, frozen and chilled beef, veal, pork, lamb, mutton and goatmeat - includes rejections.
Table I: The Largest Steel-Producing Companies, 1987 and 1988

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### Table J: The Major Steel-Producing Countries, 1987 and 1988

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</table>

**WORLD TOTAL**  
778.4  736.1

**Source:** International Iron and Steel Institute, *World Steel in Figures*, 1989.

**Notes:** This table lists all countries producing more than two million metric tons of crude steel in either year shown.
Table K: *The Major Importers and Exporters of Steel, 1987*

**million metric tons**

<table>
<thead>
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<th>Rank</th>
<th>Total Exports</th>
<th>Rank</th>
<th>Total Imports</th>
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</tr>
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<td>4</td>
<td>France</td>
<td>11.0</td>
<td>USSR</td>
</tr>
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<table>
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<th>Rank</th>
<th>Net Imports (Imports - Exports)</th>
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<tr>
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<td>Belgium-Luxembourg</td>
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</tr>
<tr>
<td>3</td>
<td>FR Germany</td>
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<td>Taiwan (ROC)</td>
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<td>4</td>
<td>Brazil</td>
<td>6.0</td>
<td>Thailand (E)</td>
</tr>
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<td>Czechoslovakia</td>
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<td>Republic of Korea</td>
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<td>Hong Kong (E)</td>
</tr>
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<td>9</td>
<td>Spain</td>
<td>2.3</td>
<td>Switzerland</td>
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<td>1.9</td>
<td>Malaysia (E)</td>
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<td>Netherlands</td>
<td>1.4</td>
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<td>15</td>
<td>Poland</td>
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<td>Greece (E)</td>
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Table L: *World Trade in Steel Products, 1975 to 1987*

| Year | Production | Exports
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<td>1979</td>
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<td>1980</td>
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<td>1981</td>
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<td>1982</td>
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<td>1983</td>
<td>546.8</td>
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<td>1984</td>
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<td>1986</td>
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<td>1987</td>
<td>620.4</td>
<td>26.1</td>
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Exports are of semi-finished and finished steel products. Production of finished steel, where not available from national sources, is calculated from crude steel production, taking account of the continuous casting ratio.
### Table M: Scheduled Traffic Development 1981-1991: International and Domestic Combined

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<tr>
<th>Billions</th>
<th>Tonne-Kms Performed</th>
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<tr>
<td></td>
<td>Passenger</td>
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<td>240</td>
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<tr>
<td>200</td>
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<td>160</td>
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<td>120</td>
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</tr>
<tr>
<td>40</td>
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<tr>
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</table>


(Includes Aeroflot from 1989)

Source: ICAO

327
Table N: *World Scheduled Traffic Development: International and Domestic Combined*

Billions of Tonne-Kilometres Performed

Year


- Mail
- Freight
- Passenger

Source: ICAO

Table O: *World Scheduled Passenger Load Factors*

Percent

Year


- International
- Domestic
- Total

Source: ICAO
## Table P: *High Fliers*

<table>
<thead>
<tr>
<th>World’s top airlines, 1992</th>
<th>Passenger kilometres* (bn)</th>
<th>Passengers (m)</th>
<th>Fleet size</th>
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<tr>
<td>American</td>
<td>156.7</td>
<td>86.0</td>
<td>672</td>
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<td>United</td>
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</table>

Source: Air Transport World  
Note: * Revenue passenger kilometres
Table Q: \textit{World airlines' Financial Results}*

![Operating profit/loss and Net profit/loss chart]

Source: IATA
Note: * International scheduled services only

Table R: \textit{Scheduled Passengers Carried}* 1991

\begin{tabular}{cccccccc}
 Rank & International Airline & Thousands & Rank & Domestic Airline & Thousands & Rank & Total Airline & Thousands \\
 8 & United & 7,264 & 5 & United & 54,627 & 4 & United & 61,891 \\
 12 & Northwest & 6,844 & 6 & Northwest & 34,274 & 6 & Northwest & 41,118 \\
 15 & Continental & 5,028 & 8 & Continental & 31,942 & 7 & Continental & 36,970 \\
 20 & Qantas & 4,211 & & & & 42 & Qantas & 4,211 \\
\end{tabular}

Note: * Each revenue passenger (ie those paying 25% or more of the applicable fare) on a particular flight (with one flight number).
### Table S: Scheduled Passenger - Kilometres Performed* 1991

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<th>Millions</th>
<th>Domestic Rank</th>
<th>Domestic Airline</th>
<th>Millions</th>
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<th>Total Airline</th>
<th>Millions</th>
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<td>Northwest</td>
<td>37,264</td>
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<td>Continental</td>
<td>49,640</td>
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<td>Northwest</td>
<td>85,786</td>
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<td>7</td>
<td>Qantas</td>
<td>26,505</td>
<td>7</td>
<td>Northwest</td>
<td>48,523</td>
<td>6</td>
<td>Continental</td>
<td>66,680</td>
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<tr>
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Note: * Obtained by multiplying the number of revenue passengers carried on each flight stage by the flight stage distance.

### Table T: Operation of Relevant Australian and US Airlines 1991 (Scheduled Services)

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<th>Airline</th>
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<th>United</th>
<th>Northwest</th>
<th>Continental</th>
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</thead>
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<tr>
<td><strong>Kilometres flown (‘000)</strong></td>
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<td></td>
<td></td>
</tr>
<tr>
<td>International</td>
<td>130,311</td>
<td>196,314</td>
<td>164,270</td>
<td>109,636</td>
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<tr>
<td>Domestic</td>
<td>—</td>
<td>822,774</td>
<td>527,041</td>
<td>529,706</td>
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<tr>
<td>Total</td>
<td>130,311</td>
<td>1,019,088</td>
<td>691,311</td>
<td>639,342</td>
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<tr>
<td><strong>Passengers carried (number)</strong></td>
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<td></td>
</tr>
<tr>
<td>International</td>
<td>4,210,774</td>
<td>7,264,241</td>
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<tr>
<td>Domestic</td>
<td>—</td>
<td>54,627,257</td>
<td>34,273,562</td>
<td>31,942,205</td>
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<tr>
<td>Total</td>
<td>4,210,774</td>
<td>61,891,498</td>
<td>41,117,564</td>
<td>36,970,055</td>
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<td><strong>Passenger - kilometres flown (‘000)</strong></td>
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<td>42,271,429</td>
<td>37,263,511</td>
<td>17,040,187</td>
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<tr>
<td>Domestic</td>
<td>—</td>
<td>89,456,273</td>
<td>48,522,547</td>
<td>49,639,504</td>
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<tr>
<td>Total</td>
<td>26,505,051</td>
<td>131,727,702</td>
<td>85,786,058</td>
<td>66,679,691</td>
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<tr>
<td><strong>Passenger Load Factor (%)</strong></td>
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<td>70.9</td>
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<tr>
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<td>64.9</td>
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</table>

Note: * Passenger - kilometres expressed as a percentage of available seats - kilometres (number of passenger seats available for sale on each flight stage by the stage distance).
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<td>Weak</td>
</tr>
<tr>
<td>Beef</td>
<td>Bilateral</td>
<td>Strong</td>
<td>Weak</td>
<td>Weak</td>
</tr>
<tr>
<td>Steel</td>
<td>Bilateral (VRA)</td>
<td>Strong</td>
<td>Weak</td>
<td>Weak</td>
</tr>
<tr>
<td></td>
<td>Unilateral (Trade Suits)</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>International Aviation</td>
<td>Bilateral</td>
<td>Strong</td>
<td>Weak</td>
<td>Strong</td>
</tr>
</tbody>
</table>
Chart A: *US and Australian Wheat Prices*


Chart B: *US Domestic and World Market Prices for Raw Sugar*
In 1984 values

Source: ABARE, 1990
Chart C: US Sugar Production - Crop Years


Chart D: Volume of Steel Trade, Western World, 1980 to 1987

1980 = 100

Chart E: The Rise of Mega-Carriers

Top 20 airlines' share of world passenger kms

1974 76 78 80 82 84 86 88 90 92 94 96 98 2000 02 04 06 08 10
Forecast

Source: Boeing
Figure A: Principal grain production areas (wheat)

Source: Roberts et al., 1989.
Figure B: US Sugar Cane and Sugar Beet Producing Regions

Hawaii

- Sugar Beet
- Sugar Cane

Figure C: United States International Trade Policy Interagency Coordination

President of The United States

Economic Policy Council (EPC)
- President of the U.S. (Chairman)
- Secretary of the Treasury (Chairman pro tempore)
- United States Trade Representative*
- Secretary of Commerce
- Secretary of Agriculture
- Secretary of Defense
- Secretary of Labor
- Secretary of Transportation
- Secretary of State
- Director, Office of Management and Budget
- Chairman, Council of Economic Advisers

Trade Policy Review Group (TRPG)
- Deputy United States Trade Representative (Chairman)
  - Under Secretary-level Members of Agencies on the Trade Policy Committee, plus Departments of Justice, Interior and Energy and National Security Council, and Agency for International Development

Trade Policy Staff Committee (TPSC)
- Assistant United States Trade Representative (Chairman)
  - Senior Civil Servant-level Members of Agencies on the Trade Policy Review Group and an Advisor from U.S. International Trade Commission

Notes: * U.S. Trade Representative is the President’s principal Advisor on Trade Policy.
**Figure D:** *The Meat Import Law Formula for Adjusted Base Quantity*

\[
\text{Annual Quota} = \text{Annual Imports (1968-77)} \times \frac{\text{Base Quota} \times (\text{Production Factor})}{\text{3-year Moving Average of Domestic Production}} \times \frac{\text{10-year Average of Domestic Production (1968-77)}}{\text{(Countercyclical Factor)}}
\]

- 5-year Moving Average of Domestic Cow-beef Production
- 2-year Moving Average of Domestic Cow-beef Production