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SENATE

SELECT COMMITTEE ON THE FREE TRADE AGREEMENT
BETWEEN AUSTRALIA AND THE UNITED STATES OF
AMERICA

Reference: Free Trade Agreement between Australia and the USA

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SENATE

**SELECT COMMITTEE ON THE FREE TRADE AGREEMENT BETWEEN AUSTRALIA AND
THE UNITED STATES OF AMERICA**

Thursday, 24 June 2004

Members: Senator Cook (*Chair*); Senator Brandis (*Deputy Chair*), Senators Boswell, Conroy, Ferris, Harris, O'Brien and Ridgeway

Senators in attendance: Senators Boswell, Brandis, Cook, Ferris and Ridgeway

Terms of reference for the inquiry:

To inquire into and report on:

1. The Free Trade Agreement between Australia and the United States of America to ensure it is in Australia's national interest; and
2. The impacts of the agreement on Australia's economic, trade, investment and social and environment policies, including, but not limited to, agriculture, health, education and the media.

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Committee met at 3.36 p.m.

CHAIR—I declare open this Senate select committee hearing into the Australia-US free trade agreement. The hearing is open to the public. This could change if the committee decides to take evidence in private. Witnesses are reminded that the evidence given to the committee is protected by parliamentary privilege. It is important for witnesses to be aware that the giving of false or misleading evidence to the committee may constitute a contempt of the Senate. If, at any stage, a witness wishes to give part of their evidence in camera, they should make that request to me as the chair and the committee will consider the request. Should a witness expect to present evidence to the committee that reflects adversely on a person, the witness should give consideration to that evidence being given in camera. The committee is obliged to draw to the attention of a person any evidence which, in the committee's view, reflects adversely on that person and to offer that person an opportunity to respond.

Today, the committee tabled in the Senate an interim report. We are scheduled to complete our hearings and table the final report by 12 August. In the interim report, some remarks were made about the fairness with which the chair presides and shares the call between representatives of the various parties. As a consequence of those remarks, what I intend to do, to put this matter beyond any dispute, and without accepting the allegation in the first place, is to divide the available time at the completion of a witness's presentation between the parties on an equal basis between the coalition and the opposition, with a lesser but nonetheless significant amount of time available for minor parties if they are in attendance.

Senator BOSWELL—Will that disadvantage The Nationals?

CHAIR—You are part of the coalition.

Senator FERRIS—We will share the time, Senator.

Senator BOSWELL—I don't mind sharing the time, as long as you guarantee there will be fairness.

CHAIR—I guarantee there will be fairness but I must say—

Senator BOSWELL—I will take your word for it.

CHAIR—that I take offence at the remarks that have been made in the report. I do not think we will have any trouble today.

Senator BOSWELL—As long as I will not be treated as a minority party representative.

CHAIR—No, you are part of the coalition.

[3.40 p.m.]

UPTON, Mr Peter John, Chief Executive, Federation of Automotive Products Manufacturers

CHAIR—Welcome, Mr Upton.

Mr Upton—We did not make a formal submission to the committee, for which I apologise. Given that we have made a submission to the Department of Foreign Affairs and Trade, and that the close negotiations we had with the department leading up to the eventual negotiation of the deal pretty much followed the outline in our submission—we felt that we were on the public record. So I will just make a few brief remarks about how we got there, what is in the submission and the considerations that led the components sector to be supportive of a free trade agreement with the United States.

The FAPM represents the dominant share —more than 98 per cent by ABS figures—of the market for original equipment vehicle components. Our FTA submission was developed as part of a consensus process through the membership. The membership were consulted more or less on a regular basis throughout the entire negotiations up to and including the eventual agreement. As I have already indicated, the membership took a generally positive view—not wildly so; no-one was thinking it would make their fortune but, on the other hand, few were thinking that it would break their fortune—and that general assessment stayed the same.

It might be useful if I quickly said something about the basic statistics of our automotive trade with the US, although I am sure they would have been provided in aggregate terms by others. Basically, automotive exports are about three per cent of Australia's trade, and automotive imports are about 10 per cent of Australia's import bill. Our export trade with the USA in automotive products is about \$1.1 billion, roughly split between completely built vehicles and component parts. The big items in components are brakes, various engine components, a lot of motorcycle components, suspension components, rear-view mirrors, various vision systems and many smaller value components. Our total automotive exports are over \$5 billion, comprising \$3.5 billion in vehicles and \$2 billion in components. By way of comparison, the figure exported to Japan is \$170 million in total, \$150 million of which is components and that is one-fourth the magnitude of our automotive component exports to the United States.

It is perhaps worth noting a couple of things about Australia's imports from the United States. We import \$2.4 billion worth of vehicles and components, including \$1.45 billion worth of components. It is somewhat misleading that they are lumped together as automotive, because when anyone thinks about them they think of passenger motor vehicles. The principal heads of vehicles that are imported from the United States are all classes of off-road vehicles, worth \$300 million of the \$1 billion in imports; trucks, worth another \$100 million; dump trucks, worth \$300 million altogether; and motorcycles, worth \$100 million. That makes a total of \$800 million out of the \$1 billion. I point that out because they fall into categories that are not produced in Australia. The net effect of the free trade agreement on those particular categories is likely to be negligible, I would think.

The passenger motor vehicle component in there is less than \$100 million of the total, compared to \$550 million worth that Australia sends the other way. On the component side of the ledger, it is also a fact that what are regarded as auto components include the replacement parts that go into the various engines, trucks, tippers, dumpers and everything else that is in there. The actual passenger motor vehicle automobiles are a smaller component of that. However, in components, the dominant pieces are engines and parts for them, but that is across dump trucks, passenger motor vehicles and everything that takes an engine, and there is also a very representative sample of most other components that go into a vehicle. The point about that is that no single manufacturer imports a total package of those items; some import one and some import another.

Our total automotive imports are around the \$19 billion mark, of which vehicles are \$13 billion and components \$6 billion. Putting that figure against the order of our business with Japan again, vehicles from Japan amount to \$7 billion and components from Japan account for \$2 billion. With those brief comments—and I am happy to provide that piece of paper for the record too, should it be relevant—

CHAIR—We would appreciate having it.

Mr Upton—I will now describe the considerations that the component sector took into our negotiations—what we asked for and what we think we have got out of it. First and foremost, of course, was the proposition that we would like to see the ACIS scheme unaltered, and we believe that is substantially so. It is certainly so for the component sector, because the component sector's ACIS claims are not dependent on a tariff function. So, for the component sector, certainly ACIS is essentially unaltered.

Senator FERRIS—It might be useful if you explain what ACIS is.

Mr Upton—The Automotive Competitiveness and Investment Scheme, which is the principal vehicle for assistance to the automotive industry. In the case of the components sector, it is very strongly focused on research and development—almost exclusively so. We wanted also to see the removal of the US truck tariff—the so-called ‘chicken’ tariff; it has been described in various other terms—which covers 50 per cent of the US market and happened to operate quite strongly against Australian utilities, for example. We wanted to see clear rules of origin, and I will digress there to say that, when we first started the process, there was a sentimental attachment to the rule of origin in the New Zealand agreement, which is the 50 per cent ex-factory cost method. It was in fact the negotiations with Thailand that led us to re-examine that and come to the conclusion that there were many flaws in the ex-factory cost method. As a result, we were more disposed to listen to the United States argument for a range of alternatives, and gradually those alternatives were whittled down to the NAFTA net cost method, which I am sure others are more qualified than I am to speak on. But, on the whole, the components sector was not displeased with that rule of origin. I will speak a little more about that in a moment.

The other thing we wanted was entry to the US government procurement market, and that has been secured. Australian companies will now be treated as originating in America for the purposes of supply to government departments. The significance of that is—and it remains only an optimistic hope—that there is the opportunity for some niche marketing to government departments in the United States, and that rests to a large degree, I guess, on the adroitness of our

OEMs in securing those. We were also concerned by the possibility for predatory pricing so we wanted to see two things: a recognition of Australian competition law in relation to that—we also wanted the maintenance of whatever anti-dumping provisions were around in general. We wanted a disputes resolution mechanism. We would also have liked some sort of mutual recognition arrangement for standards. In respect of most of those, some progress was made and some was left to the disputes resolution mechanism to be ultimately sorted out.

On the matter of standards, we did not do so well, but that is because of the various complexities that there are in the US standards setting mechanism. I suppose the only comment I can make on that is that car standards are tending towards globalisation in any event, so we felt somewhat comforted by the fact that we were hardly likely to be overtaken by a rash of standards. But the operative point is that standards could become a trade barrier if they were not amenable to being dealt with.

In respect of the rule of origin, I need to point out that the rule applies to specifically identified sections of the automotive tariff. There is an enormous schedule of things which are covered in auto but not covered by this rule—in particular, trucks, tractors, dumpers and all the rest of it. They will be covered by the general rule, which is a build-up or build-down rule with a local content in it. The specifically automotive one applies to the components sector in general but not exclusively and is that there needs to be a change in tariff classification or a 50 per cent net cost under the NAFTA net cost method, which, according to our calculations, is approximately the same as the Australia-New Zealand 50 per cent ex-factory cost method. That applies across chapters 8708.10 to 8708.99 under the broad heading of ‘parts and accessories for passenger motor vehicles’—though, as I said, not exclusively.

I will not dwell on the NAFTA net cost method. Its formula is contained in the annex to the agreement. I imagine that there will be scope for some disputation about its application in particular places, but on the whole my membership was convinced that it was a fairly straightforward and reasonable rule to adopt. It did not ameliorate entirely the concern that we now face quite a number of rules of origin. There is a different one in the Singapore free trade agreement, a different one in the Thai free trade agreement and a different one yet again in the New Zealand free trade agreement, and some of them require different accounting standards to be adequately met.

The NAFTA net cost rule is basically resolved when there is a dispute under the general agreement on accounting procedures that the Americans account under, the NYSE. There is a little bit of familiarity to be gained in there and no doubt some dispute, but the rule will operate as an either/or—if there is a change in tariff classification you can opt for that and if there is not a change in tariff classification then you need to prove local content. It is one or the other. We think that is not too bad. The chief difference between that and the NAFTA rule is very beneficial to the Australian components sector, which is that the rule has been adopted without tracing requirements. The tracing requirements in NAFTA were fairly onerous, so the relief from those makes the rule from our point of view much more workable. With those brief remarks, I invite any questions.

Senator BOSWELL—I thought Mr Upton’s submission was pretty straightforward—he believed and said on behalf of his industry that the agreement was positive. I do not have any

other questions. Mr Upton and his industry seem to be pretty pleased with the free trade agreement and are supporting it.

CHAIR—Thank you very much for your submission this afternoon and thank you for the document setting out the statistics. Have you seen the Victorian government's modelling on the impact of this agreement as affecting the component parts sector in Victoria?

Mr Upton—I have to say that I have not.

CHAIR—I am showing you an extract from it. It is table A8: 'Industry employment in Victoria and Victorian substate regions in 2020, absolute deviations—1,000 persons—from baseline value'. This is an attempt to try and model what the impact on the industry would be. I think the Monash model was used. The column is 'MV parts', motor vehicles and parts, and it shows a deviation from the baseline of minus 1.138 in terms of the total impact with various regional deviations.

The other report of some interest is the one the government has commissioned, the CIE—Centre for International Economics—report. Table 7.2 of that report 'Impact of AUSFTA for Australian sectors' goes to other metal products: motor vehicles, trucks, parts, transport equipment and so on. It has a list of occupations including paddy rice, dwellings and everything in between. This models what the output will be according to them and what the changes will be in labour, wage rates, exports, imports, the use of domestic goods, and local price. The line 'motor vehicles, trucks, parts', which is a pretty wide area, shows an increase on the baseline by 0.2, an increase for labour of 0.1 and an increase for wages of 0.2. I do not have the full report here.

The other document is the AMWU's model, using NIEIR, which shows a major loss of jobs in the industry. If you are saying, Mr Upton, that you have not seen these models, I do not want to disadvantage you, but what can your association say they think the jobs outlook is as a consequence of this agreement, bearing in mind the findings of these models?

Mr Upton—I would have to say that the membership feels it is broadly neutral.

CHAIR—Broadly neutral?

Mr Upton—Yes, very little change. We did ask that specific question and we kept asking it. Basically, the answer we kept getting was, 'We don't see much change.' Some saw some change in their activities but it was offset by others who had planned to expand.

CHAIR—With respect to the government procurement market, you made reference to the prospect of winning niche contracts in that market.

Mr Upton—Yes.

CHAIR—One of the people who gave evidence to us previously was Mr Andy Stoler of the University of Adelaide, who was with the US Trade Representative's office in Geneva for a number of years and who worked for the WTO for a number of years. He wrote a piece in the *Financial Review* which you may have seen, and he gave similar evidence to our inquiry. He is

in support of the agreement. The balance of his remarks were about procurement and, without quoting him directly but relying on my memory—so it is down to me if I have got this wrong—essentially he was saying that this is the most competitive procurement market in the world. It is not just Americans that are in it; virtually every other OECD country is in it. So you are competing with the elite countries of the world in this market. It is a very tough market and it won't—this is my interpretation of what he said—amount to a hill of beans for Australian companies unless they know the whys and wherefores of how to operate in this market, know the ways in which the American system works and are export ready—that is, up to such a standard that the Americans will listen to them and regard them seriously. Do you have any views about whether that is right or wrong?

Mr Upton—I would find little to disagree with in his assessment of the difficulties in entering the US government procurement market. I think there is still a fairly strong cultural bias to buy the flag, but the point I make is that at least two of the Australian vehicle manufacturers are in fact American based companies. So one wears a blue oval and the other one wears something different. They would tend to have—and this is an optimistic view—as much claim for their product to be made in America as most desktop computer companies now. Although Americans buy IBM, Hewlett Packard et cetera, the fact is that almost everything in the computer is made somewhere in Asia. It is almost invariably just the brand which is American.

I cannot speak for the car companies but my perception, in making that remark, was that there is, for example, an American police preference for large rear-wheel-drive sedans, which mirrors the police preference generally around the world. There is no suitable large rear-wheel-drive sedan being manufactured in the United States at present. The Crown Victoria, which is Ford's large rear-wheel-drive sedan, is a very old model. I do not want to commit them to trying to hustle up the police departments of the various states but it would strike me that you would not need to strike it very big in the volume of making, say, Fairlanes or Statesmans, to have very useful incremental volume. I guess my premise is that Australia will be a niche player no matter what we do and that those sorts of small increments are what we are looking for.

CHAIR—Do you have a view about whether or not, in order to ensure, if this agreement goes ahead, that Australian companies extract the maximum benefit, the government should provide some sort of program which would help Australian companies understand how this market operates and make them export ready?

Mr Upton—I think that would be very useful.

CHAIR—Do you think it is necessary?

Mr Upton—Let me deal with my sector, the components sector. I need to acknowledge that there is a fairly strong gradient of expertise. There are a handful of big companies that are already doing very significant business in the United States and I think they themselves would benefit from very expert tuition in the ins and outs of the US government procurement market. That is an order of magnitude above somebody who is going to try to make their first sale to a government department; it is much more general. My take on it is that the requirements on those people who are serious players in exporting to the US means that they are very expert; they are very specialist. It is one of the difficulties that we have in affording them practical assistance. So

the ability to engage with the government in trying to structure a good package to address that need would certainly be appreciated.

CHAIR—You refer to the rules of origin in your remarks. This is a different set of rules of origin's formulae than we are used to and it is quite extensive. But, from what you said earlier, you are accepting of it as part of the agreement. What is the perspective from your members? They now need to keep two sets of books: the standard rules of origin and the American ones.

Mr Upton—I do not think that it will amount so much to two sets of books. There is a different way of extracting and presenting the information. I think the basic information will remain the same. I am no expert on the GAAP, but my understanding of the GAAP is that it requires you to present your information in somewhat different ways without necessarily requiring different information. That, I suppose, is tantamount to keeping a different set of records for different purposes. It is a different extraction from the fundamental record.

CHAIR—This does not go to just the American free trade agreement, but a problem with the proliferation of free trade agreements is always the potential of having different standards in different markets, and, if you are trading to all markets, having to be aware of what the different paperwork is. That increases the paperwork burden on companies, which is always a bugbear, particularly for small business. Do you have any view about whether or not—at your organisation's level, or somewhere; maybe with the Department of Industry, Tourism and Resources—there is some way of simplifying the paperwork burden that this might bring and that some work should be done on that?

Mr Upton—We would always welcome simplification of the paperwork burden. The point is well made, and it is a consideration of that proliferation difficulty that disposes the federation now to be in favour of progressing the Doha Round as quickly as we possibly can. We are in favour of general trade liberalisation.

CHAIR—That is one of the advantages of the multilateral system, but we have got to focus on this one. I have to be clear and up front here: a submission was made to us that the ISO quality standard is not the standard that companies are judged by under this agreement; the American standard is. I am not sufficiently literate in knowing the difference between the two standards to know what that imposes on Australian companies. For example, if the ISO standard is a more rigorous one, then maybe you have automatically qualified for the American standard and there is no difference in what you have to do in terms of requalifying or whatever.

Mr Upton—My understanding is that the generally accepted standard throughout the world industry has been the ISO range of standards, and the successor to ISO 9000-1 and 9000-2 for the auto industry is a standard called TS 16949. That is the one that is being adopted by the American companies, and it is being rolled out through Australia and is certainly adhered to by the European manufacturers. I may be wrong, but my understanding is that there is a basic agreement about the operative standard. Whether that is perhaps buttressed by being picked up by American standards, TS 16949 will soon be it. It was 9000; it will soon be TS 16949.

CHAIR—I am very interested to get to the bottom of this. To be honest, this was raised with us over a week ago but I have not had a chance in that time to go back and check what all of this means. You may not be the right person for me to ask—and if you are not then you will tell me

and that is fine—but is the something that your organisation could look at for us and provide us with a bit of expert commentary on?

Mr Upton—Yes.

CHAIR—What I am trying to get to is: does this mean additional transactional costs or not? I know that, as you have said, the ISO standard is uniform around the world. If the American market operates on a different standard, I am trying to get a fix on what the actual cost imposition on small business is. The picture I have in my mind is that if the Americans are operating under a different standard then automatically all American companies are qualified and probably very few Australian companies are. For the market to operate competitively and fairly, Australian companies ought to be qualified.

Mr Upton—Yes.

CHAIR—But I do not know what that means in terms of what the cost of requalifying is, whether it is necessary to requalify and so forth. I would really appreciate a considered view from an organisation such as your own, if you could do that.

Mr Upton—I should say that at the top level it is a question for the car companies themselves, which tend to drive the standards down through the entire industry by mandating that everyone performs to a particular standard. So it is a question that perhaps should be addressed to them.

CHAIR—We are seeing them later so we can do that.

Mr Upton—But I will certainly come back you on that, because we have been busy marching along to the TS16949 beat. The industry is expecting to be qualified to that standard early in 2006.

CHAIR—I do not want to be alarmist about this, because the issue was raised in respect to e-commerce, but it strikes me that if there are different quality standards in a FTA then there is a market entry cost for this market that does not apply elsewhere.

Mr Upton—Yes, I agree.

CHAIR—A lot of small businesses have spent a lot of money qualified under the existing standard, and they proudly advertise it on their letterheads and everything else—which is good. I am really trying to clarify what this standards argument means.

Mr Upton—I will seek to do that.

CHAIR—I have one last question before I run out of time, and I will be delighted to hand the call to Senator Ferris. One of the issues for the motor industry is the Nara treaty. You may have heard this debate before.

Mr Upton—Is this the investment parity treaty?

CHAIR—This is the treaty with Japan written under the Fraser government and, I think, signed in late 1976. It was a treaty of friendship and cooperation between the two countries. Article 11 provides that each of us as the two contracting parties—that is, Australia and Japan—if we strike a deal with a third party which is more favourable than the deals we extend to each other then we extend the more favourable deal we have struck with that third party to each other. It is a sort of MFN clause.

This has created a bit of debate and discussion about the auto industry given that two of our carmakers are American and two are Japanese. Other sources of motor vehicles for Australia in addition to that are Europe and Korea. This is one of those areas where I am not asking you to interpret what the meaning of the treaty is. But it is an area we have to have some regard to because if this treaty is binding and what has been done in auto area, for example, needs to be extended to Japan then you can take a whole different view of it. I am just indicating what the problem is. I am not expecting you to have any response, but if you could take that on board and tell us what your views on it might be then that would be appreciated.

Mr Upton—Okay.

Senator FERRIS—Mr Upton, in your press release dated 9 February 2004, when you first responded to this free trade agreement announcement, you made the following comment in the second paragraph:

The USA is already the single largest export destination for Australian component manufacturers, some 550 million annually, and this agreement yields opportunities to improve on that performance.

How do you see that fitting with some evidence that we received from Mr Doug Cameron from the AMWU? He referred to the probability of greater than 50 per cent job losses in the auto and component sectors, with a 25 per cent probability of very substantial job losses. Can you take me through what it was that led you to say that the agreement would yield opportunities to improve on that performance for Australian component manufacturers? Could you reflect on what you think would have led somebody to observe a 50 per cent probability of job losses in the automotive and component sectors, with a 25 per cent probability of very substantial job losses? One just does not fit with the other, to me. Do you have any views on that?

Mr Upton—Our assessment was based on the views of our membership—the people who are involved in the trade and the people who are involved in producing the components. It reflected their view of the way the world would be. I am not sure where Mr Cameron would have taken his views from. I expect he would have taken them from his membership.

Senator FERRIS—Presumably your membership are the people who are the employers?

Mr Upton—Yes.

Senator FERRIS—Did any of your members expect there to be any significant job losses at all? You talked about the ACIS scheme remaining in place, so I imagine that your comments, and the comments of your members, are based on that remaining in place. With that proviso, did any of your component company members, the employers, predict a significant job loss?

Mr Upton—No.

Senator FERRIS—Not one of them?

Mr Upton—We had nobody saying that their biggest concern with this was that they would suffer job losses. What we have is aggregate figures and I do not recall the specifics of members' responses. The piece that I am about to refer to is in the submission that I have tabled. Our respondents' estimates were that they thought there would be an increase in component exports of around 0.55 per cent across the membership. They also expected an increase in component imports from the US. They saw that as being a trade diversionary possibility—that those imports would substitute for imports coming from other places. Most people figured that there would be a growth in vehicle exports. They did not give a percentage figure for what they thought would happen, but generally those figures were fairly low.

Putting all that together, the assessment that that would underscore for employment is that it is either neutral or mildly positive. I will say neutral because, generally speaking, over the last 15 years or so in automotive companies, increases in production and output have not been matched by increases in employment. The industry generally operates under a pretty severe cost-down methodology. It does that world wide. In order to compete we have to employ that method in Australia. That is translated into employment on the whole being relatively static and/or declining. I would expect that even with an increase in trade to the US that may be the continued trend. But it won't be the catastrophe, in our view, that Mr Cameron is painting.

Senator FERRIS—I expected that would be your response because I did not imagine that you would put out a media release that would have a heading saying, 'Component manufacturers welcome FTA', if in fact your view reflected that of Mr Cameron who stated:

... 50 per cent probability of job losses in the auto and component sectors, with a 25 per cent probability of very substantial job losses.

We have had evidence from two of the three Australian car companies and they certainly have not reflected that view either. Since they are the employers and you are an employer, I was interested to lay to rest and clarify that point.

In my home state of South Australia, where, of course, the car and car component industry is crucial to the state's economy, we are all somewhat nervous as a result of the Lonsdale decision recently. There are companies that are already exporting to the United States, such as the South Australian company which is exporting the Harley Davidson wheels for the motorbikes—you referred to motorbike components in your introductory remarks. What would you think the agreement by the United States, to immediately reduce to zero all tariffs on components such as those, would do to, for example, that small component business in South Australia?

Mr Upton—I think that is a fairly specialist area of export—the wheels in question go to Harley Davidson.

Senator FERRIS—But that is one of our great success stories in the South Australian component industry. They fought very hard to get those alloy wheels in. I would have imagined

that they would now become incredibly competitive as a result of the option in this agreement to reduce to zero all the tariffs on those components.

Mr Upton—I think that is right, but I was referring to the fact that they already hold 100 per cent of Harley's business, so they depend therefore on Harley expanding its business before it has any net effect.

Senator FERRIS—I would have thought that they may now be able to be competitive with other manufacturers.

Mr Upton—That is possible, I suppose. We would certainly hope so. I think that illustrates the kinds of opportunities that we are looking for. In an industry where the margins are in single digits, and low single digits at that, the ability to shave 2½ per cent off your cost is still very worth having. Our customers will switch suppliers for that much margin.

Senator FERRIS—I guess the other thing that that particular example is characterised by is the fact that they are a small business yet they are extremely export ready, which is the other point that you raised in your remarks. That is, companies entering the market on the procurement question that Senator Cook raised may have more difficulty than a company such as this one. Would there be other component companies that would be as advanced in the American market which are members of FAPM?

Mr Upton—Absolutely.

Senator FERRIS—What percentage of your membership would already be export ready into the United States?

Mr Upton—I could give you an exact figure if I could take the question on notice. A rough estimate is that around 15 per cent of the membership, which is between 20 and 30 companies, would be export ready into the United States, and that is on the ground that they are already doing it.

Senator FERRIS—Roughly what sorts of employer numbers would that be?

Mr Upton—If you take PBR as an example, the Pacifica outfit which manufactures brakes and holds intellectual property on them worldwide, they have plants in North America, Asia and Europe. They employ around 1,600 people in Melbourne but the United States operations that they have set up as a result of successfully selling into the US market now constitute more than 80 per cent of their turnover. That, of course, is a dilemma for anybody who cracks it big in the US market. Sooner or later, the customer wants you to be next door and your option is to establish a facility. I am talking about some businesses which have a very large-scale operation. In some cases, they are an Australian tail attached to a US dog, and in other cases they are firms which continue to supply the US market from Australia.

One of the firms that supplies to the US market is Gibbens Industries, which is a very successful spring maker in Gosford. It is a relatively small business in international terms, but highly successful in what it does, and 85 per cent or more of its total production goes offshore. I am not sure whether this is still the case, but Schefenacker was supplying all of the rear vision

systems for Ford North America from its Adelaide plant. I think that is still largely the case. They are supplying through a very long supply chain but the scale of the order is vast compared to the scale of the business they are doing in Australia.

Senator FERRIS—I would like to read you points 3.92 and 3.93 on page 34 of the interim report of this committee, which was tabled in the parliament this morning. Point 3.92 says:

The committee received evidence arguing that the agreement will have a significant adverse impact on the manufacturing sector in Australia, including considerable exacerbation of job losses, particularly in TCF and automotive component industries.

The next paragraph goes on to read:

The committee is concerned about the potential impact on domestic manufacturing industries and urges the Commonwealth government to devise a structural adjustment package equivalent to the sugar package to assist affected industries.

The evidence that you have given us today and the press release that you put out on 9 February do not suggest to me that you are expecting significant job losses, and you have confirmed that to us today. Therefore, would you think that this committee should continue to be concerned about the potential impact on your sector, and has anybody in your industry suggested a structural adjustment package to assist your industries?

Mr Upton—No-one in my membership has suggested a structural adjustment package. The chief focus was to maintain the existing assistance regime. I will point out a couple of the things that I think influenced the membership in reaching that conclusion. Firstly, most of our members do benchmarking studies. They benchmark not against the shop down the road but against the shops in the US, in China and wherever. The benchmarking data that were available from those studies did not suggest that Australia was uncompetitive against the United States on price or quality. In fact, this is in part why I was deconstructing the import and export figures—to show that we are in a segment of the market where the balance of trade lies somewhat in Australia's favour.

I suppose the correct answer is that we do not see a collapse arising from this free trade agreement. But quite independently you could see a collapse in the Australian automotive industry if the local manufacturers ceased to manufacture here—so all of my remarks are premised on the essential precondition that local manufacture continues. Some of the fears about US suppliers are probably ameliorated by the fact that the major US suppliers are already located and producing here. People like Delphi, Visteon, Johnson Controls and Lear are already in the marketplace, so the fear of sudden gazumping by US companies based in the US may not be all that real, in the sense that they already have operations here so they would not need to do that.

A final point about the components sector is that it was not immaterial to us that at the end of the day the car companies supported the free trade agreement. By and large, any increase in sales for the automotive companies absolutely helps the components sector. If they can sell more cars into the USA then that is the easiest export that we will ever make. Export is fundamental to us. That came late in the piece, I might add, so really the general stance that the components sector took was, to some degree, last-minute support.

I think ultimately there is also a realisation in the components sector that, from the Button plan, from 1983 on down, assistance and general tariff protection is declining, so that at some point the automotive industry is going to have to compete without tariff or other assistance. The components sector generally accepts that proposition, although of course, like anybody, we would like to hang on to the assistance we have, but seeing that as the long goal I think helped to quieten any discontent that people may have felt about it. Certainly I would reiterate my opening remark that the general stance of the components sector was in favour of the US free trade agreement, without necessarily throwing our hats over the stand. It was seen as positive, but mildly so. Casting that bread on the water, we continued to support it all the way through.

Senator FERRIS—As a South Australian, I do not need to tell you how much we value the car and car components industries, and how pleased I am to hear the comments you have made today, particularly the comment you made in relation to the likely useful incremental volume in niche markets for motor vehicles. The fact that all of our car components are going to be more competitive under this arrangement than they are today leads me to feel a greater optimism about the car industry, particularly in our state of South Australia. Thank you very much.

Senator BRANDIS—Let me paint a scenario for you. Let us assume that in July, during the parliamentary recess, the American Congress passes the FTA. The enabling legislation in Australia has already passed the House of Representatives without controversy. The last parliamentary chamber to be seized with the matter is the Senate. What effect do you think it would have on morale in your industry and also, in more quantitative terms, on jobs in your industry if the Australian Labor Party then stopped the FTA in our Senate?

Mr Upton—I think it would be unwise of me to attempt to answer that question. The outcome in the Senate remains for the Senate to decide.

Senator BRANDIS—Sure, but I am just wondering what the consequences for your industry would be if, at the last hurdle, the FTA fell over.

Mr Upton—I reframe the answer slightly and say that I think at the end that is a political judgment. I cannot make it and I cannot make it on behalf of my members.

Senator BRANDIS—I am asking what the effect on your industry—in terms of lost opportunities—would be if we did not get the FTA?

Mr Upton—Having said that the overall consequences of successful implementation of the agreement are roughly neutral to slightly positive, I could not see that it falling over at the eleventh hour would have a huge impact on this industry as such.

Senator BRANDIS—Excepting, I suppose, in terms of opportunity costs—

Mr Upton—That is where I would immediately say, ‘That is political.’

Senator BRANDIS—things that you might have wanted to do but could not then do.

Mr Upton—Yes, that could happen.

Senator BRANDIS—We have heard some evidence from the economists about what they call the dynamic effects of the FTA. As a layman in economics, it sounds to me as if it is very hard to quantify how a living, breathing agreement will operate, because it depends on investment decisions that will be made in the future. What is your visceral sense, from the point of view of your industry, of how entrepreneurial the industry would be in using the opportunities provided to it by the FTA, if indeed we do get it?

Mr Upton—I can only refer that back to the industry's performance. From a standing start to \$550 million worth of exports to the USA is a fairly good record in a pretty tough market. I need to say immediately that I do not think that the component industry is going to sit on its hands without an FTA. It will continue those efforts.

Senator BRANDIS—The sky is the limit?

Mr Upton—No, I would not be so bold. I think that Australia's place in the manufacturing world is by nature quite small. I do not want to talk it down, but—

Senator BRANDIS—I just use that piece of rhetoric to conjure up the idea that you cannot at this stage put ceilings on what this agreement might produce.

Mr Upton—No, and I cannot put a ceiling on what might happen if it were not there, for the same reason. The decision to source is ultimately made by a car company, and a car company might well say, to my very great surprise, tomorrow that they are going to source some massive component supply from Australia. I do not know whether that will happen. I can say that it is 2½ per cent more likely to happen if there is an FTA. That is all I can say, I think, because that is the differential in the price.

CHAIR—Thank you very much, Mr Upton.

[4.31 p.m.]

FERNANDO, Mr Anthony, Manager, International Liaison, Americas, Austrade

LYONS, Ms Margaret, Director, Corporate Services, Austrade

WILKES-BOWES, Ms Dee, Acting Manager, Government, Industry and Policy, Austrade

CHAIR—Welcome. Which of you would like to lead off?

Ms Lyons—We would like to make just a couple of opening remarks. Austrade thanks the committee for this opportunity to discuss some aspects of the potential US FTA and would like to share with you some of our preliminary thinking on how we intend to promote the benefits that might ensue, should the agreement be passed by parliaments in both countries. As you would appreciate, Austrade's role as the Australian government's key export facilitation agency is to assist Australian companies to access export opportunities in global markets. Certainly in the last couple of years we have had a much sharpened focus on accessing as many additional opportunities as possible in our quest to help double the number of Australian exporters by 2006.

Austrade's work complements that of the Department of Foreign Affairs and Trade, which has had, and does have, primary carriage of negotiating any market access arrangements between the Australian government and other governments and, indeed, multilaterally. Austrade is not best qualified to discuss the policy implications of the agreement or any specific detail therein. Rather, we believe our role is to share with you some of the very preliminary looks we have had at what might fall out, should that agreement be passed by parliament.

My colleagues and I would also defer to the specialist expertise in some of the other agencies, like DAFF and AQIS, on the issues of import protocols and quota management, because we could not possibly claim to be experts in those areas. Austrade has not yet conducted any comprehensive analysis of the agreement but rather our approach to date has been to focus on those chapters that are probably most directly relevant to our trade facilitation and promotion role and also to look at those areas that might provide the more short-term opportunities for Australian businesses from 1 July 2005, should the agreement be agreed to in parliament. On that particular aspect, we focused on the goods and the government procurement chapters and we have taken initially a short-term view to developing and introducing appropriate trade facilitation and promotion strategies that will fall out of those more short-term opportunities for business. But we will be looking at the medium- and long-term aspects of the opportunities that would fall out of the agreement in due course. So, having given those opening remarks, we are here to answer any questions.

CHAIR—Thank you very much, Ms Lyons. First of all, in anticipation of this agreement coming through, has Austrade made any plans to review its structure and staffing in the US market?

Ms Lyons—Mr Fernando might like to answer that.

Mr Fernando—Ian Wing, our regional director based in Los Angeles, is in the process at the moment of reviewing Austrade's structure in the United States. I believe we are looking at appointing two additional members of staff, to cover parts of the United States where we do not have a physical presence. They might be in the south-east and in the Houston area, although I need to confirm that that would be the case.

CHAIR—In this budget that we are debating now has there been any budget allocation for Austrade to be able to better fund a US presence? Is there an increase in funding?

Mr Fernando—Yes, there has been some funding that has been provided to Austrade to implement activities associated with all FTAs, including the United States.

CHAIR—Can you remind me how much that is?

Mr Fernando—There was \$6.1 million of new funding, combined with \$13 million out of the current budget, totalling about \$19 million over four years.

CHAIR—The \$13 million is exactly what?

Mr Fernando—The \$13 million is taken out of our current budget and reallocated—from different parts—to the FTA.

CHAIR—I am not sure of your structure anymore, but are you saying that you have an FTA unit or desk, you have looked at the needs that FTAs create in these markets—and I assume they are New Zealand, Singapore, Thailand and the United States—and an amount of \$13 million or thereabouts has been allocated to increase Austrade's presence and services for Australian companies in those markets?

Mr Fernando—Correct.

CHAIR—In addition to that, in this budget \$6.1 million has been again appropriated to this pool, lifting the total funding to \$19.1 million for the purposes of servicing the needs of all the FTAs: is that a correct understanding?

Mr Fernando—Yes.

Ms Wilkes-Bowes—That \$19.6 million was actually the total figure for a program called New Opportunities, New Exporters, which was made up of \$6.1 million in new funding and \$13.5 million in reallocated Austrade funding. That program covers the FTAs that you mentioned, the accession of China to the WTO and also some other initiatives which will take place in Australia but are all linked to those new opportunities coming out of those market access gains.

CHAIR—Can you give us an indication of what the funding for the US market will be out of this pool?

Ms Lyons—It might be helpful if I were to provide to you, out of that \$19½-odd million, what we have had a look at for the next financial year in relation to the Americas and also, more

broadly, the totality of what might be spent there over the course of the next four years, because this is a four-year program.

CHAIR—I apologise that, as we are having a division in the Senate, we are going to have to adjourn, for the purposes of voting, and come back. My apologies for that, but this is the problem with trying to do all of this while the Senate is sitting. This week is just terrible.

Proceedings suspended from 4.39 p.m. to 4.49 p.m.

CHAIR—I call the committee to order.

Senator FERRIS—Could you take me through any plans you might have to assist small business in Australia to become export ready, particularly in the procurement market? We have heard evidence that it is generally accepted that those businesses who are currently exporting to the United States—for example, in the automotive component industries—will find it relatively easy to continue to grow their markets. But I imagine that small businesses who have never been involved in the export market will look to Austrade for some assistance. I am wondering whether you have considered that and whether you have a view on how those people can be helped. Do you have any plans to establish courses and/or briefings in each state to help these people?

Mr Fernando—Normally Austrade business development staff—for example, from the United States—come to Australia and conduct various briefings. Sometimes these target specific market segments in the United States; otherwise they are generic ‘how to do business in the US’ seminars. These seminars and briefings go out to all companies that are interested—from new to experienced. Within the context of those, we inform companies what to look out for in entering the market. In that way we try to coach them and mentor them by making them aware of the opportunities in the market and how to access them.

Senator FERRIS—Are those courses widely publicised and are they popular?

Mr Fernando—They are widely publicised. I will use by way of example a series of seminars we ran in February and March of this year. They were on doing business in the USA. Over 500 Australian businesspeople attended those seminars. The seminars were held fairly widely around Australia. That number of attendees is quite good. That was a fairly normal type of market promotion activity for us.

Senator FERRIS—What sorts of companies would those participants have represented?

Mr Fernando—They come from a wide cross-section, generally speaking. The doing business in the USA seminars, being of a fairly broad nature and talking about general principles of doing business in the market and opportunities there broadly, tend to attract a diverse group of companies from various industries, both small and large.

CHAIR—We will suspend proceedings for another division in the Senate.

Proceedings suspended from 4.53 p.m. to 5.01 p.m.

Senator FERRIS—We were discussing the participants in the forums and what sorts of industries they represent.

Mr Fernando—I was responding that they probably come from a very wide range of sectors when we have generic seminars and promotions or briefings. However, when we have our business development staff, who are specialists in a particular industry sector like ICT, food or beverages, their briefings would be targeting companies in those specific market segments in Australia. They would be sector-specific briefings, again, for companies who are perhaps new to export compared with those who are experienced exporters.

Senator FERRIS—It has been suggested in some statements that have been made and also at a press conference by the committee's consultant yesterday that one of the great difficulties for people entering the American market, I will read the paragraph because it contextualises it for you:

On the goods trade front, I—

That is the consultant—

think it is fair to say we've got a mixed bag—

When she says 'we' I think she means Australia—

on services and investment I think there is very little in it. On government procurement, simply because we—

I think she means Australia—

are so small and so far away from the United States I think that there are opportunities there but I don't think they are likely to be big.

Would you like to respond to that? Is distance likely to be a significant factor in making a determination and judgment in that way? I do not have any other substantiation for the claim, I am afraid.

Mr Fernando—I do not think distance generally could be considered to be an overly important criterion in evaluating a business opportunity. Companies would generally look at the market, see if there is a market for their product to service and then determine a strategy to deliver that product or service into that market. So if it was distance from the market that she was particularly concerned about then I do not think that that would be a barrier.

Senator FERRIS—What about the size? She said, 'because we' and I think she means Australia, 'are so small'. How would that play out in terms of access and likely competitiveness in the market?

Mr Fernando—Size, if it is defined in terms of scale of production, access to funds or ability to finance business ventures in the United States, could determine what a client can and cannot do.

Senator FERRIS—I do not know, because I was not there, but I think that what was probably meant was that we are small because of our population, our country or the size of our manufacturing base. I think that is probably what it meant. Let me just say that I am very puzzled by this statement because, for example, in South Australia where I come from, the car component industry has some fantastic niche markets into the United States. A shining example is the Harley Davidson wheels, which are manufactured in South Australia by a small- to medium-sized company. I have never thought, and I know they have never thought, that the size of their company, the size of Australia's population or the distance had too much to do with the success of their industry. I think it was the competitive nature of their product, both in price and quality. So I am somewhat puzzled as to what this actually means. But I am picking up from you that you do not think that distance is a factor. It does not seem as though size is necessarily going to be a factor, so the smallness must be about population, I suspect.

Mr Fernando—Sometimes being a small company can be an advantage, being large can also be an advantage when you need a scale of production. In comparison with Australian companies, US companies tend to be very large and they have large production runs and so on, and when it comes to small production runs it is not particularly attractive to them. An order in the United States which might be considered small and not worth pursuing by a US company might indeed be very attractive to an SME here in Australia, so sometimes being small definitely is an advantage. They can turn around jobs quickly and be a bit more responsive, and these small batch orders are a niche that can be filled there.

Alternatively, sometimes when SMEs go to the States they try to deal with customers who have very large needs, and the customer places a purchase order on them which perhaps takes up their entire annual production and they really cannot service it. Therefore, being small can be a disadvantage. The advice that Austrade gives to its clients in developing market entry strategies to the States is to pick partners over there that are roughly comparable, so it is not a David and Goliath relationship, if you like. They are meeting at a point where they have sufficient in common to be able to do business, so it is very important to pick your partners carefully.

Senator FERRIS—I thought that is what you would say because South Australia has got quite a good history of exports, both in manufacturing, as we have just been discussing, and in horticultural exports. I think Austrade in South Australia played a role in developing the market for citrus into the United States as a six-week market during the off season in the United States for oranges. I would not have thought that size and distance would have played a part, but I just wanted to clarify that because I was a little puzzled by the comment. What about culture? Is there a culture in the American community about buying American products? When you talk to potential exporters to the United States who are here, what do you say to them about culture, both in the community and in the small or large companies that they may be negotiating with for components or whatever? Is there some cultural difference which is fundamental to success?

Mr Fernando—Yes.

Senator FERRIS—Can you just reflect on that a little for the committee?

Mr Fernando—Yes, certainly. The business cultures of Australia and the United States are quite different. In the United States there is a very full-on, aggressive, hard-nosed business approach. Sometimes Australian companies are not used to that. They undersell themselves

rather than do the hard sell like the Americans do. That is something that companies need to be aware of. Whilst culturally the Americans have a positive attitude towards Australia, that perhaps does not necessarily always translate into business negotiations. Sometimes when clients go over they feel that we speak the same language, have similar business practices and so on but when it comes down to doing the deal they find that business is business and they are very hard-nosed and competitive. So there are a lot of cultural aspects that are different.

Senator FERRIS—Would you see the signing and passing of this agreement as being of assistance in that sense?

Mr Fernando—I think so. To date, through the negotiation process, the profile of Australia has been raised in the United States. There is a lot of background noise in the United States market so it is difficult, generally speaking, for Australia to get any profile in that particular market. The very act of negotiating the agreement has probably given us more profile generally in the business community than what we would otherwise be able to achieve on our own. So that is positive for Australian business that is already there. Although it has not been widespread, our offices in the United States did notice early on when the agreement was first initialled that there were more Americans making inquiries about what products and services were available from Australia through our six posts there than what probably is the norm. I would say that from the United States perspective the negotiation of the agreement has helped to raise the profile and awareness of Australia generally.

Similarly in Australia, with regard to the seminars earlier this year in February-March that I mentioned and the fact that over 1,000 Australian companies have registered to receive information on the FTA, both those who attended our seminars and those who have registered on our web site—

Senator FERRIS—Do you think that is a high number?

Mr Fernando—I feel that it is a high number, yes. If I were to use those as perhaps barometers of interest caused by the FTA then I would say that it has been helpful in raising the awareness of the States in Australia a bit more and vice versa in the States.

Senator FERRIS—Are there any particular industries that stand out as themes? We have had evidence from the horticultural industry, the wine industry and some of the smaller agricultural market niche industries—for example, the tuna processing industry—who expect to benefit significantly as a result of this agreement. Are there any themes in the people who have approached your offices either in the United States or here?

Mr Fernando—I would not say that there has been a noticeable abundance of interest from a particular industry sector. It has been fairly widespread but, if I were to pick one, probably the information and communications technology industry is one that has shown more initial interest than others. All the ones that you mentioned are included in the types of companies that have expressed interest in the United States.

Senator FERRIS—It strikes me that some of those industries are quite excited at the prospect.

Mr Fernando—Certainly interested in the prospect, yes.

Senator FERRIS—Speaking again from a South Australian perspective, the tuna processing plant in Port Lincoln, which is the only tuna processing plant in Australia, has a huge opportunity because there are no competitors in Australia and they will have open access without any obstacles—either tariff or otherwise—to an enormous market for a high-quality product. So I think it is fair to say that, in their case, they are excited.

Mr Fernando—Okay.

CHAIR—I come back to what I was talking to you about earlier—that is, the \$19.6 million pool for all bilateral free trade agreements. Can you tell me what part of that is allocated to fund US initiatives?

Ms Wilkes-Bowes—The total over four years is \$5.67 million. We have tabled a document which outlines that figure plus some further detail about how that is broken up between this year and—

CHAIR—I think that is the document I am looking at now. Does part of that go to the new opportunities new exporters initiatives or is it all embraced under that heading?

Ms Wilkes-Bowes—It is all embraced under that heading.

CHAIR—Do you draw the cost of additional staff from that \$5.6 million? You say here that you have two additional business development staff in the US. I assume one of those is in the plains states and one is in Texas.

Ms Wilkes-Bowes—That is right. This document shows that, of that \$5.6 million, this is our assessment of where the funds will come from. So that would be from the new moneys, if you want to term it that way. Some of the other programs or initiatives would be funded from existing Austrade resources, but that is still captured within that total \$19.6 million for the overall program. The \$19.6 million is made up of two sources of funding, if you like. We have then gone down to the Americas and within the Americas we have tried to see which initiatives will be funded by new money and which by existing resources.

CHAIR—I understand from what you are saying that from whatever source it is—and I am less interested in the source; I am more interested in what the funds are—it is \$5.67 million over four years for the United States. The proposal is to set up two additional business development staff in the US. Do you know what the cost of setting up those two staff is out of the \$5.67 million?

Ms Lyons—Perhaps I can answer that. It is \$300,000 a year, so that is \$1.2 million over the four years.

CHAIR—I do not need a big elaboration on this, but why were Texas and the plains states chosen? Is that where you think the biggest growth or the newest growth opportunities might be?

Mr Fernando—Yes. They are two parts of the United States where we do not have a physical presence at the moment. By having a virtual presence in those parts we felt we could service potential demand in those areas more effectively.

CHAIR—What type of business do you think those two locations represent?

Mr Fernando—I cannot comment on the Texas area, but I think for the south-east in the Florida area they are looking at mainly food and beverage items.

CHAIR—Or the plains states.

Mr Fernando—How do you define the plains states?

CHAIR—I do not know. It says here:

Two additional Business Development staff in the US working virtually across the Plains States and Texas ...

I assume from that that one is in the plains states, which I take to be the mid-west, and one is in Texas. All I am trying to do is get an idea of what extra money there is, where the resources go and why you have chosen those locations?

Mr Fernando—I will try to answer the latter point first. The staff in the United States have determined that those regions offer business potential for Australian clients—on what basis I am not sure; whether it is the size of the markets there, the size of the cities or the particular industries located within those parts of the states. I can find that out for you. They did go through a process of looking at five or six parts of the United States as to where we could deploy an additional resource. Those particular areas were short listed or prioritised.

CHAIR—Is this it, at least for this budget, or is there ongoing planning and there might be more in the wings to come out for the US market? Can we look at these figures as being it for at least the next year and the out years?

Ms Lyons—My response to that would be that what you have in front of you is the estimate as of today. But it is quite conceivable, as it is in any part of Austrade's organisation, that the actual amount that is allocated to opportunities or client services for those wanting to access the US through a free trade agreement might increase or it might decrease. But at this stage what you have in front of you is our estimate for the next four years.

CHAIR—I understand that point. But these are best estimates for the next four years and these are extra resources?

Ms Lyons—Yes.

CHAIR—After you take away—and I am just doing this in a rough order of magnitude—the \$1.2 million over four years to fund the new additional offices you are left with roughly \$4.4 million or \$4.5 million. How do we assume that is going to be spent?

Ms Wilkes-Bowes—That funding has been earmarked, if you like, for some other positions in the United States—and I think there is some detail in this paper—as well as an outreach program. That may be targeted seminars that Mr Fernando spoke about—

CHAIR—That is an outreach program in Australia?

Ms Wilkes-Bowes—Yes—marketing coordinator, trade promotion events and buyer visits that may be bringing buyers from the United States to Australia to meet up with groups of buyers. And there are other projects along those lines and along the lines we would normally do to service a particular market. Obviously, the detail of exactly what they might be will be determined but they are the types of activities we have identified as being funded for the out years and for this year.

CHAIR—Is any of it earmarked for radio or television advertising or newspaper advertising?

Ms Wilkes-Bowes—Not specifically, no. When we promote events in the normal course of events we do take out small advertisements and community announcement advertisements to link to a specific event. But I do not believe that there is anything planned for wholesale advertisement campaigns for this market or any others. It does not tend to be the way Austrade does its promotion anyway.

CHAIR—So we are not looking at seeing a series of advertisements strengthening Austrade, for example?

Ms Wilkes-Bowes—I do not think so.

Senator FERRIS—Wishful thinking, Senator Cook!

CHAIR—No, I am not. It is just that you can never be sure when there is an election in the wind what is going to happen. Are there any particular plans, no matter how vague at this stage, for the minister or some other person, or Austrade, to mount a concentrated trade mission either in an industry sector or to a geographical area in the United States as a consequence of this agreement?

Mr Fernando—I think that once we have completed our analysis of the tariff schedule and found sectors which could potentially benefit from the agreement coming into force then it is part of Austrade's normal range of strategies to mount inward or outward missions of one sort or another to the United States, whether they are geographically specific or sector specific, and I would imagine that will definitely occur. With the government procurement chapter, for example, they are definitely intending to bring some experts in government procurement to Australia to have a series of briefings around the country to inform companies.

CHAIR—Austrade is doing that?

Mr Fernando—Yes. So both inward and outward missions I think are likely to be on the cards.

CHAIR—Can you nominate for me what Austrade sees as the priority areas?

Mr Fernando—Within the agreement, looking in the short term, we see the government procurement chapter as being a priority area and we are now working through the goods chapter to try to identify those product groups which are going to benefit initially more than others perhaps from the FTA.

CHAIR—Which are they?

Mr Fernando—At this stage we have identified sectors—for further examination though—such as jewellery, cut flowers, prepared seafood, automotive, for instance.

CHAIR—Are there any others that you have identified?

Mr Fernando—We will be identifying more. We have been basically working through the US tariff schedule, starting with those items that attract the highest duty and just working down and focusing principally on staging category A items, the items which become duty free when the agreement comes into force. There are about 5,000 line items in that particular staging category, and we have got about a third of the way through. So we are continuing to drill down through it.

CHAIR—As you know, political life is dynamic, but we are at this point scheduled to report to the Senate on 12 August. Are you anticipating that you will be in a position to say concretely what your objectives are in the US market before we report? Could you provide us with what your strategic plan is to maximise Australia's use of the FTA before then?

Mr Fernando—Our posts in the United States are in the process now of finalising business plans for 2004-05 and so I think by August, yes, we should be able to share with you what our priorities are for 2004-05.

CHAIR—We would like it a bit before August, if you could, because we obviously have to compile and write our report.

Ms Lyons—Whilst we would be more than happy to provide the committee with those business plans when they are available, it would be for the US market in general and not just those opportunities that are FTA specific.

CHAIR—Of course, yes. But you have a business plan now for the US market, a sort of pre-FTA business plan?

Ms Lyons—Yes.

CHAIR—An FTA would expand that business plan, I would imagine.

Ms Lyons—It will add to it, yes.

CHAIR—Let us see what we can do. It would be of interest to us in finalising our report to know how Austrade sees the opportunities and what support behind promoting them you will be putting. Is there anything that you can tell us about what business interest there has been in the US market given all of the publicity about the FTA? Are you able to indicate whether you are logging calls on that and, if so, what number?

Mr Fernando—As I mentioned with Senator Ferris's question, there are two events which I can use perhaps to demonstrate the level of interest. One is with the registration off our web site through companies that have attended seminars for those people who want to receive our e-zine on what Austrade is doing in the United States going forward. We have received over 1,000 companies registering to receive that. That by normal standards is quite high and so we are very encouraged by that. Also with the seminars that we have organised in the last quarter from March on and with our normal business development manager visits to Australia in specific sectors, we have noticed higher levels of interest than normal in the United States. So generally speaking, if you are looking back over the last three or four months, we feel that there have been heightened levels of interest in the United States.

CHAIR—Of those roughly 1,000 companies, have you tabulated them according to industry sector?

Mr Fernando—We can sort them by industry sector. I do not have a breakdown of that though by industry sector.

CHAIR—I do not want to put extra effort on you but if it is possible it would be of interest to us to know which industry sectors in Australia perceive for themselves opportunities in that market. That would be useful for our considerations. Has the issue of rules of origin been raised with you and what the compliance arrangements might be?

Mr Fernando—It has been raised with us. We realise that it is a potentially quite complex area for Australian companies. Whilst Austrade is not expert in rules of origin and the interpretation of that, we are certainly aware that it can be an issue for our clients and we are making them aware in our normal consulting mode that they need to be cognisant of that particular area.

CHAIR—The other two areas—and I will finish on this because I will be out of time—are government procurement and how to access it. Another submission made to us—which I have not had a chance to check out—relates to ISO quality standards, which most Australian companies have qualified for. Quality standards in the US will be different; they may just relate to electronic commerce or be more widespread. Have you had anything come forward relating to that issue?

Mr Fernando—No, I have not come across that.

CHAIR—I apologise again for the vicissitudes of our working in parliament when it is sitting. Thank you for your patience and for your information.

[5.30 p.m.]

BAUME, Mr Michael, AO (Private capacity)

CHAIR—Mr Baume, you are used to sitting on this side of the table.

Mr Baume—You are right, Mr Chairman. It is quite curious being on this side.

CHAIR—However, you know the process. We invite you to say a few words and then take questions. I apologise, but the committee is sitting concurrently with the Senate. This is possibly the last day of the session and at such time, as you are aware, a certain insanity descends on this building. We may be interrupted from time to time by calls for quorums or divisions. I apologise for that in advance in case it should occur and disrupt your evidence. I think the best thing is for us to proceed. I hope there are more committee members present when you conclude; if not, I will ask you some questions and then reserve time for questioning by coalition members.

Mr Baume—I am not at all fazed by the lack of numbers. I always think that in these matters it is quality that counts.

CHAIR—I agree entirely; we can have a mutual pact on that.

Mr Baume—I have a brief opening statement; I did include it in my submission. I do not know whether you feel it is appropriate for me to read it into the record now.

CHAIR—It is included in the record, so it might be more convenient for you to address yourself to it than read it through. But I am in your hands.

Mr Baume—In my opening statement I outline briefly the reasons that I am concerned about the nature of debate about the free trade agreement and the reason I am a strong supporter of it, having been involved with the Australian Ambassador to the United States, Michael Thawley, in generating a level of support in the United States for the concept. Having strong interests in the arts and I suppose from having been a former shadow minister for health, I am concerned about the debate on the agreement in both those areas.

My concern about the arts debate is that I can find nothing in the text of the agreement which can justify what I believe to be an absolutely shameful campaign against the agreement by activists within the arts community. I say that with some background in the arts—apart from having been a shadow arts minister for some years. I was a member of the Council of the National Gallery of Australia; I am a director and trustee of the American Friends of the Australian National Gallery; I am on the Council of the Sydney Symphony Orchestra; and I have been involved as a patron of the Bell Shakespeare Company.

Nothing about my background would suggest that I have a position that opposes the best interests of the arts community in Australia. On the contrary, I am a strong supporter of it. I am not a strong supporter of the dishonest campaign that has been waged against it. I regret that the interim report of this committee seemed to exclusively focus on criticisms of the FTA—which

are, in my view, totally unfounded and unreasonable criticisms—from the arts community without, in fact, reference in the interim report to any of the points that have been made to demonstrate that the arts community's position is unsustainable.

I refer particularly to my submission, which I thought might have included material which was germane to the key issue that the arts community was pushing. That was that there would be a reduction in Australian television content in the event of the free trade agreement because the growth of pay television would damage the economics of free-to-air television. I would have thought that the studies that I presented to this committee would have merited some recognition in the interim report. That report dealt exclusively with the 'concerns' of what appeared to me to be a set of submissions by people in the arts community, which, quite properly, had massive self-interest but which fitted a different set of agendas from the question of whether or not the free trade agreement with the United States was in Australia's best interest.

The other point I wanted to make by way of introduction was on the question of pharmaceuticals. I should mention that I have written some articles on this issue in the *Australian Financial Review*. I would hope that these could be taken into account as perhaps part of my testimony. Briefly, all I want to say about them is that, having been very closely involved with this free trade agreement, I can find nothing in the text which justifies the range of fear mongering that has gone on in the submissions to this committee and to the joint committee. The bulk of the submissions seem to stem from a small group of people involved with the Australian National University which have been repeated by other people obviously with access to and relationships with that small group of people. It seems to me that, once again, in the interim report of this committee—the majority interim report I should stress in view of the presence of government members here who had a different view of the interim report—

CHAIR—That is what I assumed you were referring to.

Mr Baume—none of the very sound explanations of why these fears are wrong and unsoundly based appeared in the majority interim report.

Senator BRANDIS—They appeared occasionally in the government senators' report.

Mr Baume—Yes, the government senators' report but not the majority—

Senator BRANDIS—No, and only very sporadically because we were not given enough time to consider the chair's draft so as to deal with it in a fair fashion.

Mr Baume—I was not intending to be critical of the government members for failing to—

Senator BRANDIS—I am sure you weren't.

Mr Baume—All I was concerned about was that there is apparently in the community a level of concern which is based on misunderstanding and ignorance of the actual text of the agreement and the side letters of the agreement. I must say I would have hoped that an inquiry undertaken by this parliament would have adopted a much more 'rational' approach to the case for and against than I have seen so far in the majority interim report. I say that because I assert I am very much committed, and I do not say this by way of apology, to the view that this agreement is

massively in Australia's best interests and that the consequences of not proceeding with it verge on the disastrous for many Australian industries, particularly those that would be affected by the 37 bilateral agreements at present under discussion with the United States. In other words, the American response to Cancun and the recalcitrant approach by some countries at Cancun has meant that the Americans have adopted a strategy to force those recalcitrant nations to the free trade table, and the way of forcing them has been effectively threatening them with a host of bilateral trade deals. Whether you agree or disagree with that strategy, the fact is that the Americans have undertaken it.

If you include regional trade deals, among those 37 other countries with whom the Americans are now discussing the potential for free trade agreements, there are many that are rival exporters with Australia to the United States—the wine industry, for example. One of the consequences of not proceeding with this agreement would be that those rival exporters in other countries would get an advantage over Australian exporters in that market—Chile, for example, with wine; other South American countries, if they can resolve some of their technical problems, with meat. One can argue that the Australian meat industry did not get as much as it wanted or in fact as much as I believe it deserved in terms of benefit in the United States. The consequences of rival countries getting a commercial advantage against us because of our failure to complete this free trade agreement is a factor which appears to me not to have been adequately assessed so far in the parliamentary inquiries into this agreement.

I believe that is something that this committee could properly address. Mr Chairman, you, with your remarkable experience in the area of trade negotiations, would no doubt be well aware of the consequences of Australian exporters being subjected to serious disadvantage as against other exporters, particularly as one recognises that the Americans have in the past had an unfortunate reputation for placing disadvantageous constraints on Australian exports to the United States. I think it is worth pointing out that this agreement would make it very difficult, certainly much more difficult than it was at the time, for the Americans to impose a massive tariff on our lamb and steel exports. The fact that they have all been pushed aside as a result of various actions is beside the point. The fact is that the Americans have a capacity and a willingness, particularly in times of electoral tension, to adopt very protectionist attitudes.

This agreement gives us a degree of added protection against that kind of discrimination action. So you have the combination of two factors: free trade agreements by the United States with exporters that are rivals to Australia posing a threat and, on the other hand, this agreement limiting the capacity of the Americans to impose discriminatory measures against us. I did not say excluding the capacity but limiting the capacity to do so—they have to follow a different set of procedures. That basically is my allegedly brief—but never trust an ex-politician—introduction.

CHAIR—Thank you, Mr Baume.

Senator BRANDIS—I will ask a couple of questions of Mr Baume. May I say, Mr Baume, welcome—it is wonderful to see you before a Senate inquiry after such a long and distinguished record of service as a senator yourself. Before I go on, let me say that I am going to draw upon your experience as a former senator and invite you to draw upon that experience in responding to this question. One of the problems we have had in this committee is that we have had a number of witnesses, some of them, I am sorry to say, people who hold academic appointments at

distinguished universities, who have come along to the committee and said, ‘We have concerns about such and such a thing’—for example, the PBS or the intellectual property chapters—and yet it has been perfectly plain to even a reasonably unintelligent person that, upon being pressed, those witness were not familiar with the actual language of the agreement or—and this is as plain as day from the *Hansard*—in the case of some who were and had a view as to what the language might mean, were quite unprepared to listen to the expert international trade lawyers and negotiators like Mr Deady, the chief negotiator, who was able to inform the committee as to, from a technical point of view and a legal point of view, what the language about which they were expressing concerns actually meant.

The classic case was the PBS in which even a reasonably unintelligent person could have followed the evidence from Mr Deady and been entirely relieved of their concerns. My question to you, Mr Baume, as not only an expert in Australian-American relations, as you have been as the Consul-General in New York, but also as a former participant in this process, is: how do you think we should deal with the problem faced by us that you have a dense and complex text, the full understanding of which does require a degree of expertise, which is being attacked and criticised by people who are unfamiliar with it or have a limited familiarity with language of this kind; and, in particular, what relative weight do you think we should give the evidence of people like Mr Deady, whose expertise and integrity are not in dispute before us, who can speak as an expert about the meaning of the language, as against those who raise concerns which are not based upon a sophisticated understanding or in some cases any attempt to come to an understanding of what those words mean?

Mr Baume—I see it slightly differently without disagreeing with any of the general points that you made. It seems to me that the misunderstanding does not relate so much to the words of the text, which I do not believe are capable of being misunderstood by anyone adopting an honest approach to the text itself. There is a much more significant misunderstanding. The text is an international agreement. The great bulk of the complaints—the Aunt Sallys, the furchies being generated, particularly from academics—do not generally relate to the text. They relate to the potential for the actions a government might take in the procedures needed to implement the agreement.

In other words, the potential for attack on the PBS depends not on the wording of the FTA, which says there must be an independent review tribunal—unless of course the government does not appoint an independent review tribunal. The attacks have been on what that tribunal may well do if the government at the time—whichever party—introduces a review process that is capable of doing all sorts of terrible things. That strikes me as basic dishonesty. They are political decisions. The methods of implementing the agreement are political decisions to be taken by politicians and, presumably, overseen by a Senate committee—which, I presume, is just as effective in overseeing the activities of the executive as when I enjoyed participating in that sort of process. This seems to me to be the crucial failure in reasonably understanding the real basis on which one should assess this free trade agreement—in other words, the difference between an international agreement and how you implement it.

Senator BRANDIS—I want to concentrate on this question of the weight we give to the expert evidence.

Mr Baume—I have a difficulty with that. Obviously the expert know what the words say. The inexpert, the incompetent and, in my view, the maliciously antagonistic people who seem to have a different agenda in many instances are not so concerned about the meaning of the words but the potential for the implementing legislation to put a particular meaning on some words in the text.

Senator BRANDIS—I accept that. Let me frame my question a little more narrowly. We have had different sorts of witnesses, different categories of witnesses, before this committee. We have had industry witnesses, or witnesses who speak on behalf of a particular sector of the economy, or indeed a particular sector of society. They have come along and said, ‘This is how we think it affects us.’ Those witnesses are perfectly entitled to speak from self-interest. Everybody who thinks that this agreement may affect them, for good or for bad, is entitled to say so. It can only be helpful to this committee if we know where the shoe pinches from their point of view. I am not interested in, I am not concerned with, those sorts of witnesses. None of those witnesses have purported to be experts. They are witnesses speaking from, if I can call it this, a sectoral point of view.

Then we have had what I would bracket as three different subgroups of academic or so-called expert witnesses. We have had people of distinction in the field, like Professor Ross Garnaut, eminent men and women who have a particular view—in some cases a negative view—of the free trade agreement but who, as far as I can see, have striven in good faith and with intellectual integrity and methodological rigour to set out certain conclusions. These, by and large, have been economists or econometricians.

Then we have had people, academics, who have purported to speak as experts but who have merely insulted the committee with an ideological diatribe—people like Professor Weiss from the University of Sydney, Dr Faunce from the ANU and Dr Thurbon from the University of New South Wales. Their rather pretentious claims to academic expertise, irrespective of the positions they might hold at those distinguished universities, have been revealed to any fair observer, upon inquiry, to be nothing more than a camouflage for an ideological point of view dressed up in the garb of academic respectability; they have revealed a failure even to try to come to terms with the agreement or, in the case of Professor Weiss and Dr Thurbon, even to read the provisions they criticise. Then the third subcategory of what I will call experts—

CHAIR—I would just point out, Senator, that your time expires at 6 o’clock and you might want to leave a bit of time for Mr Baume to reply. It is a very long question.

Senator BRANDIS—I am coming to the question; do not use up my time. The third category of experts are those whom I would call the trade lawyers and negotiators—people like Mr Deady, for whom agreements like this are meat and drink—whose integrity, neutrality and objectivity are not in question here and who have been able to explain in a measured way the concerns that others have raised. My question to you is: do you think it is a reasonable procedure for this committee to treat the ignorant or ideologically driven claims of concern of some and, on the other hand, the honest, neutral, objective and balanced explanations by true experts such as Mr Deady with equivalence?

Mr Baume—In putting that to me, you are seeking a subjective view of an inquiry which I would have hoped would have been an objective one.

Senator BRANDIS—So would have I.

Mr Baume—It seems to me that by using phrases from the interim report, without giving them the weight they were given in that report—I am looking at 3.21—basically you are saying, ‘At this stage, having outlined what the criticisms are, we cannot disregard them at the moment,’ or ‘We have to give them reasonable weight,’ or ‘We are obliged to take them into account.’ I agree with you that some things are transparently nonsensical, as so much of that evidence is—regarding the text of the agreement, not the implementing legislation. I repeat: the great bulk of the concerns relates not to the text of the agreement but to the potential implementing legislation. By the way, their assessments are absurd, but it is a different level of absurdity. But yes, I agree with you; I would assume that, in establishing the reality of the text, an objective view would be to give significant weight to those who knew what was in the text.

Senator BRANDIS—So in a dispute as to the meaning of the text between Mr Deady, whose expertise is not in question, and those whose claims of expertise are apparently fraudulent, we should in each case give overwhelming weight to Mr Deady?

Mr Baume—It would seem to me that the onus of proof in this matter is clearly on the people who say the words do not mean what they clearly do mean.

Senator BRANDIS—Or what Mr Deady says they mean.

Mr Baume—Yes, but the thing is by conceding that point I am conceding, which I am not prepared to do, that there is scope for concern in the words. And I am saying there is no scope for concern in the words. It has not been demonstrated and I am reluctant to accept your point.

Senator BRANDIS—Okay. Thank you, Mr Baume.

Mr Baume—But I want to say one other thing. You mentioned Professor Garnaut; a different range of experts. Professor Garnaut’s position was clearly an opinion or set of opinions—for example, entering into a bilateral agreement is not the way to go for Australia; we should be looking at multilateral agreements. That is an opinion. It does not relate to the specifics of this agreement. It relates to whether or not we should enter into these agreements. On the question of academic frauds, I could add a few names to those but I will not. But I have attended a couple of meetings of this committee and I have been appalled at people who profess to be academics, and therefore theoretically in pursuit of the truth, being totally dishonest, intellectually dishonest, in their view. I am not suggesting that they are being paid to have a particular position.

CHAIR—I have a few questions, Mr Baume. I think it may be true that we have shared a platform—I have a hazy memory that we may have done—in debating the need to liberalise trade, to free up trade, in the world. You will recall that in November-December 1999 at the WTO ministerial at Seattle there were riots which effectively closed down the conference and that at almost every other international gathering, whether it be the IMF or the G8 or a ministerial meeting, an international antiglobalisation movement was developing. One of the issues that that antiglobalisation movement seemed to be putting forward—there were a number of issues, not always consistent: some of them ran against each other—was the need for what was broadly described as ‘civil society’ to participate in negotiations and have a place inside the room. Do you accept the proposition—I have espoused it; I included it in my tabling speech

today—that parliament is the institution that scrutinises government and you do not create a special layer for civil society to scrutinise it because it is not accountable to the nation, parliament is. Therefore there is some weight on parliament to be seen in the wider community as exercising that responsibility, and that that is the way to answer civil society wanting to have a bigger say: work through the parliamentary process. Do you agree with that proposition?

Mr Baume—I think the implementing of agreements in particular fits your scenario quite well, where parliament is involved not only in ratifying international agreements but in participating in the legislation required to implement them. So, yes, within that context I agree with that general point.

CHAIR—Does it follow, then, that parliament should be open to all voices, and hear and filter the opinions of all people, so that parliament is seen to be the agency through which society can interact with the government?

Mr Baume—Absolutely. I would much rather see these opinions being filtered through the parliament than fought out on the streets of Seattle, particularly when I see how the American administration at that time bowed down before the streets of Seattle. I think the Clinton administration's response to that was a disgrace, particularly when a level of evidence was produced that the rabble in Seattle was financed by elements of the US textile industry.

CHAIR—I understand that to be partly true. I am not going to condemn the Clinton administration in the manner you have, because I do not want you to be 'blaggarded' as perhaps anti-American. If we agree that parliament is the place, then parliament has to bring a scrutiny to this that can be seen to be done, that people in society can be assured that parliament is playing its role, that all opinions in a democracy can be heard and that there is a proper process at the end of which parliamentary and governmental decisions can be made.

Mr Baume—Absolutely. I certainly do not seek to silence the frauds and the people with special agendas—they should be heard—but I do not think they should be given equal weight in determinations by a parliamentary committee as, say, people who actually know what they are talking about. I do not want to go too far into Senator Brandis's position, but I totally agree with you that this sort of committee is exactly the right committee where these views, no matter how stupid, how ill-conceived, how intellectually dishonest they may be, they should have the opportunity to be expressed. The fact that your committee has allowed it and encouraged it is not something that I would criticise. Maybe I have misinterpreted the interim report, but all I am concerned about is that the 'concerns' that these people expressed appear to dominate the majority section of the interim report. That is my concern.

CHAIR—I understand your criticism of the interim report, or the majority interim report. People can see in the interim report that parliament has heard their views, and they are set out there. The period that you were Consul-General in New York has escaped me.

Mr Baume—I took up the post in October 1996 until the end of July 2001. So it was just under five years. It is a three-year posting, as you are aware, and I was extended.

CHAIR—It was indeed an important posting, and I commend you for your service. During that time there was a change of the administration in the US, with the presidential elections at the

end of 2000. There is no particular reason why you should remember this, but do you recall USTR Zoellick's confirmation hearing before the US Senate?

Mr Baume—No, I do not recall it.

CHAIR—I cannot question you on it if you do not remember it, but you may be prepared to take it from me. In that confirmation hearing, he was asked a question, as is often the case of an incoming administration appointee, about what they saw as the major priorities and how they saw the development of their trade policy. In that sequence of questions, because it was global, he was asked a particular question about Australia. I think we share part of a common history in this parliament—during the years of Labor administration, you were in opposition, and during the years of conservative administration, I am in opposition. The question was essentially along the lines: what do you see as the possibilities of an FTA with Australia? He gave a considered reply, as Mr Zoellick always does. One of the points he made in that considered reply was, as a consequence of his previous experience, when he was deputy chief of staff at the White House with Mr Baker, a free trade agreement had been proposed to Australia. The then Leader of the Opposition John Hewson had lauded it but the Labor Party, in government, had rejected it. He referred to that and then said something along the lines: for a free trade agreement to be negotiated, there needs to be bipartisan support. Do you have any memory of that now that I have laid it out?

Mr Baume—Yes, that is my rough memory of the situation.

CHAIR—Do you think that in such a circumstance, where a country like the United States makes that point, a government has an obligation to try to create a bipartisan situation from the beginning of the negotiation of an important bilateral agreement such as this?

Mr Baume—You have me at a slight disadvantage. One of the major problems in successfully negotiating an international agreement, as you are no doubt well aware, is the need to ensure that your initial negotiating position has not been subject to the potential undermining that can often be involved in a public debate on the issue before you start negotiating. In other words, it seems to me that if a government determines that it wants to achieve a set of objectives in a bilateral agreement, canvassing the issue in detail publicly generally provides more opportunities for the other side of the negotiations to undermine you than it serves a useful purpose in strengthening the government's position. On the PBS it seems to me that, had there been evident public debate emerging from the political process about the role the PBS should occupy, there would have been potential for that public disagreement to weaken the government's negotiating position. I do not know whether that is a situation you found as a minister wanting to deal internationally.

CHAIR—I did not, because there was a degree of bipartisanship in the objectives of the Uruguay Round. There was no essential disagreement about the objectives.

Mr Baume—But I think that in some of the negotiations relating to the environment we probably ended up being less successful than we might have been because of a level of political disagreement. I just make the general point that it seems to me that there is a case for a government acting as governments generally do and putting its position, which can then be subject—as it is in America—to scrutiny by the legislature. In America there was no detailed examination of anything other than the overall prospect of giving the President the authority to

proceed. There was no examination in detail. Are you suggesting to me that in Australia there should have been an opportunity for the legislature to say, 'Yes, we do want you to proceed to negotiate an agreement'—is that the proposition you are putting?

CHAIR—No, I am not putting a proposition at all. I am asking you a question and I am just about out of time. It may be the case that this is a line of discussion that should continue well after this inquiry. Getting the process right is important because trade agreements can be a form of economic legislation in themselves because they shape economies. To the extent that there is a nurtured attitude of bipartisanship—this is me speaking now—there is more likely to be a smoother passage for them and a greater confidence in our negotiating partner if there is a sense of national unity about the objectives and the undertakings given are solid. I want to ask my last question on something else.

Senator BOSWELL—You certainly have a lot of confidence in Mr Latham. I have been sitting here for 15 minutes. It is an interesting discussion but it does not have a lot to do with the trade agreement. You and ex Senator Baume going on a sentimental voyages around Australia and the world is very interesting.

Mr Baume—Could I interpose? There is an issue which is specifically relevant to this agreement, which is that the Labor Party, not so long before, had rejected the opportunity to begin negotiating with the United States.

CHAIR—Yes. We were just coming to the end of the Uruguay Round. The question then was: do you divert into an FTA or do you try to get the round? We opted to get the round and the round was finally got. Are you asking for the call, Senator Boswell?

Senator BOSWELL—No, I am not. I am more concerned that the chicken growers have been waiting here patiently. As I say, it is a very esoteric debate.

CHAIR—I appreciate that.

Senator BOSWELL—Do you agree with that?

CHAIR—I think it is a conceptual debate and a debate about process. That is not a nuts and bolts practical debate but it is the sort of debate that needs to be had, because if you do not have that debate then you fall apart somewhere down the track unnecessarily.

Mr Baume—There is no doubt that it would be great to have a bipartisan approach to such an important agreement. Even if the process has not followed the line that I think you may have preferred I would hope that a bipartisan approach recognising that it is in Australia's best interest would ultimately emerge—even if it is from a process that in your view might be a little flawed.

Senator BRANDIS—It will if the shadow minister for trade gets his way in the Labor Party caucus.

CHAIR—My last question is: do you think that in order to at least nurture a sense of national unity institutions like the Productivity Commission, which the government has as its in-house

modeller and economic reference point, should be used to arbitrate on what the facts are about the gains or benefits of such an agreement?

Mr Baume—If there is so much emphasis on what the short-term or long-term gains are in commercial terms, if they are the only consideration, which I disagree that they are—

CHAIR—I am not suggesting that they are. I have never suggested they are, by the way.

Mr Baume—Quite frankly, I find the whole discussion about whether it is going to be worth \$X million or \$X billion per year to be almost irrelevant. What is relevant to me are the consequences of not undertaking the agreement and not finalising it, which I think pose very serious risks to Australia. I do not think there is any disagreement in Australia about an overall net benefit. I think there is a general view that some say it will be of minimal benefit and some say it will be significant—this is in economic terms.

There has also been discussion about whether entering such an agreement will disadvantage us with Asia or benefit us with Asia. It seems, on balance, that that is not something that can be judged by the Productivity Commission. It is a question of subjective decisions. In my view, the evidence seems to be that it will massively advantage us with the great bulk of Asia—judging by the way so much of Asia is seeking to undertake bilateral trade deals with the United States. So I am not immensely caught up in enthusiastic support of the vital, central need for, say, the Productivity Commission to determine this. It seems to me that there is clearly so much benefit without the need for that kind of reinforcement—there are so many individual industries that stand to benefit and have stated the extent to which they are going to benefit.

But the key reason why I reject the detailed analyses done by everybody is that you cannot do it. The benefits that will come from this free trade agreement are not benefits that can be imposed by this government, the next government or any government of Australia. They can only be achieved by the private sector taking advantage of the opportunities. The Productivity Commission or anyone else cannot measure the extent to which the private sector will take advantage of the massive opportunities this trade agreement presents. They could be unlimited or, if industry is indolent, they could be minimal.

This committee—or any other—over-concentrates on volumetric assessments like that of Professor Dee. Those sorts of things, to my mind, tend to be merely indicators. They give an impression of what someone thinks may emerge. Professor Dee comments on the sorts of opportunities Australia may well take up in meeting the government procurement problems. She has not a clue in the world; she is putting a finger up and seeing which way she thinks the wind blows. That sort of thing is absolutely worthless, in my view. What any government has to do is to ensure that there is an economic environment in which Australian industries exporting or with the potential to export to the United States take advantage of the massive opportunities this free trade agreement provides them.

CHAIR—We will have to end it there, but if we have another opportunity I will take you up on some of those points. Your last point is something that I do agree with. We do fool ourselves, to some extent, that the art of this is creating the framework, when the art of it is really creating a market for the private sector to function in.

Mr Baume—Exactly.

CHAIR—Thank you, Mr Baume.

[6.23 p.m.]

FAIRBROTHER, Dr Jeffory Graham, Executive Director, Australian Chicken Meat Federation Inc.

CHAIR—Welcome. You are probably familiar with the process, which is that we invite you to address us before we ask questions. You have provided us with some detail about your position, and we appreciate that. Please proceed.

Dr Fairbrother—We have indeed met before on the free trade agreement, long before it even started.

CHAIR—As I get older, my memory gets worse.

Dr Fairbrother—You have heard from the Australian Chicken Meat Federation on aspects of the Australia-US free trade agreement on a number of occasions. We have covered background information on the size and relative importance of our industry to the Australian economy. We have commented in detail on our concerns about the importation of diseases of poultry, as well as possible public health problems related to micro-organisms of public health significance such as salmonella and campylobacter.

More recently, of course, we have seen, and commented on, an unprecedented outbreak of highly pathogenic avian influenza in many parts of the world, including our near neighbours Indonesia and Thailand as well as the United States and Canada. In our current submission we have particularly dealt with what we see as quarantine concessions given in chapter 7 of the FTA. These are comprehensive and significant. These quarantine concessions have serious implications for the Australian chicken meat industry and our natural environment more generally, given that they will inevitably be extended to other countries.

The United States has achieved in this FTA—we believe through the back door—significant concessions on Australia's quarantine, and it has claimed poultry as one of the benefits. This was a concern of the federation that has been expressed at a number of enquiries. We are concerned that Australia seems to have traded off quarantine for advantage in other areas in this FTA, although this is strongly denied by the government. Australia presently has under way an import risk assessment for uncooked chicken meat in response to requests from major world chicken meat exporting countries, including the United States.

The provision of chapter 7 to establish a committee on SPS matters and a standing technical working group is a major concern to our federation, particularly as there is no recourse to the dispute settlement process under the FTA for any matter arising under chapter 7. Our concerns about the operation of the committee can be summarised briefly as follows. It will essentially give a foreign power a shared role in the processes leading to decisions on our own quarantine matters. Such decisions will have direct involvement from trade agencies, which will be concerned to obtain and trade off market access. The technical working group will have detailed timetables and deadlines for resolution of specific SPS measures such as the uncooked chicken meat quarantine restrictions.

The group's work would appear to be retrospective so that it can reopen current matters such as the existing cooked chicken meat protocol, which we fought for years to get and which has never been challenged by any importing country. There is no requirement for the FTA SPS processes to be public or transparent or for affected industries to have their interests considered by the committee, unlike the current Australian IRA process. It could be argued that the working group is nevertheless, responsible for a key role in the process of making decisions on Australian quarantine matters. This could well be contrary to natural justice under Australian law.

The current uncooked chicken meat IRA could be one of the early 'matters' dealt with under these provisions. Equally, under the SPS chapter of the FTA text, the 1997 protocol on cooked chicken meat can now be reviewed and altered under strict timetable deadlines. For example, it took about four years to get the science behind that protocol, and if it is now opened again you can talk about getting the whole thing done in 60 days which, as far as we are concerned, is absolutely ludicrous.

While the Chicken Meat Federation welcomes official public assurances that Australia's quarantine has not been weakened by the FTA concessions in chapter 7 and that industries would not be traded-off in the negotiations, the official DFAT disclaimer and official statements on the United States side, raised serious concerns about this. Accordingly, the Chicken Meat Federation recommends that the Senate Select Committee on the Free Trade Agreement between Australia and the United States reviews very carefully chapter 7 on quarantine. In particular, we request three things that are very significant to us but may not be quite so significant to other people: that chapter 7 have no retrospective application to existing quarantine protocols; that chapter 7 would not have application to those Australian risk assessments that are already under way; and that provision be made for full natural justice and procedural fairness to Australian industries through complete public disclosure, transparency and consultation in the activities of the officials committees established pursuant to chapter 7 of the agreement. What I am saying is that the Chicken Meat Federation is not happy about the quarantine issues.

Whilst I have a lot of respect for colleagues in DFAT—in fact, we have a very good relationship—it appears that DFAT is the only organisation in this country that really has the full bottle on matters relating to SPS and quarantine, which I find quite surprising. In some of the evidence that has been given by DFAT in that area and not yet challenged, there could be problems. I would add that I support the free trade agreement overall because I think there are lots of people in Australia who are going to benefit greatly but, as far as our industry is concerned, we do not see ourselves getting any benefit whatsoever. We might end up with some serious diseases in this country. If we do not get serious diseases, that is a huge bonus but, if we do, we know that we are effectively history. If we do not gain economically, we will probably be history anyway. I think I should stop there.

Senator BOSWELL—You are concerned about AQIS and Biosecurity. I think your concerns would be shared by a lot of people at the moment. We have received a number of assurances from the negotiators of the free trade agreement—and I would imagine we would get those assurances from AQIS—that we will control the health or disease risks on importation as we do now. The protocols will not be altered and there will be no change in the procedures. What gives you the concern that there could be changes? Let us go through them.

Dr Fairbrother—I think the major thing is the comments from the United States. The United States farm lobby has already said, ‘Now that this is in place, we are going to break down Australia’s quarantine and we are going to benefit from this.’

Senator BOSWELL—It is one thing for the US farm lobby to say it. I suppose they have to get a bit of benefit out of encouraging the people that pay them their fees to see some opening, but what procedure are they going to use to break the quarantine down?

Dr Fairbrother—What worries me is what I said before. If we have an import risk assessment, as we currently have running for raw chicken meat—

Senator BOSWELL—Who applied for that? How did that get on track?

Dr Fairbrother—The initial application for the importation of raw chicken meat into Australia would have been in about 1987.

Senator BOSWELL—I remember it well.

Dr Fairbrother—The four countries concerned were the United States, New Zealand, Denmark and Thailand. Eventually, because that was seen as too hard by AQIS—it wasn’t Biosecurity Australia then—they said, ‘We’ll have a look at cooked chicken meat.’ This was probably about five years later. For about another four years we went through the science of examining whether we could we bring cooked chicken meat into Australia.

Senator BOSWELL—And you won.

Dr Fairbrother—We won. The reason we won was that we had the time to complete the necessary science. We had peer-reviewed work done overseas at Weybridge and we ended up with a protocol that nobody has been able to meet because the time and temperature requirement is so stringent. We know that the United States were not really happy about that and we certainly know that Thailand was not happy about it, but neither Thailand nor the United States have ever challenged that protocol through the WTO. Our concern is that, if we have a new technical working group and this new SPS committee, it is mandated that, if there is a problem on quarantine, the technical working group reporting back to the main committee has 60 days to make a decision on an SPS issue. We say that that is stupid—

Senator BOSWELL—But that is what it is now.

Dr Fairbrother—No, it is not. The IRA system by the IRA book takes about 18 months. That is about the quickest you can get it.

Senator BOSWELL—I see. But when they make a decision, you have 60 days.

Dr Fairbrother—Once they make a decision, once the draft IRA comes out—which we expect will not be too long—there is a 60-day discussion period and you can make your submissions. But there is no recourse to this new committee by industry—no opportunity to make any submission to that particular committee. They will sit there with trade people and they will make a decision on Australian quarantine, and there is nothing we can do about it.

Senator BOSWELL—That is not what I understand. I understand the protocols will not be altered and we will make the decision in exactly the way we are making it now—based on science.

Dr Fairbrother—I think that could well be true if there is not going to be retrospectivity, but we have an IRA currently under way—

Senator BOSWELL—You were going to tell me who made that application, but you got sidetracked.

Dr Fairbrother—The original application was made way back in 1987 and, through time, it has gone on and on and on and—

Senator BOSWELL—Who has retriggered it?

Dr Fairbrother—The United States in bilateral talks with the Australian people have indicated quite clearly that they think it is time that we looked at that—

Senator BOSWELL—So it would take 18 months again and then another 60 days?

Dr Fairbrother—No. This is what I am trying to say. It will not take 18 months again, because the new standing committee will say to this new technical committee, this new working group, ‘We’ve got to settle this decision.’ They send it down to their technical science people and they have 60 days to do a full risk assessment. I think that is just not on, unless I am totally misunderstanding what it is saying—and I do not think I am. I think it is quite clear that they are mandated to give a consensus decision. That is even worse.

Senator BOSWELL—Senator Cook, I do not think that was the information we got from Mr Deady, but I will check.

Dr Fairbrother—I hope that you are right and I am wrong, but, with due respect, I think I am right and that does cause me a deal of concern. The strange thing is that with a draft risk assessment on the importation of raw chicken just around the corner it seems very unwise for anyone to release a draft risk assessment on poultry at this stage, with the world situation still the same as far as avian influenza is concerned, and I do not think that AQIS or Biosecurity would allow—

Senator BOSWELL—Biosecurity are a law unto themselves.

Dr Fairbrother—You would think that no-one would do this when we know how serious avian influenza is—particularly when the government have recently announced that they are putting another \$130 million into border protection specifically in regard to avian influenza. We are serious when we talk about the problem of disease coming into the country, because there is no doubt that if you start moving raw chicken around the world you are going to have problems, and there is also no doubt that this is part of the reason why we have had this spread of avian influenza around the world. If you look at what happened to the Dutch industry, in three or four months they lost nearly half of their total industry to avian influenza. Some 100 million birds have been killed in Asia, and Canada is still trying to get it under control.

Senator BOSWELL—Is this because of the movement of raw chicken meat?

Dr Fairbrother—Not only that, but certainly there is evidence to show that the movement of raw chicken meat is one of the ways that avian influenza can get around.

Senator BOSWELL—How did it get into Holland and Canada?

Dr Fairbrother—With Canada, my guess is that it probably came from the United States, but if that is not the situation it is also in countries where you have a lot of waterfowl. The actual virus is in waterfowl all the time. We have had five outbreaks of avian influenza in Australia, but each time we have stamped it out because we have gotten onto it very quickly. We have never had a problem like the one other countries have had, particularly Asia, and we have never had the particular avian influenza that causes human disease, and we certainly do not want it. To give the government their due, they are doing everything they can from a border control point of view to stop it. When you see some of the goods that are picked up by AQIS at airports, it is quite extraordinary what people try to bring into the country. That is a real plus as far as we are concerned.

Nevertheless, it does not take long for people to forget about the disease problem. As soon as your vigilance is dropped—you turn away—you are going to get hit. I just cannot understand why there is any world trade in chicken meat, because of the nature of the beast. It is absurd. It is one of the most corrupt markets. I am not a US basher. I was educated partly in the United States and we have family living in the United States. I do not have a problem with that. But I do have a problem with the fact that on agricultural issues they set their own agenda. They do not want Brazilian chicken to come into the United States because it is too competitive. What do they do? They just say, 'You can't come in.' They do not give a reason. You just cannot do it.

We cannot get chicken into the United States because we do not have individual online bird inspections in our processing plants. Individual online bird inspection should have gone out years ago. It is of absolutely no value, because the problems, from a public health point of view, relate to microbiological problems and you cannot see a microbiological problem by looking at birds going past. This has come up at previous Senate inquiries. There is this whole thing about this individual, online bird inspection. The EU had, in my opinion, the audacity to stop chickens going into Europe because the United States used chlorine for hygiene purposes in the processing plants. Have you ever heard anything so stupid? That was because the US won their case with hormone implants in their cattle.

This is what this is all about and this is what concerns us when we see two new committees being set up—one of which is going to have trade people on it. You would wonder why an SPS group would have trade people on it when talking about science. What do trade people know about science? They do not know anything about science. With all due respect to DFAT, they do not know a lot about science either. These are the sorts of things that concern me about quarantine and SPS. I know that there is not a lot of detail about SPS in the interim report, which I had a quick glance at tonight, but I think it is one of the most important issues in the whole of the free trade agreement as far as agriculture is concerned.

Certainly if Senator Brandis was here he would say that I have a vested interest. He is dead right. I do have a vested interest. But I have a vested interest in an industry that is producing now

the most popular meat eaten in this country. We do not want to see that go down the drain because we have some breakdown in SPS or quarantine and the whole thing falls apart. I do have a vested interest from that point of view, but I have an interest in the economy of this country, and the chicken meat industry plays a very important part of that.

Senator BOSWELL—You said that you were for the free trade agreement.

Dr Fairbrother—Overall, I would say that I am, because I do think there will be industries that benefit. Probably overall the Australian country will benefit. There are others areas in it. I do not want to talk about other issues that I do not really understand and that I just hear the public comment on—people saying yes or no—but overall you would think that with regard to agriculture you could go a little bit further. You might say that the beef people think that they got a really good deal, but that is eighteen years away: you have to be joking!

Senator BOSWELL—I think beef got not a good deal but a positive deal—4.4c a kilo is wiped off straight away and they get another 20,000 tonnes in the next three years, which then builds up to another 70,000 tonnes. So they are building up. I think that that deal is not a good deal but it is certainly a positive deal.

Dr Fairbrother—I agree with that.

Senator BOSWELL—When you get to the fishing industry, they think they have won the lottery, and the dairy farmers are about 4,000—

Dr Fairbrother—Yes, they are pretty happy.

CHAIR—There is a division in the Senate. Will you excuse us, Jeff. This is the trouble with holding these hearings concurrent with a sitting of the Senate.

Proceedings suspended from 6.45 p.m. to 6.50 p.m.

Senator BOSWELL—I am listening to your concerns, and I am going to investigate them and see if you are right or I am right. But the process is such that I do not think we can pick and choose—we are either in or out. I think you have agreed that it is overwhelmingly better for Australia—but you have registered your concern for your industry, as you should. I do not have any more questions.

Dr Fairbrother—Could I add that one of the things that I think is important is that the whole situation of these two committees should be clarified. If the ultimate decision on risk, quarantine and biosecurity comes from Biosecurity Australia, without influence from outsiders and with plenty of discussion with various people—particularly with the Australian industries—then I probably would not have the same concern—if there was a written guarantee. Right now, there is no guarantee. Right now, the way chapter 7 and the things associated with it are written is that the standing committee can say to this other group, ‘Do this,’ and they have to come back in 60 days and say, ‘Yes, you can import chicken.’ If that is the case, we are concerned. If, on the other hand, it were clarified that the final say on this was Biosecurity Australia’s, and Australia could set its own level of protection, as all countries do under the WTO, then we would not be as

concerned as we are at present. But currently there is no legislation to back that up. I think that is a weakness that ought to be looked at.

CHAIR—Can I ask you some questions from my point of view?

Dr Fairbrother—Sure.

CHAIR—First of all, I want to get the statistics for your industry right. If I read through what I think are the statistics, you can confirm with me at the end whether they are right or wrong. The Australian Chicken Meat Federation represents a major rural industry supporting 120,000 jobs in regional Australia.

Dr Fairbrother—They are not only in regional Australia—there are 120,000 jobs across Australia. A proportion of them are in regional Australia, because you have regional centres such as Bendigo, Griffith and Tamworth. Around the country, they are certainly in regional and also outer metropolitan areas.

CHAIR—You have a turnover of around \$3.6 billion per annum?

Dr Fairbrother—Yes.

CHAIR—You are not subsidised; you have no tariff protection?

Dr Fairbrother—We have no tariff protection at all.

CHAIR—No subsidies?

Dr Fairbrother—We get a dollar for dollar matching grant for research.

CHAIR—Research and development? That does not subsidise production?

Dr Fairbrother—No.

CHAIR—Major exporting countries in this world market include the US.

Dr Fairbrother—They are the biggest player.

CHAIR—And there are a number of diseases in the US that are not present in Australia? Sorry, there is a division in the Senate. We do not have pairs and so we will have to go.

Proceedings suspended from 6.54 p.m. to 6.58 p.m.

CHAIR—Is it correct that a number of diseases that exist in the American chicken meat market are not present in Australia?

Dr Fairbrother—They have had a very serious outbreak of very virulent Newcastle disease in the last 12 months. That was due to fighting cocks being transported all around California.

Senator BOSWELL—Who does that? The Mexicans?

Dr Fairbrother—They say it came from Mexico.

Senator BOSWELL—I mean who does the cockfighting? Is it the Mexicans?

Dr Fairbrother—Yes. Although it is illegal in the United States that does not mean it does not go on. They have strains of infectious bursal disease that we do not have in Australia and that was what the cooked chicken meat protocols were designed on—the destruction of infectious bursal disease. They have recurrent outbreaks of avian influenza of various sorts. They have not had the serious strain that was killing humans, although Canada, right on their border, has had that. They are the three most important ones. We have our own strain of Newcastle disease in Australia, which we are now vaccinating against—not against the virulent disease but against a mutant. We are trying to kill that off because it is the precursor to the whole disease and, with three years of vaccinations, we should get rid of that totally and completely. We do not currently have avian influenza in Australia, and we do not have infectious bursal disease of a virulent form in Australia.

CHAIR—Can you confirm that the United States producers are gearing up for the Australian market and that the US Farm Bureau has calculated for them the value of this market at about \$15 million per annum?

Dr Fairbrother—They said it was \$US25 million, which is about \$40 million. They say that that is what they reckon they will get in. That would be initially, would be my guess. But again, of course, this will depend on quarantine issues and what the protocols are. This is what gives us the concern about this little extra committee that they are going to have, as to whether they are going to set the protocols or how it is going to work. That is a concern. The other concern about that is that once the rules are set in this FTA it is going to flow on to other countries, and we would be horrified to think we would bring anything in from Asia, particular from Thailand.

CHAIR—Under the WTO, we are bound—in my belief, rightly—to a science based assessment.

Dr Fairbrother—I do not disagree with that.

CHAIR—To cut right down to the chase, there are really only two questions. I have just been through the implementation bill that was put down by the government yesterday, and the explanatory memorandum, and there is nothing in here that I can see, subject to a closer reading, that refers to the SPS arrangements. They are all in the agreement itself and they are to be set up administratively; they do not require legislation. That is my understanding of it. Is that your understanding?

Dr Fairbrother—That is what I understand, and I think that is a real worry.

CHAIR—We in the Senate do not always apply this uniformly, and sometimes we take a different view of it at different stages of the political cycle than we might do at others—all those things agreed—but generally when the Senate look at legislation we look at what we call delegated legislation. When the Senate legislate something and confer powers on the

bureaucracy to settle and make law without reference back to the parliament we regard that as delegated legislation. Unless there is a very close definition of their powers the Senate usually take the view that we do not tolerate delegated legislation because we cannot be sure what outcome we are legislating for—and we are all accountable. So there is a practice between governments over time to scrutinise the bills coming before the Senate to, among other things—and retrospectivity is another matter—look at where the delegated legislation provisions are.

I am going on a little here but I have gone through the FTA to look at what areas there are of delegated legislation, and quarantine is one. To be fair to the government, and we have had this discussion more in pharmaceuticals than in SPS, we have said to them: ‘Will you be able to advise us of how that is all going to work before you ask us to vote on the bills?’ They have said that is their intention—and this is really about the PBS—but they cannot guarantee, given their consultations with the stakeholders, that they will be able to do that but that is what they want to do. We have not had that same sharply focused discussion on quarantine but we have referred to it in the broad. We have got the government coming before us at our next raft of hearings, but that is at the end of July.

I think—and I am speaking only for myself—it is a reasonable question for the Senate to say to the government: ‘We want to know how all the delegated legislation clauses in the agreement are going to work, because there are so many of them you can reshape the agreement without reference to the parliament. And since we are accountable to the people we need to be able to answer what in fact we have voted for.’ That is my view. I do not think it is a big deal; I think it is a matter of just going through and coming back to the parliament and saying, ‘This is the structure, these are the powers, these are the type of people that will go on it.’ Your question—are they trade specialists or are they SPS specialists?—is a relevant question, in my view. We ought to be able to be told; I do not think this is a mystery. I am not pretending as an order of difficulty that this is a huge one or that it is a deal blocker. I think it is a reasonable one. I have stated my view up front. Do you have a comment on that?

Dr Fairbrother—I do not disagree with what you are saying. The sort of thing that worries us is in this whole system is that currently in Australia, if there are quarantine issues, there is a consultation between Biosecurity Australia, AQIS and the industry concerned. In this new deal, unless it is legislated in some way, there is no input from our industry at all, and that is a major concern. If I could add one little thing about the DFAT guide and disclaimer, which amuses me to some extent—the disclaimer cautions us about the views offered in their guide, saying:

Views ... are without prejudice to any legal interpretation of the Agreement by the Australian Government.

Before entering into any particular transaction users should:

1. rely on their own ... skill ...
2. check the final text—

and do all these things. It goes on:

While every care has been taken in ensuring the accuracy of the information provided, the Department of Foreign Affairs and Trade, its officers, employees and agents, accept no liability for any loss, damage or expense arising out of, or in connection with, any reliance on any omissions or inaccuracies in the material contained in this publication.

I think that is an extraordinary thing to say. It really discounts the value of the guide itself, so you have industries like ours who read that and think, ‘Well, what on earth does that mean?’ That is a criticism of DFAT, I know—and I work with those guys quite a bit—but I still think that that is strange.

Another thing I would like to comment on is that there are 26 official side letters to the FTA but there are none at all on SPS matters. I think that the quarantine issues of SPS are of concern to our industry in particular and to some other agricultural industries, but I am not talking for them; I am just talking for us. If we could get some input from a legislative point of view, as you suggested, then we would probably go away. We understand quite clearly that this free trade agreement is not going to rise or fall on what we say, but we want to make the point that we are concerned. We have plenty of assurances from ministers that we are not going to have a problem—and I believe that what they are saying they are saying in good faith—but there are no assurances, because—

CHAIR—No, it is a question of whether you can see the fine print and be satisfied yourself, or accept the word of the government. I think it is an unexceptional thing to say that as a key stakeholder you are entitled to see the fine print. We are going to have to close off, but if I can come to two quick final questions. The first question is: would you be able to indicate to us—not necessarily now; preferably in writing at some future time, but fairly soon—what you think the arrangements for this quarantine committee should be, so that we have some guidance from you as to what you are looking for. I cannot guarantee we will agree with you, but if you can provide it to us that will be some guidance.

The second question, which you can answer while I run for this division—your answer will be on the *Hansard*, but I apologise for my absence—is: do you have a view about whether there should be an MFN clause for agriculture? That is, if the United States or Australia reaches a more favourable deal with a third party than they have reached with each other then automatically that more favourable deal applies to this agreement. There is one in here for services; there is not one in here for agriculture. Do you have a view about that? If you can just get it on the record, I will run away. No, the division is over; sorry, I will not run away!

Dr Fairbrother—If you are not going, Chair, could you just say that a little bit more slowly—that second part? The first one I can write to you about.

CHAIR—The second part is what I would call an MFN—a most favoured nation—clause. It would work along these lines. If the United States or Australia reach a more favourable deal with a third country or countries than is provided for in the terms of this arrangement, then automatically the more favourable deal reached with a third party or parties flows to the parties in this deal. In other words, if they reach a deal with, say, Argentina on beef or on chicken meat that is more favourable than the deal they have reached with us, then automatically that more favourable deal flows, and if we do something more generous in agriculture—although we are the demanders here and I cannot see how we would, but if we were too—it would flow to the Americans.

Dr Fairbrother—I would agree with that. I cannot see a problem with that. That is how it should work. The interesting thing is that in the draft of the agreement with Thailand the SPS

quarantine is much tighter, as it should be with the United States. I do not know how that would work with a most favoured nation clause.

CHAIR—That is a classic problem with bilateral free trade agreements: you end up with different quality deals with different countries and, if you are exporting to the lot, the different requirements for each market makes it harder. I think we had better halt at this stage.

Dr Fairbrother—I will certainly send you something on that other one.

CHAIR—Thank you very much.

Dr Fairbrother—It has been my pleasure. I do not know when we will meet again on these things, but you never know.

CHAIR—I do not think this is going to go away. It will be around for a while yet. We are intending to report by 12 August.

Proceedings suspended from 7.12 p.m. to 7.47 p.m.

McKELLAR, Mr Andrew John, Director, Government Policy, Federal Chamber of Automotive Industries

CHAIR—Welcome. Mr McKellar, you are no doubt an old hand at this. You now have the opportunity to address the committee and—if you would not mind—to be available for questions.

Mr McKellar—As we indicated in our submission to the committee, the Federal Chamber of Automotive Industries is the peak organisation representing vehicle manufacturers and importers of all major brands of passenger cars, four-wheel drives, light commercial vehicles and motorcycles in Australia. Perhaps I should preface my comments today by acknowledging that FCAI and many of our individual member companies have been very closely consulted throughout the process of the negotiations. In particular, I need to pay tribute to Mr Stephen Deady, the lead negotiator, and his team for their professionalism and responsiveness in their dealings with us throughout the process. We should also acknowledge the role that the Minister for Trade played in the process and the fact that he has been, I think, very responsive to the views expressed by the industry during the process of consultations leading up to the final outcome of the agreement.

In finalising this agreement, it comes at a time when the Australian automotive industry is really enjoying a period of pretty much unrivalled success. Over recent years, the industry has had very strong growth in sales, boosted, I think, by a robust economic position. We have had very strong vehicle affordability, and of course there has been a supportive policy environment. Last year, for example, the Australian industry achieved record sales of just under 910,000 units, and we are on track to break that record again this year. In addition, the industry in recent years has, I think, come of age as one of Australia's outstanding export success stories. Certainly last year the industry exported around 118,000 units of vehicles, with total automotive exports hovering around the \$5 billion mark for the third year in a row.

Within the overall trade figures for automotive products, the United States, it has to be said, is already one of our most significant trading partners. Last year, two-way trade between Australia and the United States in automotive products was worth almost \$3 billion. Exports of parts and vehicles to the United States have peaked at more than \$1 billion in the last few years; in particular, vehicle exporters have enjoyed some considerable success in the US market. In recent years, Mitsubishi, for example, has exported significant quantities of the Magna—or Diamante, as it is badged in the US—and more recently, of course, Holden has begun exporting the Monaro coupe badged as a Pontiac GTO. While these vehicles, as passenger cars, currently only face a 2½ per cent tariff on entry into the United States, the elimination of this duty under the agreement offers a modest but immediate benefit to those exporters.

It is also significant to note that under the terms of this agreement the US has agreed to eliminate the 25 per cent tariff on light trucks. Until now, that has been a significant and prohibitive barrier to trade in those types of vehicles, particularly for Australian manufacturers of utility vehicles. I must say, it remains to be seen whether this will yield a new source of exports to the United States in the future, but it is certainly an opportunity there which some manufacturers may be able to take advantage of.

On the other side of the coin, Australia currently imports around \$2.2 billion a year in automotive products from the United States. As was noted in our submission, sports, utility and four-wheel drive vehicles account for a significant proportion of the number of vehicles coming in from the United States—that is somewhere between 8,000 and 10,000 vehicles a year. Passenger cars, however, account for a much smaller share of imports. Very few cars are sourced from the US—it is certainly less than 1,000 units; perhaps 500 to 800 units a year. Given that SUV and four-wheel drives currently enter at a rate of five per cent tariff and given the phasing arrangements that have been agreed for passenger cars, I think it is open to question whether there will be significant additional incentive to import such vehicles from the United States in the near term. On the other hand, I think there is a significant cost savings benefit in the short term for some manufacturers in terms of the components that they are currently importing. I think that is an immediate benefit that will be available as a result of this agreement.

I want to briefly comment on the rules of origin, which are a significant part of the agreement as well—and they are obviously an area of key interest to the Australian car industry. The rules of origin in this agreement do represent a significant departure from those adopted in other preferential agreements which Australia has entered into. Under the longstanding Australia-New Zealand Closer Economic Relations Trade Agreement and the more recent Singapore-Australia Free Trade Agreement, for example, the rules of origin for most manufactured goods are based upon the uniform requirements that the last process of manufacture should have occurred within the free trade area. Also, at least 50 per cent of the allowable cost of manufacture—or ex-factory cost, as it is sometimes referred to—must represent qualifying expenditure.

In contrast, the rules of origin in this agreement are based on different criteria, which can vary in application from product to product. In most instances, the rules of origin require that items have undergone a change in tariff classification from one heading or a related group of tariff headings to a completely different heading. For many items the agreement also provides that origin may be conferred if a minimum level of regional value content is achieved. In most instances in the agreement, regional content is measured on the basis of a transaction value of the final product calculated using either a build-down approach or a build-up method. However, for a number of key automotive products—vehicles, engines, bodies, chassis and many key components—regional content is determined in this agreement using an alternative net cost method. In principle, this is quite similar to the ex-factory cost approach, although there are some differences in what is and what is not included in the measure.

Perhaps I can summarise the FCAI position before closing. I think it was indicated in our submission that FCAI has long recognised that bilateral trade agreements of the kind envisaged with the United States can form a very legitimate part of an appropriate and balanced trade policy. For such agreements to be contemplated, we would say that they should support Australia's overall trade policy objectives and result in a proportionate strengthening of market access arrangements for Australian exporters in return for increased access to the Australian market.

I think it is fair to say that our analysis is that this agreement does meet these conditions. It is consistent with the requirements of the WTO in relation to such regional trade agreements. Indeed, our assessment would be that by WTO standards this is arguably a very comprehensive agreement. It complements Australia's multilateral trade policy efforts and our efforts to secure closer trading relations with other key trading partners, particularly in the Asia-Pacific region. I

think it also delivers tangible improvements in market access for Australian exporters to the United States across a wide range of industry sectors, including the automotive sector. As I think has been noted in various places, the agreement eliminates more than 97 per cent of US industrial tariffs, except for TCF, from entry into force.

From the standpoint of the Australian automotive industry as a whole, we believe this agreement offers significant opportunities to automotive exporters. The United States has offered to remove all tariffs on automotive products on entry into force. Equally, we have acknowledged that the agreement will bring with it some additional competitive challenges. Under the terms of the agreement, imports of vehicles and parts will receive preferential access to the Australian market from the United States. It remains to be seen what impact this will have, although I should note that by 2010 the maximum margin of preference will be no more than five per cent. In short, we believe that the agreement between the Australian government and the United States government should be honoured. We would urge this committee to support the implementation of the agreement and to recommend the passage of the necessary enabling legislation. Thank you very much.

CHAIR—Thank you, Mr McKellar. I have a couple of questions, the first of which is about your chamber. Is it the car makers General Motors, Ford, Mitsubishi and Toyota that are the members or are other car manufacturers that are not manufacturing in Australia members as well?

Mr McKellar—Yes. We have a broadly based membership. We have around 35 members in total. That includes the four vehicle manufacturers: Ford, Holden, Toyota and Mitsubishi. It also includes a range of the wholly imported brands—companies such as Mazda, Nissan, Honda, Hyundai, BMW, DaimlerChrysler, Mercedes et cetera. They are all members. In addition, the various motorcycle brands are also members. That is the coverage of our membership.

CHAIR—Is there any significant, globally recognised mark in Australia that is not a member of the chamber?

Mr McKellar—I think we would cover pretty much all of the significant brands in the Australian market. It would certainly be more than 98 per cent of all vehicles sold.

CHAIR—The thing about this agreement is that, as the economists would describe it, it is a preferential trade agreement—preferential between Australia and the United States. A number of your members come from economies with whom we do not have a similar bilateral agreement. Have you put your views on behalf of your American members or has there been some sort of deliberative process within your organisation on behalf of everyone?

Mr McKellar—The policy positions of the chamber are governed and determined by the chamber's board, or executive committee as we refer to it. That executive committee includes representatives of all four vehicle manufacturers. It also includes a balanced representation of wholly imported products and has a member who represents the motorcycle interests. That board considers all the policy positions of the chamber. The position that I have described to you today reflects the balanced assessment that that board has given to the issues, in terms of whether or not this agreement is, on balance, in the interests of the Australian automotive industry. That is not to say that there has not been quite robust discussion at various times about what the

implications are for individual companies—whether some may gain more than others. The submission has acknowledged that it is unlikely that there would be a uniform distribution of benefits for all companies from such an agreement, but on balance the board of the federal chamber—the executive committee—has endorsed the position that I have described to you, and it is one that has been considered very fully by them.

CHAIR—The effect of this agreement is for imported American vehicles, including motorbikes. The tariff barriers that exist in the Australian market that are in the phase down process, for passenger motor vehicles, are abolished, but for any imported vehicle from Japanese producers and any other source—Korea or Europe—they are retained, which gives a competitive edge to American imports versus the other suppliers to the market. Are you saying that, in a canvass of all your members, they are prepared to endorse that situation?

Mr McKellar—It is certainly acknowledged that it is a preferential agreement, that the margin of preference is something that we take into account. Certainly, in our representations to the government during the negotiation process, we highlighted the particular sensitivity about ensuring that some special consideration was given to passenger motor vehicles, which of course is the area in which there are manufacturing interests in Australia. It is fair to say that, in the final agreement, that was picked up through a staggered phasing down of tariffs for passenger motor vehicles, and that limits the extent of the margin of preference. It puts a cap on the extent of the margin of preference that US vehicles of that kind will have when coming into the Australian market. As I noted in my comments, there is currently only a very low level of passenger car imports coming from the US into Australia, and I do not know that we would expect there to be a significant change in the volume of those vehicles in the near term—certainly not as a result of this agreement.

Equally, I should note that in terms of other types of vehicles—SUV type vehicles, in particular—where there are larger numbers, currently the MFN tariff that Australia applies in that area is only five per cent. Under this agreement that will go to zero, yielding a five per cent margin to US originating vehicles. It is a competitive advantage, and that is acknowledged, for the companies that will source vehicles through that, but I guess it is accepted that that is the nature of such a preferential agreement, just as we have contemplated in a preferential agreement with Thailand, where a similar outcome would be pending. In a very competitive market like the Australian vehicle market nobody likes to give anything away for nothing. For those who are able to take an advantage from it there will be a benefit; for others it will increase the level of competition in the market. We have acknowledged that in our comments. On balance we would have to say that the guiding principle in the chamber's approach to these issues is that, if we were to yield further advantage in market access or access to the Australian domestic market, we would expect to secure at least proportionate advantages in access to another country's market. As I outlined in my opening comments, we are satisfied that that condition has been met in this agreement.

CHAIR—My understanding of Toyota's strategic plan for Australia is to seek market share as a priority versus profit—in the trade-off between the levels of profit and the ability to keep prices low to grab market share the emphasis of their strategy is to obtain improved market share and consolidate that improved market share. Is that something that you can comment on?

Mr McKellar—Not directly. I would hesitate to try and characterise Toyota's particular strategy or plan for the Australian market and I do not think it is my place to comment on any one company's approach individually. Of course, Toyota are a very successful participant in the Australian market. They are currently selling more vehicles in total than any other brand. That is a position that waxes and wanes from time to time and sometimes others have led the market. One would have to say that, however you would characterise their business plan or strategy, they are being very successful in the Australian market. They are also, I should note, a very successful exporter from Australia—indeed, the leading automotive exporter currently, particularly selling significant volumes of vehicles into the Middle East market. I think that speaks volumes for the success that they have had as a manufacture in Australia.

CHAIR—I am not intending by mentioning Toyota to jump in the air suddenly!

Mr McKellar—No, we will restrain ourselves!

CHAIR—We should do that! I have no doubt characterised—if I have characterised elements of it accurately—fairly crudely what is a vastly more sophisticated strategic plan for the development of the Australian market by a company like Toyota. If there is an emphasis on trying to consolidate market share then, for someone who does not have access to the preferential nature of this agreement, this agreement does militates against that strategy, doesn't it?

Mr McKellar—I really do not think that I am in a position to comment as to how this agreement would or would not affect Toyota's or any other company's individual position in the marketplace. I can only speak of the broad assessment that the chamber is able to make in its consideration of what the impact is across the industry as a whole and to represent the position that the chamber's executive committee has determined in terms of that broad impact and a position on the implementation of the agreement.

CHAIR—That is a fair comment and I do not intend to try and take you through what individual members of your chamber might think. You are aware, though, that—I think it was in 1977—Australia concluded the Nara treaty with Japan? As I recall, article 11 of that treaty provides a sort of MFN clause—that since this is a treaty of friendship and cooperation, we will not extend benefits to third parties that we are not prepared to extend to each other. That does raise the question in regard to a preferential trade agreement with United States—and this is not just an automotive question because there are other elements of preference, the FIRB arrangements being an outstanding example of it: has the chamber considered—and if it has, does it have a view on—what Australia should do with respect to the Nara treaty, given the preferential nature of the US-Australia FTA?

Mr McKellar—Before I attempt to answer your question, I should preface it by saying that I am certainly not an expert in international law.

CHAIR—Nor am I.

Mr McKellar—So I would certainly want to be very cautious in trying to interpret the Nara treaty which you mentioned. But I am aware of that treaty. I think that, in fact, the clause that you may be referring to is—

CHAIR—I understood it to be article 11.

Mr McKellar—in paragraph 3 possibly of article 9, which reads:

Each Contracting Party shall accord within its territory to the nationals of the other Contracting Party fair and equitable treatment with respect to matters relating to their business and professional activities, provided that in no case shall such treatment be discriminatory between nationals of the other Contracting Party and nationals of any third country.

That may be the clause that you are referring to.

CHAIR—That, I think, is the clause. It sounds like it.

Mr McKellar—I guess the experts in this matter, of course, would be the Department of Foreign Affairs and Trade. I would expect that they would be well aware of the provisions of that treaty and would have taken it into account in considering the impact of the US FTA and whether or not that would have any consequential obligations as a result of the Nara treaty. I would make two quick points in response. The first is that at least one aspect of the way I would interpret that would be that, in respect to a Japanese national or a Japanese owned company operating in Australia, we would be obliged to offer them or afford to them equivalent treatment in terms of any US originating product that they may seek to bring into Australia under the terms of the agreement with United States. For example, if a Japanese owned manufacturer was seeking to import a vehicle or components from the United States, it would be afforded the preferential treatment under the terms of this free trade agreement provided that those products qualified under the rules of origin. I think that would be consistent with the interpretation of the free trade agreement as we would understand it.

The second point is that, in a note on the protocols of the treaty, it does say, nothing in the treaty shall affect the rights and obligations that either contracting party has or may hereafter have as a party to the General Agreement on Tariffs and Trade. Of course, an agreement like the US free trade agreement would be one which I would expect would be made under the provisions of the General Agreement on Tariffs and Trade.

CHAIR—Which is now transposed to be the WTO?

Mr McKellar—That is right. It is the agreement which underpins the formation of the WTO in a real sense.

CHAIR—That opens another debate. While the WTO recognises the capacity of countries to undertake bilateral trade arrangements, it has rules as to what constitutes bilateral trade arrangements. The operative thing as far as Australia is concerned is the comprehensiveness of such arrangements. We have an internationally established view about what that might be. I am not intending to get into a debate about those articles tonight.

Just concentrating on Nara, you are right—the interpretive agency as far as the meaning of those treaties is concerned is initially DFAT at first step and then, if they want to consult A-G's as to legal meaning, they can. That is on the Australian side. On the other side, it is the relative Japanese institutions and how they see it, and what licence they might believe that gives them to

come and make representations to Australia about multilateralising, at least between them and us, the terms of that agreement. Has this been raised by any of your members of Japanese origin?

Mr McKellar—Not to my knowledge. I have, of course, seen reference to it in earlier transcripts from the proceedings of this committee, but I am not aware of it outside of that context.

CHAIR—I think it was early last year, when the negotiations for this agreement commenced, that there were reports in the media from Toyota internationally, I think, and reports from Toyota Australia which seemed to provide different emphases. There was speculation, given the large economies of scale that Toyota could enjoy in its American plants, that we could possibly see in Australia the Kentucky Camry—that it would be easier or cheaper, given their scale, to eventually switch manufacturing from Altona to Kentucky and supply the Australian market. Has that matter been canvassed with you in any way?

Mr McKellar—Again, I would be very reluctant to comment specifically on the circumstances of Toyota Australia or of Toyota Motor Corporation globally. As a general observation, I would say that Australian vehicle manufacturers in a number of areas, both US parented and Japanese parented, have shown a track record of being able to produce cars very competitively and I think very cost effectively. Obviously that is reflected in the fact that, in recent years, the industry as a whole has had success in exporting vehicles to the United States. As to whether or not there would be a broader competitive threat from the United States, notwithstanding the issues of economies of scale and the advantage that that may yield, I think all Australian manufacturers are actually very well placed to compete with US-manufactured vehicles, bearing in mind of course the factors we would face—in terms of the distances, transport costs and so on—in bridging between our market and the United States market and vice versa.

There is a more significant issue in the longer term, if one were trying to analyse competitive threats or pressures that might emerge in the Asia-Pacific region in particular. I would say that in the near term one should be looking very closely at what is happening in some of the ASEAN markets and in particular, obviously, with Thailand—although there are some strong complementarities between the way in which the vehicle industry there has developed and the way in which our car industry here has developed. I think that bodes well for what may transpire under the prospective free trade agreement with Thailand.

But equally one should also look at future developments in markets like China, for example. I was very fortunate in the last fortnight to spend some time in China and to look at some manufacturing facilities, one owned jointly between Volkswagen and the Shanghai Automotive Industry Corporation in Shanghai and one which is a joint venture involving General Motors. Looking at what is demonstrated in both of those plants would show that there is really tremendous capability emerging in the Chinese automotive industry. They have a very rapidly growing market. They have massive amounts of investment going into China. Obviously their productive capability is ramping up very rapidly.

In the short term, much of that will be focused on servicing their very rapidly growing domestic market. But I think within a relatively short space of time, perhaps even within a single model cycle, we will see the Chinese as being a very significant potential exporter within the

region. Then you also have to analyse what sort of competitive pressures that brings to bear on industries throughout the region, including Australia's. That is obviously an issue that we are looking at very closely in the context of the feasibility study that is currently under way as a result of the agreement that was reached between the Australian government and the Chinese government late last year.

CHAIR—I think that is fair comment, because you cannot look at these things one dimensionally; you have to look at them globally, and the global powerhouse as far as manufacturing is concerned is China—although, as you point out, at the moment demand overhangs supply in that market. But, given its growth, the likelihood of them becoming an exporter is perhaps not far off. You mentioned the rules of origin. Do I understand correctly that, when you were referring to the Australia-Thailand free trade agreement and the CER agreement with New Zealand, you regard it as desirable to try and have uniformity in all of these markets on the rules of origin?

Mr McKellar—In my comments, I highlighted the distinction between the generic nature of the rules of origin, if you like, which have been adopted in ANZCERTA—the Australia-New Zealand closer economic relations trade agreement—and the more recent Singapore-Australia agreement. Those perhaps are not of such great significance from an automotive viewpoint in that there is not a great deal of automotive trade. Perhaps I should revise that: we do export some reasonable quantities to New Zealand but I do not think the rules of origin there have been really such a binding constraint in recent times, certainly since there is no manufacture in New Zealand currently or prospectively.

The rules of origin that have been adopted for the prospective free trade agreement with Thailand bear some similarity to the ones that have been adopted in the Australia-US free trade agreement in that they are product specific rules of origin based on a change of tariff classification, supplemented in many cases by regional value content criteria. The difference I guess, as far as automotive products are concerned, is that, rather than applying the net cost approach to calculating regional value content in that agreement with Thailand, it is on a transaction value basis using a build-down approach.

In a practical sense for industry it is arguable that there may be some small advantage or some advantage in having uniform rules of origin. That is more likely to be a consideration from the point of view of Customs as the administrator of or as the party responsible for verifying compliance with rules of origin. It may present a slightly greater administrative burden for them if there are different rules of origin operating under different agreements. Once you have the systems set up and you know whether the origin of particular products going to particular markets is being calculated on the basis of a build-up or build-down transaction value or net cost approach, that is actually relatively easy to set up and to automate for most companies. The data that is required in all cases, particularly when you are looking at cost base data, is readily available. Provided you have reasonably comparable accounting systems between the different countries you should be able to have a degree of confidence that the standards that are being adopted and applied in those cases are quite comparable.

In broad terms my feeling is that, having talked to our member companies about this in a fair bit of detail, there is not a particular concern that having different rules of origin for one

agreement versus another is going to present a substantial hurdle or additional administrative costs.

CHAIR—Thank you very much, and thank you for being patient with us.

[8.24 p.m.]

McDONALD, Ms Meg, General Manager, Corporate Affairs, Alcoa World Alumina Australia

CHAIR—Welcome. Can you address your submission and then we will go to questions.

Ms McDonald—I am the general manager, corporate affairs for Alcoa World Alumina Australia. Thank you very much for providing us with the opportunity to present our submission today. We have provided a written submission, and we trust that you all have that. Alcoa is the world's leading producer of aluminium and alumina. We operate in 40 countries and employ over 120,000 people worldwide. We have been investing in Australia since 1963 and we have driven the development of Australia's aluminium industry. We are predominantly a regional producer and employer.

We operate two bauxite mines in Western Australia at Huntly and Willowdale, three alumina refineries in Western Australia at Pinjarra, Kwinana and Wagerup, and two aluminium smelters in Victoria at Portland and Point Henry. We also operate two operating aluminium rolling mills at Point Henry in Victoria and Yennora in New South Wales. These are the only aluminium rolling mills in Australia. We are one of Australia's leading exporters, with exports of over \$4 billion per annum. We produce about eight million tonnes of alumina and 530,000 tonnes of aluminium each year in Australia. That alumina represents 13 per cent of total world demand for alumina, and 80 per cent of the aluminium ingot that we produce here in Australia is exported.

Our investment in Australia means that we are a very big regional employer. We provide more than 6,000 direct regional jobs and an additional 20,000 indirect jobs. We provide over \$4 million a year in community sponsorship, and we are a major contributor to research and development here in Australia. Our global refining research group is based here in Kwinana in Western Australia. It has an expenditure of over \$20 million each year. We are also a major research sponsor and partner of government agencies and research institutions. We are currently seeking to increase our investment in Australia. We want to expand our operations in both Western Australia and Victoria. Currently we have under way a \$440 million refinery upgrade at Pinjarra and we are seeking approval for a \$1.5 billion expansion at Wagerup. Those two expansions combined would generate additional export earnings of \$21 billion over the life of those projects. We are also seeking expansion of our smelter at Portland in Victoria.

Given all this experience, we have been a strong supporter of the Australia-US free trade agreement. We think it will underpin the business of companies like ours by promoting greater economic integration and facilitating investment. It will also provide benefits over the long term. In particular, we think that the establishment of a government-to-government framework is important for managing the long-term economic and investment relationship through its ability to work through issues which naturally arise. Unlike in defence and security, where Australia and the US share a close relationship, the institutional arrangements to manage the economic relationship have been lagging. On many occasions issues have arisen for which there was no high-level government forum and no dispute resolution mechanism within which they might be solved. We think that the FTA is an ideal forum for such a framework.

Notwithstanding a number of significant results that we think are represented by the agreement, we think that it really underpins an agenda for the future. In particular, we think that work and visa requirements are a practical day-to-day impediment for business people moving to and from Australia and the United States, particularly with companies with integrated operations like our own. We think that improving this will be of significant benefit, and we want to put that on the agenda for the future. There is also a range of tax and other regulatory issues which provide an ongoing agenda once the FTA is in place.

In conclusion, we think that it can only result in a better facilitative environment and further liberalisation, including on the regional and multilateral front. We are on the record as being a strong supporter of both multilateral and regional liberalisation and for the other bilateral agreements which are under negotiation, including the one which is being scoped out with China. We are also a strong supporter of the Australian-Thai free trade agreement recently concluded. Alcoa wishes to see the earliest possible entry into force of the Australia-US free trade agreement, and we urge the parliament to support the legislation to enable it to enter into force on schedule. I am happy to answer any of your questions.

CHAIR—Thanks. Perhaps you should tell us a bit about your trade background to begin with.

Ms McDonald—I was with the Australian government for 25 years. I worked as a trade official through the Uruguay round spending four years with Australia's mission to the WTO in Geneva, negotiating on a whole range of multilateral agreements. Then I acted as trade advisor to successive ministers for trade, including Senator Cook when he was minister for trade. Following on from that experience on the trade front, I negotiated a number of international environment agreements. My last posting with the government was as deputy chief of mission at the Australian Embassy in Washington where I played a fairly active role in both the early lobbying for the US-Australia free trade agreement and, subsequent to that, I worked on a number of bilateral trade issues. The number of comments about the lack of a forum in which to address a number of bilateral irritants rather reflects that sort of experience. I might add that Alcoa was a founding member of the AAFTAC coalition in Washington in support of the free trade agreement and Alcoa Australia was also a supporter of the business coalition in support of a free trade agreement well prior to my joining the company.

CHAIR—I wonder if I can ask you a question that draws on your knowledge of the American congressional structure. I have a story that came off the ABC rural news dated today. I will read it and you will tell me whether it is appropriate for me to ask this question, because I have always been certain that you will tell me whether I am right or wrong one way or the other. The ABC have headed the story, 'Australia-US FTA amended in Washington'. It states:

First to news that the free trade deal has hit a snag in Washington.

"I don't believe this is a good deal for United States agriculture. Our exports will not see significant gains. Our beef and dairy sectors are put at additional risk."

North Dakota Democrat Kent Conrad, who has succeeded in amending the US-Australia free trade bill to further tighten safeguards on beef imports.

The proposed FTA includes provision for the Americans to apply tariffs on imported beef, if the price of their own local product drops to low levels.

Mr Conrad's move prompted the chairman of the House Finance Committee to put off a final vote on the FTA bill, and state publicly that it may not get through Congress before the July recess.

The report goes on to quote some Australian commentary. First of all, this is a press report, so one cannot say that this is actually the case, rather, one would say that this is what the press is reporting. But it seems to me that there has been a finance committee vote in which, in the finance committee, that congressman may have succeeded in amending something but that does not necessarily mean to say that that is what the congress will do. Is that a correct understanding?

Ms McDonald—Without having seen the press report, I am really at a disadvantage, but my observation and understanding of the proceedings that are taking place on this agreement, as would occur under any agreement under trade negotiation authority, is that the vote in Congress is a simple up-down vote. It is not a vote that can amend any part of the agreement. My understanding is that the procedure which is being adopted is that in the individual committees looking at the agreement there is something called a 'mock mark-up' taking place where individual members can table, and have discussed, amendments that they would have made if they were not constrained by the conditions of the trade negotiations authority legislation. That is my personal observation about what we are seeing. We are seeing that process taking place but I would have to take advice on whether it has the force of a vote. My understanding is that it is not possible to change any part of the agreement under the trade negotiating authority.

CHAIR—That is my understanding too. Do you think, if there is substance to this report, that that is most likely to be a mock mark-up vote within the finance committee?

Ms McDonald—That would be my interpretation.

CHAIR—I do not want to put you in the position of answering questions that are speculative but I will ask this question and you can tell me—yes or no—whether you think it is appropriate to answer it. From your experience of US congressional dealings, are votes that congressmen might take in a mock mark-up vote usually indicative of what they might do on the floor when the up and down vote comes along?

Ms McDonald—I cannot really make a judgment on that, simply because I have not been close enough to know which way the votes will be taken, and the trade negotiating authority is a relatively new phenomenon. We had fast-track before but, seeing agreements go through under the trade negotiating authority and in an election year, I would not care to make a judgment about what a particular congressman would do in any circumstance.

CHAIR—That is fair enough. I do not want to put you in a situation where you are asked to comment on something of which you do not have direct knowledge.

Ms McDonald—I am not that close to it at this point. On a recent trip to the United States I spent a couple of weeks in Washington and it seemed clear that there was very widespread support on the Republican and Democrat sides for the US-Australia free trade agreement.

CHAIR—You have given us a snapshot of Alcoa’s interests in Australia and the direction of future investment for Alcoa in Australia. Does Alcoa in Australia export product to the United States?

Ms McDonald—No, we do not. If you look at our operating base you will see that it is currently predominantly in the US and because the product we export from Australia is essentially commodities it goes anywhere where there is commodity demand. Obviously, from Australia we serve a lot of markets in the region, in particular North Asia and South-East Asia, as well as the Middle East.

CHAIR—What elements of this FTA ‘improve’—if that is the right word—Alcoa’s competitive ability in its markets, given that the United States is not one of them?

Ms McDonald—It improves our competitive ability as a long-term investor in Australia. So there are some long-term strategic benefits for us, given that we are a predominantly US owned company with a major and long-term investment in Australia. The fact that there has been an agreement concluded between the two countries is an important element and reflection of the nature of the commercial relationship. We also think, as I mentioned in our presentation and in our submission, that this agreement opens up the prospect of gaining a range of day-to-day benefits. In particular there is the question of trying to get some streamlined visa entry procedures for officials from our company who operate, as I said, on a very integrated basis. We have experts in smelting, refining et cetera, coming in. They operate globally and regularly come to Australia, and being able to do that would be a significant day-to-day improvement.

But overall, it is really our reflection that we want to see open trade across all of our markets. Alcoa has been a supporter of open and free trade and therefore we can see major benefits. As I mentioned, we were a significant supporter of the Australia-Thailand FTA. That was of direct benefit because we served that market from here. For Australia, the FTA is predominantly about issues of investment and doing business.

Senator BRANDIS—Ms McDonald, I have only one question. I hope it is not an unfair question and if you think it is please tell me and I will not press it. It is apparent to me from the background and CV that you have recited that you are a person with very extensive experience in international trade and the US-Australia trading relationships, and that experience comes from the many different capacities in which you have served in government and commerce—indeed, at one stage even as an adviser to Senator Cook. You come here this evening as a spokesperson on behalf of Alcoa. My question—and I promise you that if you demur to answering it I will not press it or make anything of it—is this: are the views you have expressed merely views expressed on behalf of Alcoa? Or can we say that the views you have expressed also draw upon the full gamut of your extensive experience as a trade expert, irrespective of the corporate interest on whose behalf you speak this evening?

Ms McDonald—That is a very tricky question. As I mentioned, prior to my taking up employment with Alcoa it was a supporter of the Australia-US free trade agreement in the United States and was also a corporate supporter here in Australia for the reasons that I have outlined. The reasons why the view was that we should be supporting it are very much reflected in the submission. My taking up employment with the company has given me an opportunity to broaden and deepen some of the understanding within the company of the nature of some of the

issues associated with the trade agenda. So my having had an influence on the company position in helping strengthen the support for free trade is not an assumption that I would presume to make. But certainly my support for free trade and the company's support for free trade are in complete harmony and completely mutually reinforcing. Certainly the submission that we have put to you and the views that I have expressed tonight are very much ones that not only reflect my own personal view and background but are also shared by the company. The answer to your question is yes.

Senator BRANDIS—Thank you.

CHAIR—That is all from me too. Thank you very much,

Ms McDonald—Thank you both very much.

CHAIR—That concludes tonight's hearing. I thank Hansard and the other support staff. We are adjourned until a date yet to be confirmed.

Committee adjourned at 8.44 p.m.