



COMMONWEALTH OF AUSTRALIA

SENATE

FOREIGN AFFAIRS, DEFENCE AND TRADE REFERENCES COMMITTEE

Reference: Australia in relation to Asia Pacific Economic Cooperation (APEC)

CANBERRA

Monday, 27 October 1997

OFFICIAL HANSARD REPORT

CANBERRA

SENATE
FOREIGN AFFAIRS, DEFENCE AND TRADE REFERENCES COMMITTEE

Members:

Senator Hogg (Chair)

Senator Cook	Senator Quirk
Senator Eggleston	Senator West
Senator Lightfoot	Senator Woodley
Senator Sandy Macdonald	

Participating Members

Senator Abetz	Senator Colston
Senator Bolkus	Senator Faulkner
Senator Bob Brown	Senator Ferris
Senator Brownhill	Senator Harradine
Senator Calvert	Senator Margetts
Senator Chapman	Senator Schacht

Matters referred for inquiry into and report on:

Australia in relation to Asia Pacific Economic Cooperation (APEC) with particular reference to:

- (a) APEC's progress towards Australia's economic, trade and regional objectives and the domestic implications;
- (b) the benefits of 'open regionalisation' versus a free trade bloc;
- (c) the importance to APEC of subregional groupings including the Association of South East Asian Nations (ASEAN), North American Free Trade Area (NAFTA), Asia-Europe Meeting (ASEM), East Asia Economic Caucus (EAEC) and Australia-New Zealand Closer Economic Relations Agreement (CER); and
- (d) future directions of APEC.

CONDITION OF DISTRIBUTION

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WITNESSES

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SENATE
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Present

Senator Hogg (Chair)

Senator Eggleston

Senator Ferris

Senator Lightfoot

Senator Quirke

Senator West

The committee met at 9.09 a.m.

Senator Hogg took the chair.

DOUGLAS, Mr Bryan, Deputy Director, Australian Electrical and Electronic Manufacturers Association, GPO Box 1966, Canberra, Australian Capital Territory 2601

GOSMAN, Mr Alex, Executive Director, Australian Electrical and Electronic Manufacturers Association, GPO Box 1966, Canberra, Australian Capital Territory 2601

CHAIR—Welcome. The committee prefers all evidence to be given in public, but should you at any stage wish to give any part of your evidence in private, you may ask to do so and the committee will consider your request. The committee has before it a written submission from the Australian Telecommunications Industry Association dated August 1997. Are there any alterations or additions you would like to make to your submission at this stage?

Mr Douglas—There is an editorial on page 22. There are a couple of words missing in the recommendation in the box. In the second paragraph, the words ‘trade agreement’ should be inserted after the word ‘free’ in the second line of the second paragraph.

CHAIR—So that should read ‘entering into a free trade agreement’.

Mr Douglas—Yes.

CHAIR—The committee has made this submission a public document. I now invite you to make an opening statement and then we will proceed to questions.

Mr Gosman—I will make some very brief opening statements. People are well aware that the APEC region is the largest market for Australian products and services, and the market potential in the region is huge. We are rapidly developing growth and demand for infrastructure and the products that our members manufacture. Telecommunications and energy systems are the fundamentals of developing economies. It will be crucial for countries such as Indonesia and Malaysia to continue to invest in advanced telecommunications and energy systems to maintain their present rate of growth, and Australia has capabilities that can meet that demand.

I will make some brief comments on the recent currency instability, or the ongoing currency instability, and the implications that that has for some of our members. Before I make those comments I note that, in terms of export into these regions, our members face a number of barriers. They include the well-known tariff barriers of up to 40 per cent compared with a maximum of five per cent for any of the products manufactured by our members. Other barriers include government procurement—for example, Indonesia requires a 30 per cent local content requirement for any telecommunications equipment associated with government programs; a lack of knowledge of Australia’s capabilities;

testing and performance barriers, different standards, different requirements to be able to export products; questions around Australia's exclusion from the AFTA agreement; and the difficulty in a number of areas to attract investment into Australia.

In terms of the currency instability, and that has really happened since we put in our submission, we are beginning to get quite a bit of feedback from our members that it is having a softening effect on export potential and that is arising from the dual impact. There is also the uncertainty in the major markets, leading to a reduction in capital expenditure, plus there is a need to top-up funding. For example, a number of our members have entered into agreements and have now found that the signatory countries that they have entered into agreements with do not have the amount of funding to compensate for the devaluation of their currencies to pay for the products that they have entered into. In a number of cases, they have come back and asked the Australian companies to be in a position to make up for that top-up, and that touches on number of aid related projects.

There is also the question about the longer-term, when the instability works its way through the system, and the significant devaluations of up to 35 per cent with a number of the countries. What competitive impact will that have? As I mentioned, we are already seeing a softening in demand right across the range of electrical and electronic products including appliances, telecommunication products and energy goods.

We are also concerned about the second-round impact on some of the north Asian countries such as Korea and Japan, which has significant investment in the ASEAN countries. If that investment goes bad that might have an impact on their own financial systems. In terms of the government action, we have made a number of recommendations. With the currency instability, it highlights the need for Australia to be seen to be maintaining a stable, financial macro-economic policy setting to retain confidence.

We need to take action in respect of APEC and also the information technology agreement to reduce tariffs. We argue for the linking of CER and AFTA, improved industry and government consultation, and that is already beginning to happen. We encourage all members of APEC to join the information technology agreement for free trade in technology products, restore a mixed credit finance scheme, and also continue the very aggressive bilateral trade approach that this government has taken in terms of opening up market access on a country by country basis rather than relying on multilateral programs. That is a brief summary of our submission.

Senator LIGHTFOOT—Mr Gosman, I imagine that the current contracts with countries that are experiencing some currency fluctuations would have been converted to other hard currencies other than the baht or the ringgit, et cetera. If they were, how would that affect those contracts? I doubt whether Australian companies would write significant contracts in baht or ringgit, or the Indonesian currency, without having them hedged.

Mr Gosman—You are right there, Senator. The Australian companies are covered, but the pressure is coming back from some of the other countries in terms of looking towards Australian companies to make good the gap. For example, I am aware of one member that is halfway through quite a significant project in Indonesia worth about \$80 million. The fall in the value of the Indonesian currency has meant that the Indonesians are going to be about \$8 million to \$9 million out of pocket to complete that contract. Whilst the Australian company is covered by hedges, the Indonesians have turned around and said, ‘How can we fill that gap? Do we not complete the project? Do we only do certain aspects of it?’ Given that that is also an aid component project, that has some implications for the aid budget. They have turned around and said, ‘Australia, you’ve covered yourself, but we’re not going to be able to fulfil it anyway, and what can you do to help us?’

Senator LIGHTFOOT—Without divulging any sensitive commercial information, is that the contract with respect to covering Indonesia with the Internet and converting to complete satellite?

Mr Gosman—It is a rural communications project. I am not sure that it is specifically for the Internet.

Senator LIGHTFOOT—I sympathise with the Indonesian authorities. How does that affect Australian companies if the Indonesian companies, probably through their armed services, control most of the telecommunications in Indonesia?

Mr Gosman—In this case, if the pressure is going to be put back on Indonesia to end up meeting the shortfall, they are going to have to meet that out of their appropriations. That might mean something for other future projects in the longer term. But we are already seeing evidence of a number of projects just being cancelled, and not going ahead, because there is no longer the funding for them.

Senator LIGHTFOOT—That is with Telkom, which is the acronym for the telecommunications company of Indonesia. I imagine Telstra is a big player in that contract as well.

Mr Gosman—Not specifically in the contract that I am talking about. It is essentially equipment.

Senator LIGHTFOOT—Is Telstra a big player in some other Asian contracts that may be affected by the devaluation of their currencies?

Mr Gosman—I would not think that Telstra would be as badly affected. They would have a much larger base within the country and it would be a service project. A lot of the revenue and the costs would be coming out of the country. In this case, we are talking about products being sourced out of Australia, where the full impact of the change

in the currency is being met by the imported product.

Senator LIGHTFOOT—Is your association then apprehensive as to contingencies that Australian companies may have with the Asian countries affected by currency devaluations?

Mr Gosman—Increasingly concerned. We are going out and seeking anecdotal information right across the breadth of the association on what impact is happening. This is a very rapidly evolving scenario. I think the Treasurer only a week ago said there was no need to be concerned. It is certainly not a view that our members would share. When we have that anecdotal information, we would like to be in a position to provide a supplementary submission just to flesh out what the actual concerns are company by company.

Senator LIGHTFOOT—Do you have any evidence other than anecdotal that contracts may be abrogated as a result of currency devaluations?

Mr Gosman—Yes, we would have a number of evidences where members have had contracts cancelled. We had one contract where members had actually shipped the product and that product has spent over two months sitting on a wharf or a warehouse because they have yet to receive payment. It has not been released. We also last year were successful in having a dumping application put in place against refrigerators coming out of Thailand under the Sharp brand name. They were found to be dumped at quite a significant margin in the Australian market. The impact of this currency change within Thailand will now make that whole question of the dumping margin irrelevant.

Senator LIGHTFOOT—Doesn't the devaluation of the Australian currency under 70c then assist you because it brings it into balance to some degree—not to the same degree, of course—with the baht and the other currencies affected by devaluation? Doesn't that assist you?

Mr Gosman—Yes, it does. It makes some difference. I think you need to distinguish between the products our members manufacture. If you look at products like appliances, electrical assemblies and lighting goods, they are very much commodity goods and very much price related, so fluctuations in currencies will have quite a significant flowthrough impact on trade. If you look at products like telecommunications and information technology products, they are more at a premium. They are specialised products and the actual impact upon competitiveness of changes in the currency are not so pronounced.

Senator LIGHTFOOT—Do you have a generic aggregated figure for the abrogated contracts?

Mr Gosman—I would like to come back on that one. I do not have that figure

now. As I say, this is very much an ongoing scenario. It is the sort of thing that we have rung up and asked members about the impact and the information is just beginning to come in.

Senator LIGHTFOOT—You will come back with that figure, Mr Gosman?

Mr Gosman—Yes.

CHAIR—On the currency and stability, you mentioned that one of the government actions that you would like to see from our part would be the restoration of a mixed credit finance scheme. Could you elaborate on that for us please?

Mr Gosman—Under the Simons committee inquiry into the aid program, it is recommended that Australia reinstitute a mixed credit scheme. We did have a mixed credit scheme that was abolished when the government took power. But that concessional finance scheme should be on an untied basis. I understand that the government is concurrently considering its response to the Simons committee. That is expected to be announced shortly. We believe, given the nature of the use of concessional finance in many of our major markets, that Australia has been put at a significant disadvantage by not having that program in place over the past 18 months. In different forums, we have given indications that up to \$200 million in exports have been lost simply on the basis that Australia has not been able to compete. It has not been able to get to the negotiating table because it has not had an attractive financial package.

CHAIR—Not having a mixed credit scheme or a concessional finance scheme at this stage, given the crisis that we have gone through in the currency, has been to our disadvantage to some extent?

Mr Gosman—It has been to our disadvantage over the last 18 months since we abolished the program. There was certainly quite an outcry from countries like China, Vietnam and the like back in June last year. At the moment, in relation to the currency and stability, the information that we are beginning to hear is that a number of our competitors—the French, the Finnish and the Spanish who were being very aggressive with mixed credit schemes—are redoubling their efforts because they see the need to be providing even more credit to be in a position to make sure some of these contracts will go ahead. The fact that we do not have a competing financial scheme does put us at an even further disadvantage.

CHAIR—Can we put a cost on this to Australian industry?

Mr Gosman—There has been a number of reports and I would be quite happy to come back and pull those together. As I mentioned before, we have done some specifically on the impact upon our industries.

CHAIR—Yes, I think that evidence would be helpful to us. You mentioned also that you would be willing to put a supplementary submission to the committee and we would be most receptive of that at some stage.

Mr Gosman—The government will shortly be considering the Simons report, I understand, possibly within the next month. These issues are quite crucial and have quite a high priority in terms of the impact on our members.

Senator WEST—Briefly, what about the impact on North Asia, particularly Japan and South Korea. Can you give us more details about what you think will be happening there and what you think the impact on those two economies is going to be of the South Asia currency problems and the consequential impact on Australia?

Mr Gosman—That is probably very much early days at the moment. It really is conjecture. With Japan, we would have some concerns in that they do have a fairly weak financial structure at the moment. Their financial institutions are still recovering from the early 1990s. They certainly have a considerable exposure to South-East Asia. Our concern is that, if a number of their exposures go bad, that will lead to further restriction or contraction within the Japanese economy. Given the amount of exports that go to that economy, that will feed its way through the whole Australian economy. It is a similar story also with Korea, which also seems to be going through some sort of internal ructions, with a number of major companies going bankrupt.

Senator WEST—They nationalised Kia Motors last night, didn't they?

Mr Gosman—Particularly with Korea, there is a real concern that, if a year or two down the track this thing sorts itself out and Korea comes out positively, Korea will be a very aggressive competitor in a number of major markets that Australia is involved in, as well as in Australia itself.

Senator WEST—You also mentioned that your association is a participant in the mutual recognition agreement working group, and especially its task group developing mutual recognition arrangements for the product testing. Page 189 of your submission states:

The aim of this task group is to write a 'model mutual recognition' arrangement which all APEC economies sign on to.

Can you give us a report on how that work is progressing?

Mr Gosman—Yes. There are two areas where we are involved. We are involved in the general APEC standards committee, which met at the end of August in Canada. Our technical director, James Galloway, attended that meeting. He put up a presentation in terms of the future work program.

Part of our concern about the work being done within APEC is that one might be trying to bite off too much. By trying to achieve too much, you will end up achieving nothing. Trying to get 18 differing economies with differing stages of infrastructure to sign onto a mutual recognition agreement is just too much to achieve. It will take 20 to 30 years to achieve. We believe that in a number of areas it makes a lot more sense to do it on a bilateral basis.

Coming out of the recent meetings being held in New Zealand and also out of that Canada meeting, we are looking at doing some bilateral negotiations potentially with Singapore and one or two other countries, where we will start knocking off restrictions, changes and testing arrangements between these two markets. If that is successful, then we can start looking at some other major markets, rather than waiting for the whole 18 countries to sign up to the one form of words. I think you would be well aware of how long it takes for trade negotiations to get a broad group of parties to ever agree to anything.

Senator WEST—Have any bilaterals been signed at this stage?

Mr Gosman—None at the moment, but we are confident that within the next year we will sign one with Singapore. Singapore is a major export destination. If you export a product to Singapore, and there is a minor change to the product, they will require you to get it retested. That would mean we would have to go through quite expensive retesting fees. You spend three months having your product in the queue to be tested. During that period you cannot sell it. It is quite a significant non-tariff barrier.

Senator WEST—Have you any idea what the financial impact of these non-standard testing mechanisms is?

Mr Gosman—In a number of cases, we have had comments back from our members that they just will not bother going into an export market because it is just too difficult to get through these testing arrangements. Korea is another very difficult market to get into. In other cases, the costs might be \$20,000 to \$30,000 per product line. The testing fee might only be \$5,000, but there is the time and the cost of an agent to progress the matter. We have had comments like that of one of our members. He said when he went in to see one of the customs people he took a bottle of Scotch. He stayed with that guy until the bottle of Scotch was drunk to make sure that he got his testing report ticked off. There are different means and ways of getting it done in different markets. That was probably quite a cheap one.

Senator WEST—Yes, but not able to be used in all of the countries in Asia.

Mr Douglas—No, that is right. But typically it is \$5,000 to do very minor retest in Singapore, for example. That will give you some indication of the difficulties and the barriers there.

Senator WEST—Are there any other mutual recognition agreements that have been negotiated and signed elsewhere that you are aware of?

Mr Gosman—We have signed one with the European Union, which is also for a range of electrical and electronic products. That has not really taken effect yet. We are not necessarily convinced it is going to be a significant success because, whilst Australia acts as one country and the European Union has signed on, that will not prevent its individual members still requiring their own testing procedures. It becomes a question of how strong, at the end of the day, Brussels is in having all its members come into line. For example, Germany still has retained some very significant testing requirements.

We are also looking at entering into a mutual recognition agreement with New Zealand for a range of products. For the industries that we represent, we thought there was very limited benefit, because there is quite a significant difference between Australia and New Zealand in quite a range of areas. If you look at electrical products, for example, they do not have any energy efficiency requirements. We have energy labels on our products. That means products can come into New Zealand and then come into Australia and not have to be labelled, which we have argued will be quite contrary to the government's approach towards greenhouse. You have different voltages. You have a whole range of different issues there.

Senator FERRIS—I am interested in the degree to which the role and function of APEC is understood by your trading partners. I wonder if you could tell us how well understood you think it is and particularise the countries, if you can. Have you ever suggested to Foreign Affairs that perhaps something more could be done, or have you taken part in any discussions to enhance the role of APEC in industry?

Mr Gosman—I would have to say that this is an area where we believe Foreign Affairs has done extremely well. There is a lot of consultative mechanisms in place. We sometimes argue that there are too many. Tim Fischer has done a great job. On an annual basis he holds, for want of a better word, an APEC debriefing session, which is a day long event. For the two sessions that we have had he has been there the whole day, and we talk through a range of issues. That allows anyone from the floor to make comments.

I think it is probably true to say that Australia focuses more attention towards APEC than some of the other countries. But I think it is worth noting that there is a significantly increasing number of industry representatives coming to these various working groups. We, as an association, have reached the stage where we believe it is essential that we always have a participant at these working groups wherever they may be, because, if nothing else, there is a risk if you are not there that something could happen that will be a disadvantage further down the track.

Senator FERRIS—Would there be any suggestions that you might have or might have made for further enhancing the communications role of Australia?

Mr Gosman—I think it comes back to an issue of ongoing consultation. I suppose one of the concerns we have is that a lot of the responsibilities within APEC—there is a whole range of different agendas—are spread across a range of different departments. For example, the Department of Foreign Affairs and Trade will pick up some of the broader trade liberalisation negotiations, the industry department picks up some of the standards issues, the department of communications picks up telecommunications, the department of energy picks up energy, and we have been to one or two meetings where it is obvious that some of these departments have not been speaking to each other. We have known more about what their colleagues are doing than they do. We have made a number of comments and suggestions in that respect, and I think they have been taken on board.

Senator FERRIS—What about in the countries on the ground? How well is APEC's role understood with your trading partners?

Mr Gosman—It is probably well understood within the governments. There is certainly a high level of representation within governments. I think it is probably well understood within the multinationals that have operations in all the different countries. Many of the multinationals are trying to move towards an arrangement where you have one product and one test report globally, rather than having to meet differing requirements and 18 different countries. So the multinationals are getting in and pushing some of these issues. It is probably hard to comment on some of the smaller firms. I would say that the whole issue is non-existent among a lot of the SMEs.

Mr Douglas—Probably the major avenue for learning about APEC among our members is in fact our industry association. The conduit comes to us from government as an industry association. But most of our members learn about APEC at the grassroots level, particularly at the technical level, through our newsletters and our own divisional meetings.

Mr Gosman—We would probably argue that it is at the technical level—these mutual recognition agreements and so on—that APEC has the real chance to make some early successes. I think the issue about trade liberalisation is a long way off. I think a lot of water will go under the bridge yet before we reach 2020 and have everybody as signatories.

Senator FERRIS—We have addressed with previous witnesses the question of which of our trading partners and members of APEC are committed to the process of free trade. I notice that you suggest that they should be binding. Does that suggest to us that you are not confident that some countries will continue that commitment and that there will be some backsliding?

Mr Gosman—Yes. That would be our view. We have already noticed in respect of the currency instability that a number of our trading partners have put in measures that there might not be tariffs but there have been various tax increases of a nature that hit

imports. Under that kind of pressure, I think there always will be the opportunity for backsliding.

Having said that, within APEC—if you look at the telecommunications area, with Australia signing on to the information technology agreement last year under Tim Fischer's stewardship, that is a binding arrangement and it comes into place in the year 2000 for most countries and the year 2005 for some. That really has accelerated the whole APEC process and we have argued, given that Australia has five per cent tariffs and many of our trading partners have 40 per cent tariffs, that it is really a win for Australia. We have little to give up and they have a lot to give up.

Senator FERRIS—That suggests to me that you think tax is being used as another form of tariff to get around the issue.

Mr Gosman—Yes.

Senator FERRIS—If you were to proceed down that pathway of making something binding, you realise that that would impose legal obligations. What ideas would you have there?

Mr Gosman—I would probably just come back and say again that, given Australia has a five per cent tariff, we have got so little to give up. In giving up that tariff, as long as we can extract maximum benefit from our trading partners and have them removing their trading barriers, we have no objections to it being legally binding. That is what is happening under the information technology agreement that Australia recently signed into all our tariff reductions in Geneva.

Senator FERRIS—Do you have a view on any feedback from any of your trading partners on the government's decision to have a tariff pause? I recognise that these are largely outside your areas, although I would imagine that there would be some car parts that would be coming into Australia that would fit within the area of interest that you have.

Mr Gosman—No, I cannot say that I have heard anything on that.

Senator EGGLESTON—One of the issues that people are concerned about in the process of trade liberalisation and the reduction of tariffs is the impact it has on Australia's manufacturing industries. It has been said that we will get into niche manufacturing industries—electronics, in particular. I notice that Australia's exports of elaborately transformed manufactures, or ETMs, have increased to between 10 per cent to 15 per cent compared to other forms of ETMs which have had an average growth of only eight per cent. Would you like to comment on the reasons for that, and what you see as the broader picture for the kind of manufactured exports that Australia might get into? Will they largely be in the electronic field?

Mr Gosman—The reasons are complex. Probably one of the major reasons was the reduction in tariffs under the past government that encouraged companies to become more competitive and to look outwards from Australia. That would probably be the dominant reason.

In a number of areas, such as the ones Senator Ferris talked about—the car industry and telecommunications, where there has been industry plans put in place—by and large most of those plans have been very successful in generating increased exports. There has also been a change in the view of Australian management towards external opportunities. So there has been that rapid growth in exports coming off a fairly low base. Our concern is that growth has tended to begin to plateau. In the last two years the growth rates have not been as high as they were in the early 1990s. With this devaluation of some of our competitors' currency, we think that it is going to be extremely difficult to re-jig that export growth rate and get it back up past where it has been recently.

Senator EGGLESTON—Are these exports mostly going to South-East Asian countries, such as Malaysia?

Mr Gosman—Within our association, 80 per cent of exports go to South-East Asia. America is not a major market. Europe, parts of Africa and, increasingly, Latin America are export destinations as well.

Senator EGGLESTON—The Malaysians are largely into component manufacture, aren't they? Are the materials that we are exporting to Malaysia going into those kinds of component manufactures which the Malaysians were re-exporting?

Mr Gosman—One example I can give you is Wilson Transformers, who manufacture power transformers. Under the concessional finance scheme, they were successful in winning a number of major export contracts in Malaysia. They have now set up a manufacturing operation in Malaysia, which is essentially fabrication, but they export quite a number of transformer components, windings and the like, from their Australian factories, Melbourne and Albury-Wodonga, which are then put together with the casings in Malaysia and shipped out. That is an example of a successful trade policy approach—concessional finance allowed them to make the market presence and then they followed up on that. In most other areas it would probably be more likely to be finished goods. I know Japan would probably be the major source of componentry. I think Malaysia is the world's largest room airconditioner manufacturer, for example. A lot of those componentry products will be coming out of Japan.

Senator EGGLESTON—Apart from the currency crisis in South-East Asia, I have heard that some of the European companies are withdrawing their component manufacturers from South-East Asia and taking them back to Europe because automation means that the costs of production can be kept low, and the cheap attraction of the South-East Asian countries was low labour costs on production lines. Is that a fact and does that

imply that the South-East Asian economies may not be as attractive for Australian exports for component manufacture in the future as they have in the past, for reasons other than the current currency crisis?

Mr Gosman—I think that is a difficult one to answer. From what I would see of some of our members, and we have some of the major multinationals as members, their investment would still be going quite significantly into Asia, and I say Asia as a whole, rather than picking a particular region.

Senator EGGLESTON—I meant Thailand, Malaysia, Philippines, Malaysia.

Mr Gosman—I would not see any necessary pull back. Let us look at Taiwan. At the moment, in Taiwan, in one industrial park, 10 semiconductor facilities are being built. Singapore has recently attracted a number of semiconductor facilities. I think the next couple of months will tell whether that level of investment is maintained. I think there are two schools of thought. There is one school of thought that says that with all of this currency instability, with the comments that the Malaysian Prime Minister has made, and so on, you would be a fool to invest in this region and to keep away from it. On the other hand, there is an argument that if you take a longer-term perspective that they will sort themselves out, that it is essentially a financial institution correction and that, with the currency devaluation, they are going to be so competitive in two or three years time that it will be well worth having had a market presence there.

Senator EGGLESTON—So you see these economies that we are involved with as having a fairly high degree of intrinsic strength and potential? It is not just a big bubble that has been blown up too high that has just burst and perhaps we would be unwise to be concentrating exports on the South-East Asian area of APEC?

Mr Gosman—I think it will vary. I think countries such as Malaysia have a pretty significant infrastructure in place, Thailand lesser so and Indonesia lesser so again. I think it is hard to comment.

Mr Douglas—Internationally, the South-East Asian region, the APEC region, is still regarded as the area of most potential growth. Certainly, the people that I talk to among our members say that they continue to face fierce competition from European companies and north American companies in that market, with no signs of abatement.

Senator WEST—Can I turn you to page 17 of your submission, at 4.2, the creation of an industry government market access group. You say that you believe that the interaction between industry and DFAT could be improved with an obvious benefit being better trade with outcomes for industry. Can you expand on that comment?

Mr Gosman—Yes, I think I made the comment before that we believe that that has been improving. If we went back two years, the structure of DFAT at that stage had

no industry branch as such. It tended to be spread across their various country divisions. Whilst they maintained a focus on mining and agriculture, industry ran a very poor third.

Over the last 18 months they have increased their specialisation in the industry area. In the automotive area they have appointed a trade negotiator for automotives. I think there will also be one appointed for the TCF area. With the supermarket to Asia program there is a specific trade negotiator. We believe that the government, in its consideration of the Goldsworthy report, is likely to also put in place a specialised information technology and telecommunications working group within DFAT.

That is the view we put forward. We recommended highly that they have this special focus that then interrelates with the other parts of the department. We believe there is a fair chance that those recommendations are going to be accepted.

Senator WEST—How does that tie in with the role of the Department of Industry, Science and Tourism? Are you not duplicating something that the Department of Industry, Science and Tourism should be specialising in?

Mr Gosman—That is a good question. They both have a role to play and it is no secret to say that at times the degree of communication between those departments—

Senator WEST—Is not good.

Mr Gosman—That's right. In the negotiations over the information technology agreement last year, that was one area where we were tending to act as the conduit between the two departments. I mentioned before that DFAT has gone a long way towards getting its act into gear. There is further scope for the industry department to pick up its focus on international activities.

In terms of where we are coming from, we would still rather see DFAT taking the major role given all the various international linkages it has and that DIST does not have, but DIST should be heavily involved in any negotiations.

Senator WEST—Presumably it is the Department of Industry, Science and Tourism that you think needs a bit of a shakeup?

Mr Gosman—They recognise that in the area of trade negotiations and international areas that they have not been a major player. We had that feedback from senior DIST people over the whole process with the information technology agreement. Last year we were coming to meetings and there were junior officials turning up from DIST. There was never any continuity. In terms of the position that DIST was taking, we were never quite sure depending on who was turning up, they might have a different perspective from their predecessor. As I say, that has been identified as a major weakness within that department. I suppose the jury is still out on whether they have remedied that

weakness.

Senator WEST—It is a bit of a worry considering you also have tourism in there and tourism, from the federal point of view, has a lot of interrelationship with overseas nations and it is the overseas tourists they are endeavouring to get to Australia. That does not seem to be a very good omen or sign.

Mr Gosman—I cannot comment on the tourism part.

Senator WEST—No, but it seems that one part of the department is not talking to the other. There has also been a recommendation made to the minister, Mr John Moore, that an industry/government market access group be created. Was that the recommendation that you were saying you thought was going to be taken up?

Mr Gosman—Yes, Senator.

Senator WEST—Why do you think that DFAT should be the lead servicing department and not DIST?

Mr Gosman—I suppose because of the linkages and the expertise that it brings in international negotiations and so on. In terms of what we are talking about in this area, it falls across a range of responsibilities of a whole range of departments. For example, the communications and arts department has been taking the lead in all these mutual recognition agreements. We would see them as having a major role to play because these different testing and standards issues are one of the major barriers. Therefore, if you do not have DOCA in there as a major player, you are not going to be dealing with some of these issues.

As to the staffing of this proposed unit, they are going to require quite a mix of capabilities. That is one of the issues that we have been raising with the senior people within DFAT: how they go about structuring it. I think it has been well recognised. It probably comes back to one of the comments I made before where you have all these various departments involved in APEC and we have had these concerns that they are not talking to each other. We believe that, by forcibly bringing them together within this unit and also having industry representatives on board at senior levels, you have more chance. Firstly, it will be industry driven and, secondly, there will be more consultation and communication between departments.

Senator WEST—I would have thought though, given that APEC is looking only at one small specific area of the globe, that there could be an argument mounted for DIST to be the lead department, given that they are the ones responsible, or their minister is, hopefully, for the development and administration of industry policy and that not just exports to APEC and within APEC are vitally important to industry in Australia, but exports globally. Playing devil's advocate, I would say that there is an argument, isn't

there, that can be strongly put to say that DIST should be playing the lead role?

Mr Gosman—Probably that is an argument you can put forward. I suppose you have also got to look at the current environment where I think DIST is struggling with its existing responsibilities—there has been significant downsizing. So we are really looking at going where the strength is, and we see that within DFAT.

Senator WEST—But DFAT really are not on top of industry policy, are they?

Mr Gosman—They are and they are not. Trade is an arm of industry policy or industry policy is an arm of trade; you cannot exclude one from the other. So it does come down to who is driving it. That is why we are saying that, at the end of the day, as long as the unit we are talking about has industry representatives on it and they are being listened to, it is essentially then going to be industry who is driving the agenda and the government agencies are acting as the arms of industry to facilitate the export efforts of industry.

Senator WEST—The DIST involvement would, I take it, have to be at a significantly more senior level than it has been in the past?

Mr Gosman—We would certainly hope so, yes.

Senator WEST—Right. Thank you.

Senator QUIRKE—What exactly do you want out of APEC? That is probably a generic question and you could probably be here all day answering it, but can you just summarise quickly what you want out of this process?

Mr Gosman—It is very simple: increased trade opportunities.

Senator QUIRKE—What is your intention though? Is it to set up plants in other countries? How do you wish to do this—from Australia or from overseas, in APEC jurisdictions?

Mr Gosman—Ideally we would like to see it being exports from Australia.

Mr Douglas—The method is lower barriers to trade.

Senator QUIRKE—Right. Would it be fair to say that the only way you can penetrate some of these markets now is through, for want of better words, joint ventures?

Mr Douglas—Yes, very much so.

Senator QUIRKE—How many of them have you got going right now?

Mr Gosman—Our members would probably be too numerous to count. There is a whole range of joint ventures going ahead. One of our members who is a component supplier just recently announced a joint venture with an Indonesian car component manufacturer. There is probably one going every couple of weeks.

Mr Douglas—The fact is that you really cannot get into some of these markets unless you set up joint ventures.

Senator QUIRKE—That is right. That is what I was leading into before. Do you think that is going to change? Are you hopeful that this process is going to work?

Mr Gosman—Given where Australia has positioned itself—we are effectively down to a five per cent tariff barrier with very few non-tariff barriers, probably one of the most open markets in the world, and yet we are trading with a range of countries that have not only significant tariff but non-tariff barriers, these joint venture requirements and the like—whatever measures we can put in place, be it APEC or through the WTO or whatever, we just need to follow a very aggressive trade policy approach. We have tended to lock ourselves into a corner and we have to strike out in whatever avenue we possibly can.

Senator QUIRKE—But I would have thought that amongst your membership there would have been some pretty good guesswork about where this process is going. You said that Australia has brought down the barriers in effect so that other competitors can come in here and set up operations. Are you or your members really hopeful that this process is going to work? The evidence seems to indicate to me that it is only Australia that is charging forward with the big white horse. It does not look like there are a lot of other nations that are doing it, albeit the present problems up there may make them do it, at least for a period of time, because they are going to need access to IMF funds. But, at the end of the day, are your members really hopeful that this process is going to work?

Mr Gosman—If I can just correct one comment, we did not actually say that the approach that Australia has taken has led to all the investment coming here. In fact, we said that it is to the contrary. What has happened is that it has made other countries a lot more competitive. Why would you invest in Australia where you get, at best, a five per cent tariff and you have to export to all these other countries that have a 40 per cent tariff, when for example, you could locate in Malaysia, get in behind the tariff, have the ASEAN free trade agreement and export to Australia with a five per cent tariff? As an investment attraction, our trade policy measures actually put Australia behind the eight ball.

Coming back to answer your broader question, we believe that, yes, Australia has made a mistake in its past trade policies in not aggressively seeking bilateral trade negotiations and reductions in tariffs. That is why I thought there was the processing in terms of how Australia negotiated the information technology agreement for free trade in IT products. Initially foreign affairs and trade, perhaps more through ignorance than

anything else, said that Australia should just sign up, that we should not worry about what other countries are prepared to offer. In particular, they were focusing on what the United States was offering. We came back and said that the United States is not an export market. It has got to be what the countries in Asia are offering and they have got to be signatories to it for Australia to be willing to sign up, and that was the approach that Tim Fischer took at the end of the day.

Senator QUIRKE—Is there an alternate strategy amongst your membership to set up JVs if necessary?

Mr Gosman—We are seeing a lot of external investment going out of our members. The example I quoted was an Australian owned company that set up a number of joint ventures across the region. I mentioned before that we also represent a number of multinationals. Our concern is that the investments that the multinationals are making are not coming into Australia. It is going into the region. We have been put at a competitive disadvantage.

Senator QUIRKE—That is the upside, I guess, to a mutually agreed tariff regime between the different players. Are there any positive signs to us lowering our barriers and to many of the ASEAN countries in particular not lowering theirs? Is there anything you can see from your industry point of view that would give us some benefit as to why we are charging forward with the white horse?

Mr Gosman—You would have to say that, at the last trade organisation trade agreements, a number of the ASEAN countries did significantly reduce their tariffs. That is happening and China has unilaterally reduced a number of its tariffs as part of its bargaining process for becoming a member of the WTO. I think the information technology agreement, again, is a good example of where we actually have been able to achieve some trade successes by sticking to a fairly aggressive ‘look after Australia as number one’ approach. A lot of what has happened has been history. I think there is a lot of criticism of the then government’s approach towards its trade negotiations. That has happened and we are now in the environment where we find ourselves.

Senator QUIRKE—One of the arguments that has been put many times is that, if you reduce the tariff barriers and you expose yourself and your industries to world competition, you presumably then become not only world competitive but at the leading edge of technology. In fact, you have the benefits of getting into other markets and your industry is likely to last. That is one of the arguments that has been put forward for the last 20 or so years of dismantling at least the automotive tariffs. It seems to have worked in many respects albeit it is employing a lot less people now. Is that an argument that we should be charging for? How do you respond to that particular argument? Obviously, some of the places where your members are thinking of setting up joint ventures in South-East Asia are very high tariff regimes and all the rest of it. I would have thought that, under that particular tariff regime, it would not be expected to be able to produce world best

product because of the protection afforded.

Mr Gosman—Without going into a history lesson, a lot of the problems that Australia finds itself in now is that we have had that history of protection, that made to measure tariff, that we were satisfied, as a nation, just to supply the local market. If you take South Korea as an example or Japan or Taiwan, there are high levels of protection and it is very difficult to get into, but they are producing to a world market. So, to produce to a world market, they have to be world competitive and it helps them to have that protected home market.

For example, in South Korea, we are now seeing intense competition against the Australian appliance industry that is beginning to come out of South Korea and it is against the Australian appliance industry. Daewoo has said it is going to take 10 per cent of the Australian appliance industry in the next year. It is just coming in with a range of white goods. But Email and Southcorp cannot export into South Korea. There are a range of testing barriers. But those countries are certainly looking towards exporting into Australia.

Senator QUIRKE—In conclusion, it would be fair to say that your view of this is that the tariff protection is one thing but being smart investors is another thing altogether.

Mr Douglas—Exactly.

CHAIR—I would like to take the opportunity to ask a couple of questions now. I want to follow on the issue of government involvement in APEC itself. Before you mentioned the issue of a mixed credit scheme, concessional finance and the need for our government to have a role to play there. What is the role of government in R&D and their support of R&D to assist our industries to be able to go forth into the APEC market? Is there a role and, if so, what should it be?

Mr Gosman—I think we would argue there is a role. Because of the externalities generated by R&D—you cannot necessarily accrue all the benefits to the person doing the investment—there is a role for the government to provide some kind of incentive. In that area we have had feedback from our members that the decision made last year to drop the 150 to 125 per cent tax concession has led to a reduction in research and development within Australia. We believe this is another area as in a range of investment attractions where Australia has to be cognisant of what our trading partners are offering and has to be competitive. I think the recommendations that came out of the Mortimer report were very sound in R&D. That was the 100 per cent write-off in the year of your R&D expenditure or for start-up companies who were not cash positive to be able to get back their expenditure in year one as well which would help go some of the way towards meeting these cash flow shortages.

Mr Douglas—That applies particularly in the industries that we represent: the high

technology ones where product life is very short. The reality is that, if you are not creating new products or if you are not putting money into R&D, you will not succeed on the domestic market and especially not on the international market.

CHAIR—What impact would the change that the government made to the R&D last year have had on the R&D in Australia in terms of quantity, whether it be in value or number of projects, and what impact in terms of jobs?

Mr Gosman—We were here last week in a delegation. We had a member from Perth from a major electronics company. He said their feedback from the 150 per cent was that they were, firstly, looking at investing in Malaysia to take advantage of the incentives that Malaysia provides or, secondly, looking at just buying technology off the shelf from overseas to rebadge essentially because it had become that much more expensive to undertake R&D in Australia. That view is fairly widespread across the board.

I suppose also a lot of Australia has been successful in the past in attracting a number of multinationals to invest in R&D in Australia. When you look at companies like Bosch in the automotive industry and the like, I think a lot of those companies are reassessing the attractiveness of Australia, vis-a-vis Singapore and Malaysia in terms of the incentives. I think one of Australia's competitive strengths is the quality of our people, yet in some ways we seem to be putting in place programs that are making it that much more difficult to access the quality of those people and to make the most use of our competitive advantages.

Mr Douglas—We are convinced that probably the single most important element in increasing business expenditure on R&D since the mid-1980s was the 150 per cent concession. Certainly, we are concerned at the removal. Obviously, R&D is not something that you can turn off and on like a tap but we are concerned about the longer-term implications of the decision.

CHAIR—All right. In the area of trade liberalisation, we are going to end up with industries in Australia that are winners and industries that may be losers. Of course it may be because, whilst our tariff barriers are low, the removal of a tariff barrier may well see some industries needing to shed jobs. Is there a role or a function for government to play in intervening to see that the pain suffered by any trade liberalisation is ameliorated in those industries which are affected by our further trade liberalisation?

Mr Gosman—That is probably more of a personal question than an association answer. I think there is. Approaches have been taken in the case of the textiles, clothing and footwear industry, where there have been a number of investment measures put in place for companies to reskill themselves. There have also been a number of retraining and welfare programs put in place for those who are likely to lose jobs. That has been the approach to be taken.

Before joining this association, I worked in the industry department. I was there 10 years ago when the then government came out with its textiles, clothing and footwear program. That had that dual focus, which I think was the right way to go about it, recognising that there are going to be social costs and there should be compensation for some of those costs, particularly in regional employment.

CHAIR—My last question goes to an issue which you raised: that commitments to reduce trade barriers among APEC countries should be binding. You referred in a couple of places to making things binding in APEC decisions. Yet one of the hallmarks of APEC was the fact that it was founded on a consensus basis, has operated on a consensus basis, and continues to do so. Is there a prospect that, if you go down the path of operating on binding commitments, you may well destroy the very fabric of APEC?

Mr Gosman—I suppose that is a six of one, half a dozen of the other type question. There is the potential, if you do not put in binding arrangements, that people will walk away from commitments because they have no legal requirement to live up to those, so you will not achieve any results. On the other hand, as you identified, there is the risk that you put in place with binding agreements. People will say that breaks down the structure of APEC. It is a value judgment. Your objective is to increase trade opportunities—what are the best means of getting to those?

If that can be done through both APEC and these other agreements that we have been talking about on the information technology agreement activities through the World Trade Organisation—where the Prime Minister recently talked about starting another trade round—that is something that we, as an association, would strongly support. It is just a question of keeping as much pressure on in the different pressure points as possible.

CHAIR—My last question is: what degree of financial assistance should there be to industry organisations such as yours from the government to enable you to participate in the APEC forum?

Mr Gosman—The maximum amount available.

CHAIR—That is always the answer from industry associations. It is the highest bid. That is not necessarily always possible by government. What is the government's role?

Mr Gosman—That is a very good question. As an association, we have seen over the past 18 months that the government has moved out of a number of traditional areas. We have taken the bit between our teeth and said, if we are a proper association, we will undertake those activities on behalf of our members. That might be in the case of exports, where there has been a big cutback in the Austrade resources. We say it is probably best that it has been done by industry anyway. In telecommunications, with deregulation we have picked up a lot of activities in the standards area. Industry is now expected to pick

that up; it is no longer done by a regulator.

In the APEC area we have also picked up a lot of work. At the end of the day, I think that is an area where, if it is going to be a success, it has to be led by industry. Industry does need to be there. We would like to have some compensation for some of the expenses. Looking at our budget, I noticed we are going through the roof in the travel costs involved, particularly for the meeting. We had a representative go to Canada. He essentially went there to get Australia out of a mess. A proposition had been put up by Australia and we said, 'Don't do that. It's not going to fly.' They put the proposition up. It did not fly. Then they said, 'How do we get out of it?' It cost us \$15,000 to get somebody out of that mess. We have borne all those costs.

We believe there is a role for the government to perhaps match on a fifty-fifty basis some of the costs involved in putting forward representations. Financially, the association can just afford that. But I would be worried that, if these demands across a whole range of areas continue into the future, we will not be in a position to be able to put resources into these areas.

CHAIR—One of the fears that I have is that, as the whole of APEC unfolds further, the demands upon organisations such as yours will be even greater and that we have but seen the tip of the iceberg.

Mr Gosman—That is quite true and we have recognised that. We now have nine full-time people and five part-time. Two years ago we had four full-time and two part-time. So we have increased quite significantly. A lot of this is essentially because of the internationalisation of the economy where we cannot turn our back. We recognise that we can no longer contribute to these processes purely within Australia. You have to get outside and participate in the APEC forums, and there are 18 countries involved. Over the past years there have been meetings in St John in North Canada, Mexico City and New Zealand. Next year there will be a meeting in Papua New Guinea and a meeting in Hong Kong in the early couple of months. So you can see that the costs and time start mounting up quite significantly.

In terms of where the government goes, I think they should make a judgment, if they are going to be providing any limited support, that it should go towards those activities that have the most opportunity to come to early successes in trade liberalisation or trade facilitation.

CHAIR—We have exceeded our time. I have found your evidence extremely interesting. Thank you for appearing before us this morning and for giving us the benefit of your knowledge in this area.

Mr Gosman—Thank you for your time. We will respond on those issues that were raised.

CHAIR—Yes. We would welcome a supplementary submission from you.

[10:14 a.m.]

CHAPMAN, Mr Timothy, Director, Multilateral International Section, Australian Customs Service, 5 Constitution Avenue, Canberra, Australian Capital Territory 2601

HOLLOWAY, Mr Stephen, Acting National Manager, Executive Support Branch, Australian Customs Service, Customs House, 5 Constitution House, Canberra, Australian Capital Territory 2601

CHAIR—Welcome, gentlemen. The committee prefers all evidence to be given in public, but should you at any stage wish to give any part of your evidence in private you may ask to do so and the committee will consider your request. You will not be required to comment on the reasons for certain policy decisions, or the advice that you have tendered in the formulation of policy, or to express a personal opinion on matters of policy. The committee has before it a written submission from the Australian Customs Service dated 30 September 1997. Are there any alterations or additions you would like to make at this stage?

Mr Holloway—No.

Mr Chapman—There is one minor typo in the submission. It is on the second last page—I am sorry, the pages are not numbered—under the subheading ‘UN/EDIFACT’. In the last sentence of that, there are two words missing. It should read:

It is anticipated that the private sector will also take a role in the implementation process and indeed a seminar by the International Air Transport Association was held—
those last two words need to be inserted—
in Singapore in April 1997.

CHAIR—Thank you very much. We will note that change in the submission. The words ‘was held’ to be inserted after the words ‘Air Transport Association’.

Mr Chapman—Thank you.

CHAIR—Any further alterations? If not, the committee has already made this submission a public document. I now invite you to make an opening statement and then we will proceed to questions.

Mr Holloway—Thank you. I have a very brief opening statement because I believe that our position is largely set out in the submission which has been put forward. Really it is about outlining for the committee that trade facilitation has been the major focus of the subcommittee on customs procedures rather than trade liberalisation, and that continues to be the priority of the subcommittee on customs procedures. We see trade facilitation as

having a direct benefit for private sector traders in the region.

Indeed, the results within APEC, within the subcommittee, are being looked at with interest by other trade bodies such as the World Customs Organisation and the World Trade Organisation simply because the 18-member economies of APEC, if you like, are a significant subset of world trade in terms of both trade volume and economic weight. It is easier to achieve trade facilitation objectives within a smaller grouping than it is in terms of, say, the World Customs Organisation, where we are looking at 145 members. There is a great deal of interest from Europe, and indeed some of the emerging economies of Eastern Europe, in terms of what we are doing with customs processes, simplification of customs processes and harmonisation of customs processes. Thank you, Mr Chairman.

CHAIR—Just on that point, one of the issues that obviously one would have to consider is just the sheer size of APEC itself. There are arguments that the small size of APEC is in itself one of the real pluses in that there are not so many at the table that they are getting in each other's way trying to get the agenda going. I am not asking you to comment on the membership per se—who should or should not be admitted to APEC—but do you have an idea of what is an optimum size for APEC? Can you see where it would go off the rails completely because it is too big?

Mr Holloway—I think that the size we have now is quite good in terms of what we are wanting to achieve, at least as far as Customs is concerned. There would be no harm in some additional membership, simply because we are actually doing certain things in relation to simplifying customs processes and, indeed, modernising customs administration in countries which are not presently part of APEC—and Vietnam is an example. So an expansion by two or three countries would not really affect our ability to meet the objectives in the customs subcommittee. Taking it beyond that does make it much harder to achieve consensus.

What we have found in the subcommittee is that when the subcommittee began back in 1993, when customs procedures were first started being discussed in APEC in 1993, there was a certain amount of reticence to go too far in simplification or coming up with an action plan. There was the difficulty to overcome of different degrees of sophistication in the different customs administrations, and that had to be overcome.

It was overcome in a relatively short space of time, perhaps a surprisingly short space of time, to the extent that now, and particularly this year in Canada, we found that there is a very nice feel within the subcommittee. There is a real feeling within that subcommittee that we can achieve results, that we want to achieve results, and that we want to do so by having input from the private sector as well.

If you are to bring someone new in then you have to take your time to bring them into the fold and make them feel a part of that process. The more people you bring into it the more difficult it is to do that and to maintain momentum. Perhaps if you bring too

many in you lose a little bit of the reform momentum that we have built up within the subcommittee.

CHAIR—You mentioned that we can achieve results and want to achieve results. What do they mean in real economic terms for our economy? What do the results mean that you are achieving, or potentially achieving?

Mr Holloway—Customs processes are a cost of doing business in the region. The more complicated the process that a trader has to go through in getting their goods into the country, the more costly it is to that trader. Simplifying processes immediately reduces the time taken to get goods into the country, it reduces the cost of doing business.

Similarly, there are different processes in different countries. It is very costly to have your business systems operate in five or six different ways where you have five or six different regulatory regimes applying in relation to customs. If we can harmonise that, that reduces the cost of trading in the region.

CHAIR—I understand that but can we actually place a figure on what it is worth to us because the average person in the community, when they hear about APEC, believes it is just one of those things that is up in the air. They see no relevance to them and their lifestyle, whereas if you can say to them that it would help reduce the costs of imported goods by 0.1 per cent or 1.0 per cent or whatever else, it does then have some relevance to them.

There seems to be a great mystification process around APEC. Whilst it is understood by the international government leaders and is now seeping down into the ranks, it is not understood by the ordinary people in the street. Can you place a figure on what that is worth to our economy? Is it really worth something that is tangible?

Mr Chapman—We do not have precise figures as to what it is worth. The greatest benefits will come to Australian traders who are exporting to countries where customs procedures are still quite inefficient and where corruption is a problem, where valuation regimes are not precise and where goods might spend two weeks on the wharf. The APEC Business Advisory Council has said that the trade facilitation side of APEC is going to provide the greatest value in the short term.

I will have to chase up the figures for you. My understanding is that one or two per cent of the cost of business and international trade comes from delays at borders or customs problems. That is not the case in Australia so it is not going to affect Australian consumers in the same way. Australian consumers are going to get the same benefit that perhaps Australian businesses which are exporting will get.

CHAIR—But Australian consumers would be advantaged by the fact that if it enhances the capacity of Australian exporters to operate then it could lead to job creation.

Mr Holloway—Absolutely.

CHAIR—There is a spin-off effect but, unless people can understand what these spin-off effects are, then the simplest position for people out in the community to take is one of a negative stance towards trade liberalisation, trade facilitation or anything else.

Could I pursue the issue of the number of projects? We heard from the Australian Chamber of Commerce and Industry that some 320 projects are currently on the drawing boards for APEC. They believe there are too many projects and that maybe it is spreading too wide the energies that are necessary to get the whole agenda within APEC moving. They have suggested that there should be a reduction of the number to 40. Interestingly, one of the areas that they focused on was the area of customs. What is your experience? Are there too many projects going in the area of APEC—particularly in customs—which dissipate your own energies and cause you to not achieve as significant a result as may otherwise be achieved?

Mr Holloway—I think that that is probably a fair comment in relation to the number of projects overall in APEC. In relation to customs, we have an action plan which contains now 12 items and we have been conscious of spreading ourselves too thinly. Not only Australian Customs but, indeed, other customs administrations suffer from the same problems, and that is having sufficient expert resources to be able to get involved in, say, technical assistance projects in different countries. What we have done to deal with that issue is to speak to the private sector here in Australia. We spoke to them prior to the last meeting in Canada. We spoke to them in Sydney and asked them what they considered to be the priority as far as customs was concerned and what for them were the most important issues. Indeed, we asked whether they thought the action plan was legitimate, whether there was too much or not enough on there and were there other issues that they wanted included.

The general feedback was that they thought that the action plan was about right. They did see it as being potentially too much but all of the items were recognised as being important to a greater or lesser degree. From the point of view of business, probably the item where they saw the greatest benefit for themselves was in what is called common data elements—that is, if you are using electronic systems in relation to import and export of goods, there should only be a relatively small amount of data that business has to input to meet customs requirements. That data should be the same from country to country within the region. That is regarded as quite important to business. They also mentioned the notion of risk management which Australia has a fairly sophisticated approach to. It is a fairly new item on the action plan that we are seeking to take further within the APEC region. For business, what that really means is facilitating their goods through the border by leaving low risk cargo alone and targeting high risk cargo. Those were the two items of business they were particularly interested in.

But the simple answer to the question is, in relation to customs, a qualified no:

there is no problem with 12 items on the action plan but they do regard some items on there as having a higher priority for business than others.

Senator WEST—Would you say that APEC is on schedule in the area of customs reform?

Mr Holloway—I believe it is on schedule. There is a push from ABAC to accelerate in some areas. The ability to do so is perhaps a little limited in the sense that some countries simply do not have the infrastructure to move faster than the agreed deadlines. But at this point, yes, we are reasonably confident of meeting the deadlines.

Mr Chapman—Customs was very quick to agree on an action plan with specified target dates. What we are faced with now is the difficult task, if you like, of making sure those things happen by the specified dates. To do that we have a very developed technical assistance program whereby the more developed, more advanced administrations will provide assistance to those that have further to go. That is actually being funded, by and large, by the APEC TILF fund. The technical assistance programs have started this year and they are two-, three- or four-year programs to achieve the results across APEC by the specified dates.

Senator WEST—Is Australia involved in assisting with any specific countries, or just in general?

Mr Chapman—Australia is very involved. We are providing technical assistance for about half a dozen of the items on the collective action plan. We are coordinating all technical assistance for two of the items and assisting in the coordination for a third item. Australian Customs probably has as large an involvement as any other administration, if not more.

Senator WEST—Can you tell us what the two are that we are the lead country in?

Mr Chapman—One is the implementation of UN-EDIFACT in all Customs administrations. That is a computer messaging system. All Customs administrations will be using the same computer language, essentially, for automatic Customs processes.

The second one is risk management, which is the introduction of a systematic approach to risk management in all customs administrations.

Senator WEST—How much is Customs used as a non-tariff trade barrier, do you think?

Mr Holloway—I believe it can be a significant non-tariff barrier, and is so to a greater or lesser degree in particular countries in the region. This is an area where business has said to us, ‘We believe that some work needs to be done here. It takes us two

or three times as long to get our goods into particular countries than others.’ There is a question of corruption associated with it, so it can be a very significant non-tariff measure. That is why simplification, harmonisation, throughout the region is seen as being a fundamental reduction to cost to business.

Senator WEST—Do you have examples? Is there some schedule that indicates who does what and what the impact is?

Mr Holloway—There has been evidence of where the delays are greatest and which countries we need to focus on. In relation to the corruption/integrity issue, there is a matrix that is put together by a group called Transparency International which you may or may not be aware of. They held a conference in South America recently on the whole issue of integrity. A matrix of countries is put together each year which indicates the worst and the best countries in that particular issue.

In terms of delays, there has been some work done across the region as to how long it takes to clear cargo in individual countries. That was done with a view to working out how much needs to be done in which countries to bring them all up to a benchmark.

Senator WEST—Is it possible to give us some documentation or information about the time that is taken to clear, and the reasons why that length of time is as it is? You mentioned Transparency International. I have never heard of them. Can you give me some details on that?

Mr Holloway—They have their head office in Berlin. The President of Transparency International in Australia is Henry Bosch, the ex-NCSC regulator. It has not been around for that long. It has largely been driven by business concerns that the cost of doing business in some countries is raised by the level of corruption there. The World Customs Organisation is holding a major conference on integrity in customs in April 1998 in Brussels. Australia will take part in that. We are hopeful that our chief executive will attend that conference. It is becoming quite an issue as far as Customs is concerned. We can provide you with some figures in relation to clearance times. We will get them from our cargo people and provide them to the committee.

Senator WEST—It would not necessarily be just the clearance times. Presumably there are issues like the amount of paperwork and documentation required, the number of people who have to do inspections and whether every crate has to be inspected. In terms of meat exportation, there are issues about how efficient and well some of those countries can maintain cold chain links when they are requiring a whole lot of paperwork, the physical inspection of every item and things like that.

Mr Holloway—Yes. We will supply what we can.

Senator WEST—That would be helpful, thank you.

Senator FERRIS—I think you were here when I asked the previous witness the degree to which Australian business understands the role of APEC and, to that extent, the trading partners in other countries. I am just wondering the degree to which you think your business partners in the private sector in Australia understand the effect of changes in the customs system that affect their cost inputs. Do you think the role and function of APEC is well understood? I think the chair referred to a lack of understanding in the wider community. These are the people who more directly benefit. I am just wondering the degree to which they understand Customs's role in APEC reform.

Mr Holloway—I will answer the Senator's question. I will then hand over to my colleague, Mr Chapman.

Senator FERRIS—Just before you start, could you also incorporate in your answer the comments made about confusion between government departments over this role so that we get that complete answer. Thank you.

Mr Holloway—To answer very briefly, there is quite a different degree of knowledge about what is happening in APEC as far as Customs is concerned. A group of our clients has a very good knowledge of what is going on. They are the people who showed up to a meeting that we held in Sydney recently. There is probably a much larger element of companies exporting into the region that do not choose to have that understanding. We have had the practice now for some considerable time where, after each meeting, we send a report to 350 companies and associations detailing what took place, what our objectives are and what we are trying to achieve.

We wrote to those people and asked them to be part of the meeting we held in Sydney so that they had the opportunity to have some input into the process and to let us know what their priorities were and what we should and should not be doing within the subcommittee. I think our turnout was 20 out of 350. So there is a certain amount of frustration from our part in getting that interest from business. Nevertheless, we have endeavoured from day one to at least provide information to people so that they know what we are trying to do.

Some do have a very good understanding. Others could have a very good understanding but, for whatever reason—I guess that cost is part of it and time is another part of it—others do not choose to come along to the sessions that we have offered to provide.

Mr Chapman—I will add a few comments to Mr Holloway's. The business partners or clients we have who show an interest in APEC and in what Customs is doing in APEC are extremely supportive and very useful to us because they give us valuable feedback as to what their concerns are and what their clients' concerns are. So we do find that very useful. Indeed, they have been able to offer us suggestions as to how we might improve things in the subcommittee.

I would echo Mr Holloway's frustration at the lack of interest which we sometimes get. I believe that might be because the benefits which even our group is offering are one, two or three years away. Some businesses are just looking at bottom line figures in the next six months. That is not something that our work is going to assist in.

I will explain a bit further. Our practice before each meeting of the APEC subcommittee will be to invite interested members of the private sector to meet with us face to face and discuss APEC issues. After each APEC meeting, I send out a report to about 350 bodies on a mailing list which details what has gone on and what we are trying to do. The last report I sent out was about 20 pages long with an executive summary in it as well. So there is plenty of detail there. That is also available on the Internet on our web site. It is linked to a number of other APEC and Customs web sites. So the efforts are certainly being made to engage the private sector. There is some very good success in that, but it is obviously not universal.

Senator FERRIS—What about communication between government departments?

Mr Chapman—We have a very close working relationship with Foreign Affairs in particular. The subcommittee on customs procedures is a subcommittee of the committee on trade and investment, which is run by Foreign Affairs and Trade. We also have close links with the department of transport and DIST, which is doing work in other APEC committees and which has cross-linkages to what we are doing in customs.

Senator FERRIS—I am thinking back to the evidence of the previous witness about some government departments appearing to be confused or perhaps a little less informed than others about the role of APEC when they come to do business. Is that not something you have come across?

Mr Chapman—No. I think we are quite fortunate in Customs in that we are part of a specific subcommittee that has a very strong sense of identity and consensus within the group. In many ways, obviously in close conjunction with Foreign Affairs, we very much manage our own approach to what happens in the subcommittee. It is a very specific, technical area. Perhaps we are fortunate in that it is technical rather than policy driven.

Senator FERRIS—The ABAC annual report recommends, with respect to customs harmonisation, that technical training be provided to economies that require assistance to ensure that appropriate resources are devoted to those sorts of programs. Has anything happened yet that you can tell us about? Is there a timetable? What countries are involved?

Mr Chapman—There is a very well-developed technical assistance program. We have the 12 items on our collective action plan. Different administrations are at different stages in implementing those items. Australia, for instance, has done 11 out of the 12.

Some others, such as Papua New Guinea and China, perhaps, have much more to do.

The technical assistance program has a multi-year approach. It starts off usually with technical needs analysis and then involves specific workshops so that the right technical expertise and training is provided to those administrations that most need it. The training is given by experts from the advance customs administrations. For instance, Australia, New Zealand, Canada and the United States are providing technical assistance and training on the WTO evaluation agreement to those economies or administrations which wish to administer it.

The private sector is also providing some technical assistance in certain areas. Australia, as coordinator in UN-EDIFACT, is using the private sector to provide training for that. The training programs have to undergo careful scrutiny from the BAC, the budget administration committee in APEC, and they require a detailed program outlining what the technical systems will be for each item, how much funding is needed for it and where the funding will be directed. So far funding has been provided for six of the 12 items; two of them do not need it and funding for the others will be sought next year. The short answer to your question is yes, there is a very detailed technical assistance program.

Senator QUIRKE—I was wondering whether you could tell us a little bit about some of the work of Australian Customs in anti-pirate measures. I am not talking about the Jolly Roger blokes but the CDs, the pirate tapes and all that stuff that comes in. As I understand it, much of this material is actually sourced in many other APEC countries. Is that so?

Mr Holloway—I understand that that is so, Senator. Certainly we are aware of what has happened between the United States and China, for example, in relation to pirated material. Customs' involvement in this under our legislation requires us to seize material where we have been notified by the copyright owner here that there is a breach of copyright in respect of that importation. So under the trade related intellectual property rules, Customs' involvement is in relation to enforcement. Of those rules in respect of goods breaching copyright crossing the border the adoption of those rules is part of our action plan in APEC; it is one of the 12 items on there. In fact, next week in Tokyo there is a seminar being held in relation to the enforcement of intellectual property across the region. One of our people from our cargo facilitation area will be attending that conference along with senior representatives of all APEC administrations.

Senator QUIRKE—As I understand it, there is no importation right now of CDs and tapes. Is that right? It is all seized at a border place, airports or shipping ports?

Mr Holloway—I would need to check that with our import people. I could actually get the figures and the details in relation to that. I did note this morning in the clips that there were several articles dealing not so much with pirated copies coming into the country but more with the potential revenue leakage of purchase of CDs, et cetera, over

the Internet, which is in itself an issue. I can certainly obtain for the committee some advice in relation to that from the area responsible.

Senator QUIRKE—In respect of those products, obviously the artist would lose out but where is the loss of government revenue? Is it to do with sales tax?

Mr Holloway—Primarily sales tax, that is correct.

Senator QUIRKE—The United States and China have been trying to resolve this problem as I understand it for about 10 years or so. If we were to relax the importation here of CDs, is that connected to some of the reforms that would be needed for us to more integrate with the APEC countries, particularly with respect to Customs?

Mr Holloway—To be honest, Senator, I cannot answer that question. The question of relaxation of controls and what that means as far as Customs is concerned is a difficult one to answer. The policy in relation to that certainly does not apply to Customs; we would react to whatever decision was taken. If the controls were to be hardened then we would react accordingly and by the same token if they were to be relaxed we would react. It does not have an impact in relation to customs duty certainly. It is more of a sales tax issue. On the question of loss of revenue to copyright owners et cetera in Australia I am not in a position to be able to answer that.

Senator QUIRKE—But it would be a significant non-tariff barrier, wouldn't it? We do not know the extent yet. You are going to come back and tell us to what extent there is total prohibition of bringing material into the country, at least by wholesalers one would presume—maybe not by individuals who are bringing one or two CDs or something they have bought. It would seem that that is going to be a very significant non-tariff barrier particularly in this industry. Are you aware of any pressure to remove that by other APEC countries so they can get a piece of the Australian market?

Mr Holloway—No. In fact it is an issue which really has not come up for debate at all within the subcommittee on customs procedures although I am aware that the issue is discussed in other committees with trade liberalisation objectives and with objectives more tied into trade policy. The only issue for the customs subcommittee has really been in relation to methods of enforcement, how do we best enforce the rules to prevent pirated material getting into the countries. It is also relevant to our risk management.

Senator EGGLESTON—I would just like to ask you a couple of questions about the anti-dumping amendment bills. The Senate will shortly be considering the customs legislation dealing with anti-dumping. The bills allow for China and similar economies to be treated as economies in transition towards becoming market economies while safeguarding the interests of Australian industry. The hearings which considered the proposed bill showed that many Australian industries or the Australian industrial sector do not necessarily agree with the government's view that China is an economy in transition. I

would like to ask you how the situation of economies which are in transition is being addressed within APEC with respect to anti-dumping and is there any conflict between Australian business and the government's position in APEC as to China's economy?

Mr Holloway—Senator, the issue of anti-dumping, particularly the issue of economies in transition, certainly is not an issue that has been dealt with within the subcommittee nor would it be appropriate to be dealt with within the subcommittee. It falls within the terms of reference, if you like, for the committee for trade and investment and is a policy issue for the Foreign Affairs and Trade people. I do understand that there have been suggestions that anti-dumping as an issue came up as part of what is called trade policy dialogue within the committee for trade and investment. At different times a range of trade policy issues have been discussed in the committee for trade and investment and China has proposed that anti-dumping be the subject of one of these trade policy dialogues. My understanding is that a decision has not been taken as to whether or not that would occur. The United States has its own views as to whether anti-dumping ought to be part of trade policy dialogue but I cannot comment. It does not fall within the subcommittee. It is something that falls fairly and squarely within the Department of Foreign Affairs and Trade and the committee for trade investment.

Senator EGGLESTON—Would you nevertheless like to speculate on how an Australian anti-dumping bill might be regarded within APEC? Will it have any adverse impact on trade relations for Australia? Will it be seen as Australia setting up a non-tariff barrier to imports from other APEC countries and so on?

Mr Holloway—I certainly have not been party to any discussion nor have I heard anything said about it within the subcommittee or in the margins of those meetings. I suppose that it is a controversial issue within Australia. I would imagine that it would be equally a controversial issue within APEC. I understand that debate will take place between the respective foreign administrations rather than technical experts such as ourselves in the Customs grouping.

Senator EGGLESTON—Thank you.

Senator LIGHTFOOT—I will just continue with respect to dumping, Mr Holloway. What is the formula for ascertaining what is dumped material from China into Australia? If you accept that China has a system where a lot of its manufactured goods come from people that are held, for one reason or another, and are not paid while they are held, what is dumped material? China's minimum wage, if there is such a thing, if one could put a figure on it, is about \$US1 a week compared to Australia's minimum wage which is in excess of \$US200 a week. That is my first question.

Secondly, is your department working to lower the time it takes to deal with applications made for dumping, or anti-dumping, if you wish? Obviously, goods which come in here that are alleged to be dumped in Australia still come in during the period

that it takes to ascertain whether they have been dumped. I know there has been some reform there, the days have been lowered from something over 200 days to something over 100 days. I think you would admit that even that is not good enough. Is there some reform in motion, or is the machinery in place now, to lower that even more?

Mr Holloway—That is a question I will have to take on notice and refer it to our dumping area. I will obtain an answer for you. I am not a dumping expert. I have not worked in relation to dumping but if I can take the question on notice and I will arrange a reply.

Senator LIGHTFOOT—To both questions?

Mr Holloway—Yes.

Senator LIGHTFOOT—Could I then continue with respect to tariffs. I will take just one area of manufacturing in Australia, quality porcelain, as an example. I think I am correct in saying there is only one manufacturer of high quality porcelain in Australia, and that is in Western Australia. We have about a five per cent tariff on similar goods entering Australia. China has something like, and I am operating from memory again, 55 per cent. I think Britain has 12 per cent and the US has something like 15 per cent. How is that, given our minimum wage structure, competitively fair?

Mr Holloway—Again, I will take that question on notice and get a reply from the import experts and the dumping experts.

Senator LIGHTFOOT—I have just one other question, and hopefully the answer will not need to be on notice. I appreciate the fact that it is difficult to answer all these questions. You cannot store answers and wonder whether someone is going to ask them. I do appreciate that and I appreciate your effort in getting answers back to the committee.

China is not a part of the World Trade Organisation. Why is it not part of the World Trade Organisation and why is it not a part of APEC?

Mr Holloway—That one would have to be directed to my Foreign Affairs colleagues.

Senator LIGHTFOOT—You have no opinion on that?

Mr Holloway—I do not think I should venture an opinion on that. That is a matter of foreign policy. I would say, however, that China, whilst not a member of the World Trade Organisation, is a member of the World Customs Organisation. We do deal with them, not only within APEC, but on customs matters. They are part of the global customs body. The World Trade Organisation issue is quite separate from anything that we have been involved with with China, and is a matter for foreign policy. We would not express

an opinion in relation to that issue.

Senator LIGHTFOOT—You must indulge me then because that was not a complete answer, so I feel free to ask another question.

It is not well recognised that Australia, in the region, is the fourth biggest economy and in generic terms it is 10 times greater than Indonesia with a population one tenth of Indonesia's, for instance. China is indisputably going to be the dominant economy in the region with Japan second and South Korea, if it holds its position, will be third. Perhaps Australia can be fourth. What is the other emerging economy? You may not know this, but in terms of customs you ought to know it. What is another emerging economy in the region, given the ruckus in the tiger economies that is presently going on?

Mr Holloway—In relations to customs, from our point of view, outside of the economies you have mentioned, there has been a lot of work done with the Philippines. The Philippines has a lot of potential. Certainly in terms of its preparedness to modernise and its preparedness to look at Australia as a benchmark, we would see considerable potential with the Philippines. That is reflected not only in the work that we have done with it within APEC, but indeed bilaterally. There has been a lot of work done between Australia and the Philippines. There is quite a profile with the Australian-Philippines Business Council as well.

Senator LIGHTFOOT—Thank you.

CHAIR—In respect of the Internet, we are now seeing growth there in trade and commerce. What role is your department playing in the customs area in respect of trade and commerce on the Internet? Is there a particular group within APEC that is looking at this issue? If you can give us some sort of briefing as to what has happened there, it would be very interesting.

Mr Holloway—Certainly. What I can do in relation to this is not only provide you with a short answer now, but we have a considerable amount of written material which we can provide later on to the committee on this topic.

CHAIR—That would be appreciated.

Mr Holloway—You are quite right, the Internet is the growth area. Customs is looking at the Internet as the means by which business, particularly small business, can provide information on customs needs when they undertake international trade. It is a much less costly means of doing business than other methods that are available at the moment. There are a number of pilot projects that the Australian Customs Service is involved with involving the Internet in terms of provision of information and cargo automation.

We are very much using the Internet as a communication medium within APEC. For example, the subcommittee has its own web site. As Mr Chapman has outlined, that is linked in turn to home administration web sites. It is linked to the committee for trade and investment web site and the broader APEC web site. We are using it, for example, in relation to our technical assistance projects as a means of telling the private sector what we are involved with and inviting them to tender. With the UN-EDIFACT project that Mr Chapman referred to before, and for which Australia is lead shepherd, tenders were sought on the Internet and provided over the Internet.

The Internet is being used both as a communication medium and as a medium for transmission of customs information rather than us using hard copy. We can provide much more detail to you in written form outlining exactly what we are doing in relation to the Internet, if the committee would find it useful.

CHAIR—Thank you. What are we actually doing in terms of customs issues in respect to the Internet? It is one of those areas where it knows no bounds, it knows no policing. Is this a concern? If so, what are the concerns?

Mr Holloway—It has both facilitation and enforcement aspects involved with it. On the enforcement side, domestically, Australian Customs are involved in an inter-agency group together with the Australian Taxation Office, I understand, in looking at the implications of on-line purchase of goods and services: what implications that has for our revenue; whether it should be regulated or taxed in some way, or whether there should be a policy which goes hand in hand with that. We are not the first country to have done this either; the United States has looked at this in some detail. In fact, we have received some reports from the United States looking at the same issue. As the committee would be aware, the feeling there was that the policy should not be taxed. But there are a range of issues which need to be addressed in that regard.

The threshold at the moment is \$50 for personal items below which it is not cost effective to pursue, and there is an issue whether that should be raised or lowered. There are a number of issues that flow from it and, yes, there is an inter-agency group examining that whole thing with a view to putting a submission to government, I understand.

CHAIR—Is this an area where our whole customs regime could be thrown into some turmoil because of our inability to, in effect, tap directly into it?

Mr Holloway—Yes. It is an area where there is the potential for current controls, perhaps, to be avoided, simply because of the difficulty of monitoring the traffic. There is an enormous amount of traffic and, indeed, with the Internet the server is often outside jurisdiction, and there is the inability to apply our own laws beyond jurisdiction. Yes, there are a number of potential difficulties for Customs, and these are the things which we are looking at at the moment in terms of the scale of the problem and the strategies we

might use to overcome it.

CHAIR—Is that receiving a fairly high priority within APEC itself?

Mr Holloway—Yes, it is—and wider than APEC, as well. Indeed, within the World Customs Organisation and, I understand, probably within the World Trade Organisation, as well, there are implications for controls over importation. It is an issue which is being dealt with right across the board. It is a problem which has been discussed not only by ourselves but, also, by countries in Europe, North America and elsewhere in Asia.

CHAIR—We have run out of time. We are running a bit late this morning because we started a few minutes late. I thank you for your patience in waiting and for the evidence that the officers of the department have presented to us this morning. We look forward to the supplementary information that you are going to supply us with.

[11.12 a.m.]

BERESFORD-WYLIE, Mr Adrian Frederic Vere Peregrine, Team Leader, International, Maritime Transport Division, Department of Workplace Relations and Small Business, Garema Court, Canberra, Australian Capital Territory 2601

BOWDLER, Mr John Bernard, Deputy Secretary, Department of Transport and Regional Development, PO Box 594, Canberra City, Australian Capital Territory 2601

GRIFFITHS, Mr Tony, Director, APEC and Multilateral Team, Trade Coordination, Department of Transport and Regional Development, GPO Box 594, Canberra, Australian Capital Territory 2601

KIMBERLEE, Mr Michael Charles, Director, International Projects, Federal Office of Road Safety, Department of Transport and Regional Development, PO Box 594, Canberra, Australian Capital Territory 2601

WOLFE, Mr James, Director, International Aviation Policy, Department of Transport and Regional Development, PO Box 594, Canberra City, Australian Capital Territory 2601

CHAIR—I welcome Mr John Bowdler and the other officers of the Department of Transport and Regional Development, and Mr Adrian Beresford-Wylie of the Department of Workplace Relations and Small Business. The committee prefers all evidence to be given in public, but should you at any stage wish to give any part of your evidence in private, you may ask to do so and the committee will consider your request. You will not be required to comment on the reasons for certain policy decisions, the advice which you have tendered in the formulation of policy or to express a personal opinion on matters of policy.

The committee has before it a written submission from the Department of Transport and Regional Development dated August 1997 and material additional to this submission dated 22 October 1997. The committee has already made the submission and the additional material public documents. Are there any alterations or additions you would like to make at this stage?

Mr Bowdler—No, Mr Chairman.

CHAIR—I now invite you to make an opening statement, and then we will proceed to questions.

Mr Bowdler—You have noted our two submissions to this committee. We are pleased to submit those documents and to assist the committee in its deliberations. The

department has had quite a large investment in APEC over the last four or five years. We believe that steady progress is being made. We are pleased to be able to speak about that in a forum such as this. I should also note that the maritime function from the Department of Transport and Regional Development has been moved to the Department of Workplace Relations and Small Business. That is why Mr Beresford-Wylie is with us today. But I can assure the committee that the two departments will be working closely together in the advancement of the APEC transport agenda. That is all I would like to say.

Senator EGGLESTON—I am quite interested in the issue of the impact of APEC on air services. I would like to ask you a few questions about it, which I might roll into one to make it easier. With respect to trade liberalisation and facilitation, is air services a sensitive industry? What are the main issues related to air services to be addressed in fulfilling Australia's 2010 obligations? If Australia were to fully fulfil those obligations under APEC's requirements by 2010, where would this leave air services in Australia? For example, does it mean that there would be an open skies policy, or would there still be restrictions on the number of air services able to operate to and from Australia? What would it do to the kind of international access agreements which are now negotiated between Australia and other countries with respect to air services? It is a very complex matter usually. It is very closely negotiated on a one-for-one basis between different countries. Would you like to comment on that in a general way as well as answer the specifics.

Mr Bowdler—Thank you for that question. I will start, and I will ask Mr Wolfe to augment the answer with some of the detail. You are right to identify air services as one of the sensitive areas in APEC and transport. It is a difficult area. It has been over the years a very specialised area with the bilateral-type agreements you have referred to. But, that said, the issue of air services has been the subject of quite a deal of work since the first meeting of APEC Transport Ministers in Washington in June 1995, when an expert group was set up to look at the possibility of more competitive air services with fair and equitable opportunity on a consensus basis; these are all the APEC caveats, which does suggest sensitivity. That group met and reported to Ministers. Ministers revisited the issue at their second meeting in June this year in Canada and endorsed the areas that the group identified. A new group now called the Expert Group on Aviation Services began quite recently in the lead-up to preparing another report for Ministers towards the middle of next year. Mr Wolfe was on the Australian delegation that attended that meeting.

In closing, there is a lot in aviation. It is not just about the bilateral agreements. A lot of other things can be done, such as with multiple designation. There are issues of the ownership of airlines, charter flights, air freight and so on that can also be advanced. It is about doing business matters. They were the sorts of things that the first group looked at and which will be taken on by this further group.

The agreement to date has been to work within the existing bilateral structure, which is still the ICAO structure. So we are still working within that arrangement. That is

the background to the work done to date. I will ask Mr Wolfe to supplement those points.

Mr Wolfe—The recent meeting we had in Singapore essentially looked at the eight options in relation to aviation that were previously identified. In that regard, there is no doubt that there are certain options which are more contentious than others. The two most contentious I would say would be market access and ownership and control issues. I think it is fair to say that all the APEC members acknowledge the sensitivity of those issues and at this point in time are handling those on a bilateral basis. There are other areas, however, where there is more likely to be more immediate progress. John has already touched on multiple airline designation. There is also the question of doing business. This is the way in which aircraft are handled on the airport, covering matters such as airline cooperative arrangements where they have code sharing alliances. What we are looking for here is a standard of common practices amongst all APEC members to make sure there are not impediments to the way in which we deal with each other. That I think is an area which is progressing quite well.

In terms of this forum, we always confront issues of the difference between multilateral, plurilateral and bilateral arrangements. As you may be aware, the US and Japan at this very point in time are having very sensitive bilateral talks. While those talks are going on, clearly there are implications for these types of forums to make it so that whatever is achieved there can come back and to make sure APEC does not get in the way of initiatives that can be achieved by each country bilaterally. We are more than happy with the progress that has been made but clearly one of the challenges we have is that each of our economies in relation to aviation is at a different stage in terms of their development. That has to be taken into account when we look at a consensus outcome.

Senator EGGLESTON—It seems to me that if we were to move to a much freer situation in the interests of Australian aviation, I suppose Qantas and Ansett's international activities could be quite compromised in some way. Talking about Japan and the United States, a couple of years ago Northwest Airlines ceased services to Australia because of problems in relation to agreements between the United States and Japan over access to Osaka, I think it was. I just wonder where you would see things in, say, the year 2005. Are we going to have a freer regime of access to Australia and will that have any implications for Australian airlines?

Mr Wolfe—I think the government's policy has been well spelt out for a more liberalised arrangement in its bilateral agreements, but not open skies. The track record so far is pretty good. We have negotiated an additional 18 bilateral agreements in 18 months and I think the flexibility that people are looking for in the system is being achieved, but at the same time the opportunities are there for Australian carriers to use that capacity that is being negotiated and the more flexible arrangements on specific routes. They are both in the process of strengthening their alliances with other international carriers. As well as increased competition that is certainly taking place, there are opportunities for our Australian carriers to participate in that process, at the same time recognising that that is

on the passenger side particularly. On the freight side—

Senator EGGLESTON—I was going to ask you about freight.

Mr Wolfe—What we have been doing with freight is that we have negotiated now 18 dedicated freight agreements with other countries; a year and a half ago we had five. That has basically put on over 50 747s worth of dedicated freight capacity around the world, which is a fairly significant increase. It basically says to producers in Australia that the capacity is now there but you have to get this capacity to be used by attracting these services to Australia. I think we are certainly removing the impediments to a more liberalised aviation system, both in passengers and freight.

Senator EGGLESTON—I come from the north-west of Western Australia where the growers—in places like Kununurra where there is a great horticultural industry—are talking about expanding the Ord River irrigation farming area by some 65,000 hectares. They are very interested in direct export by air of their horticultural produce to places like Singapore, Jakarta, Manila, Bangkok, and so on. But it has been difficult for them to actually achieve those sorts of things at this stage for a variety of reasons. Are we going to see a liberalised air freight regime where they could actually achieve that objective of direct export of horticulture products to Asian markets from the north of Western Australia?

Mr Wolfe—I think that there are two initiatives that will help that type of exporting. Firstly, we now have very liberalised freight charter arrangements, the non-scheduled carriers that might want to come into the country once or twice and pick up particular loads—and there are no real impediments to that.

Secondly, the challenge I suppose for producers of produce—particularly, in areas such as north western Australia—is that we have had some of the lowest freight rates in the world in Australia, but that is for cargo generally carried in the passenger belly hold of those aircraft.

Senator EGGLESTON—In passenger aircraft?

Mr Wolfe—That is right. Major passenger services, of course, generally concentrate on the major capital cities, not the smaller regional centres. Dedicated freighters are generally looking for premium, high value commodities to carry.

The producers are basically saying, ‘We have heard about these low freight rates, but we do not seem to be able to get them.’ But it is true to the extent that they do not generally have the volumes to attract the higher dedicated freighters to serve their particular needs. So, it is really a case of matching those two up. The processes that we are going through at the moment are clearly designed to give producers the option of not only using scheduled services, but also using charter services.

So, there are opportunities growing and I think that the producers are becoming more willing to talk to airlines and freight forwarders down the chain from the time of production to the time of export to ensure that they get better arrangements in place. And just on that question, the Freight Export Council that Western Australia established is, we believe, a very good initiative because it specifically gets all those people together to discuss how their needs can be met.

Senator EGGLESTON—Is that an agency of the Western Australian Department of Transport?

Mr Wolfe—Yes. The federal government has actually just announced that we are encouraging other states to enter into similar schemes, and the Western Australians have set that up not only with their own department, but also with several other inter-connected agencies, as well. And we also attend meetings. It is a very good means of stopping these anecdotes we hear where people say, ‘I could not get something on a particular aircraft,’ to a case of us finding out why, and making sure that it does not happen again.

Senator EGGLESTON—Good. Thank you very much for those answers.

CHAIR—You indicated that government policy is not for an open skies policy and, whilst I understand that, is there a benchmark within APEC as to what we should reach by 2010 or 2020, as opposed to whatever government policy might be? And how do we then handle that agenda, given that it is such a sensitive area?

Mr Wolfe—I think we are not alone, Senator, in seeing aviation as a sensitive area, and I do not think that there are many of the economies that see something magical about 2010 in relation to aviation. Most of the members of APEC are participating in, and strongly support, the bilateral system. I do not think that they are looking to impose multilateral outcomes by a particular date.

The question is that, clearly, there are some members in APEC who would like to move faster, and the challenge is, I suppose, to balance the different interests inside the organisation. That is particularly so in aviation because there are some countries that are still just coming to grips with what we consider far more flexible items—tariffs is a good example. We have very liberal tariff arrangements in place. Other countries still quite rigorously restrict or control tariffs. We want to see more liberalisation clearly in air freight but other countries are more circumspect about that. From Australia’s point of view, I do not think the aviation area has a problem being behind with aviation developments. I think we have to recognise that other APEC economies may be moving at a slightly different pace from us.

CHAIR—I understand that. Your emphasis, as I have taken it this morning, is on bilateral arrangements. When I think of the other witnesses we have had before us, bilateral arrangements have not been very much to the fore, even though they do exist and

will continue to exist. The thrust of APEC, as I read it, is to put things more on a multilateral basis. Is this an admission of failure on the part of APEC that it cannot deal with this particular issue on a multilateral basis? Or is it something that we have to have patience with, and let time work its way through various issues that confront the various nations? It really gets to the heart of whether APEC has a real function and a real role.

Mr Wolfe—Certainly most APEC members will continue, in the short-term at least, to use the bilateral system for aviation. It is the one that they are most comfortable with. It is the one that has been achieving the sorts of reforms that they want, at a pace they are comfortable with. I think the APEC forum encourages members, either through a bilateral process or, if they want, through a group—there are some regional initiatives in aviation, particularly in South-East Asia—to put forward the sorts of general principles of freeing up and liberalising the system that they want to adopt. If they want to do them in the first instance through a bilateral process that is fine, and if they want to go a bit further in that they are also encouraged to do that.

In a way, it is a recognition that aviation probably is slightly different because of the strength of the bilateral networks that are in place but, at the same time, it says that, as a group, they should all be moving in this direction. The challenge in relation to the specific options—the eight options that have been looked at—that were outlined earlier is to get them thinking that this is where they all should be heading. There is then the issue of getting them there over the period. If in the first instance they would like to do it through a bilateral process then they need to be looking at doing that bilateral process amongst all APEC member economies. I think it is a balancing of the two—a basic principle being developed amongst the whole 18 economies.

It is probably one of the areas where people have acknowledged that, where a position has been reached in the past in terms of aviation, it should be advanced using a system that we are comfortable with and one that also acknowledges that some people may want to move faster than others and giving them the opportunity to do so.

CHAIR—Is there a real chance that all the bilateral arrangements will be overrun by airline mergers and the changes to the structure of the airline system itself? Is that something that APEC can deal with or is looking forward to dealing with it?

Mr Wolfe—I think that is an interesting question. From where it is at the moment, APEC already acknowledges the developments that are taking place in airline alliances, code sharing and in other arrangements that are starting to break down some of the existing barriers that some people might say are there between ownership and control and between different carriers. That is already well-acknowledged. It is an issue that has been around for many years and it has been looked at by the International Civil Aviation Organisation. In that regard, I think APEC is more than able to cope with that type of change. It is also saying that it is even more of an imperative that we come to grips with a liberalised competitive system because the airlines are already starting to do it themselves.

CHAIR—So what are the benefits of having a more liberalised, competitive system for our nation? As I have said to other people who have appeared before this committee, whilst people such as you, heads of government and the like may understand the benefits of APEC, the people in the street have very little understanding or knowledge of what benefit that will mean for them. So where is the benefit for the average Australian in the street? How will it translate as a benefit to them that they can identify with?

Mr Bowdler—Is that aviation specific?

CHAIR—Aviation and/or transport in general. I would be interested in the maritime issue as well.

Mr Bowdler—Certainly APEC has come a long way in a very short time. It is not even three years since the Bogor Declaration, which set these very challenging parameters of 2010 and 2020. In our Transport Working Group, we are up to about our 12th meeting, and they happen six-monthly. So progress is going to take a bit of patience, as you alluded to earlier in another comment.

There are an awful lot of benefits. Very strong networks are being built up between the Asia-Pacific economies in transport and other areas. There are a great number of contacts and ways that we can facilitate things. More tangibly, we see opportunities in APEC for our transport industry and transport goods and services to be able to export to other APEC economies. We can help through that, for example, by harmonising standards and facilitating training opportunities. We can foster professional mobility for our skilled people. So there is a lot in that. Again, perhaps the man in the street is going to find that fairly hard to notice, but there is a lot there.

Transport is increasingly being seen as a seamless process both in Australia and elsewhere. Most of our growing markets are in the Asia-Pacific area. Transporting our products, such as agri-food products, to those economies is very important. We have to be able to facilitate that chain from virtually when, say, the tomatoes are grown in Australia to when they are in a supermarket in Malaysia or somewhere like that. So the Supermarket to Asia Council and the air freight councils that we have talked to are all part of this too. I hope that there is something tangible in that for many of our export industries.

Finally, I think the agenda of APEC is about reform—liberalisation and facilitation and more efficient transport. That is really what the domestic transport agendas are about as well. There is a complementarity between the two. So that is the overall direction. Again, I can see your point that it is hard to see how that all filters down to the man in the street. We believe that there are substantial benefits in this process over time.

CHAIR—I understand that. But that is where the average person in the street becomes very sceptical about these sorts of processes. You can enunciate what you see are the benefits, the government will enunciate what it sees are the benefits and other nations

will do likewise. But if people cannot see something actually translating into their personal lifestyle, then they sit back and say, 'What is this all really about? Why do we have it if what we see as the end result of trade liberalisation'—let us say we went to an open skies policy—'is job losses or whatever?' This is where there is a degree of scepticism.

DFAT have put out a document trying to explain the virtues of trade liberalisation and other things, and that is very good. But when you come to issues such as those you are dealing with—I am not saying they are easy issues—how do you translate it for the people? How do they see the benefit because of some initiative we are taking in the maritime area or in the skies? How do you convince them that this is a real positive, that there are jobs going to be created and that there are not going to be jobs lost? That is the broad issue that I see is the difficulty we are confronted with.

Mr Bowdler—Perhaps my aviation and maritime colleagues might like to come in on those points.

Mr Wolfe—In terms of aviation, the benefits of what the government has been doing, which is also facilitated by being in APEC, are shown by the increased level of services, the reduction in fares and the availability of discount fares, the amount of capacity that is now available for our export markets and a general process of making it easier for people to fly overseas on a fare which is more competitive. There is a range of airlines that they can choose from. Our freight exporters can also choose who they will fly with. So the average person is conscious of those changes and is fairly happy with the progress that is being made, albeit that they would like them to go a bit further.

Certainly Australian business has been looking for some time to more freeing of the impediments of doing business in aviation with our APEC partners. So I think they are more than happy to see us in that forum facilitating the ability for them to get overseas and compete.

The Australian aviation industry wishes to see us engaged in APEC to ensure that it is a joint process. It is not simply a case of people making unilateral decisions. So in that respect, I am pretty sure they can see benefits from our being there. At the same time, it is not a case of Australia doing something and it not being reciprocated overseas, which I think is the point you were making about why we are there and what is in it for Australia. In overall terms, in the aviation field, the benefits of being there far outweigh any concerns that people might have.

Mr Beresford-Wylie—On the maritime side, I think the benefits of liberalisation are really directly related to the competitiveness of our exports. Australia is a nation that really is dependent on sea borne trade. Probably well in excess of 95 per cent of our exports by volume travel by sea and more than 80 per cent by value travel by sea. In terms of a tonne-kilometre measure, Australia has the fifth largest shipping task in the world. A significant amount of our exports are really high volume, low value exports in

which transport costs play a particularly important role. It is through an increased liberalisation of maritime transport that we are able to achieve an improved competitive position for Australia's exports.

Senator QUIRKE—Can you tell us how the waterfront has improved over the last 10 years or so—or has it not?

Mr Beresford-Wylie—The waterfront is not an area of my expertise. To get you specific information and specific figures on how the waterfront has improved, I would be grateful if you would grant me the opportunity to take that question on notice. I will come back to you with some detailed figures on the trends in waterfront performance over the past 10 years.

Senator QUIRKE—What about some of our APEC neighbours? How do we compare with them with regard to shipping costs? I refer to the cost of exporting goods from Australia to the various APEC countries and the return trade. Are we at a considerable disadvantage?

Mr Beresford-Wylie—In terms of the cost of shipping on ships—that is, the freight rate that is gained—I would venture that the answer is probably no. The international shipping market is a very free market. It is not regulated to a great extent by individual nations. Rates have been very low over recent years. As I said, to some extent, the competitiveness of Australia's exports depends much more on transport costs and freight costs because of the nature of our bulk exports. Therefore, we tend to suffer more significantly if there are fluctuations in transport costs. Port costs would be related to stevedoring costs and handling charges. The figures that have been published—again, as I said, I will get those in detail for you—would suggest that Australia has not performed as well as it could have in relation to our APEC competitors.

Senator QUIRKE—You say that 95 per cent by volume of exports travel by sea. How much of that is carried on Australian freight carriers?

Mr Beresford-Wylie—A very small amount; probably between five and eight per cent is carried in Australian bottoms.

Senator QUIRKE—Has that dropped over the years?

Mr Beresford-Wylie—Yes, it has. I could not give you the figures but I will also take that on notice.

Senator LIGHTFOOT—Mr Bowdler, I want to carry on from the Chairman's questions with respect to Australia's obligations to APEC by the year 2010, I think it is. What are they specifically?

Mr Bowdler—APEC is a collective body in a sense. I am not sure that there is anything in the sense of legal obligations or anything like that. It is a commonality of interest.

Senator LIGHTFOOT—I do not think they are legal but they are an obligation, nonetheless, because we have undertaken to conform.

Mr Bowdler—The expectation is that Australia will seek to particularly meet the directions of the Bogor Declaration by 2010, and that has been followed up subsequently with some more detail at Osaka and Manila. The 1995 leaders' meeting was held in Osaka, Japan. We are delving into territory here that is more appropriate to that of the Department of Foreign Affairs and Trade. But, from the perspective of the transport portfolio, we have always seen ourselves as being part of the comprehensive Australian approach to APEC and that is that everything is on the table, in a sense, all sectors of the economy.

Senator LIGHTFOOT—What do we have to specifically undertake? Do we have to deregulate our airlines? If we are, and if that is an obligation that we have undertaken, to what degree are we going to do that?

Mr Bowdler—Some of those things have not been faced yet. For example, in our individual plan, under the system where an IAP—if I could use another acronym, the shorter version there—is done every year, you will notice that we do not necessarily have any long-term targets. We have shorter-term targets that we are moving to. We are committed in aviation to more liberalised aviation arrangements for passengers and freight.

In terms of saying, 'This is where we have to be in 2010,' and working back from there, we have not really got to that stage, we have not approached it that way. We know what our target is. There is a lot of talking to be done and we are moving in that direction. It is a concerted move in the one direction, different economies going different ways.

Senator LIGHTFOOT—If you know what the target is, perhaps you would care to tell the committee. That is what we would like to know. What is the target? What are the obligations, section by section? I am happy to take that on notice and I am sure the Chairman is happy to take that on notice, if you cannot recite it.

Mr Griffiths—I think the main target that has been set is in the Bogor Declaration that economies have agreed that there will be free trade and investment in the APEC region by the year 2010 for developed economies and the year 2020 for developing economies. To my knowledge, there are no stages along the way that have been agreed to reach that overall goal.

Senator LIGHTFOOT—If I could be more specific: how will that affect the air

transport industry in Australia and its international carriers that operate from Australia?

Mr Griffiths—I do not think I am qualified to give you an answer to that. I suggest that Mr Wolfe from our Aviation Policy Division would be best equipped.

Mr Wolfe—I think you have hit on probably one of the more contentious issues in APEC at this very point—that is, the application of the 2010 declaration to aviation. There are certain parties in APEC who believe that there is an overlap between what APEC believes and what the WTO has outlined. In that respect, they do not see this as an interpretation that says by 2010 every country has to have an open skies regime. That interpretation has not been put on it by all APEC members. As I said, it is a contentious area and I am sure that there are other members of APEC who do believe that is the interpretation that should be put on it.

Senator LIGHTFOOT—Are we likely to meet those targets by 2010?

Mr Wolfe—Obviously, it is not consistent with current government policy in terms of open sky.

Senator LIGHTFOOT—Is that a no?

Mr Wolfe—It is a matter for the government at this point in time to decide how they believe that particular declaration should be interpreted.

Senator LIGHTFOOT—You are the expert, Mr Wolfe, what would you be advising the government to do?

Mr Wolfe—I would be advising—

CHAIR—You do not have to answer that, Mr Wolfe.

Mr Wolfe—I would be advising very cautiously.

CHAIR—Let current processes happen for a while through the group that Mr Wolfe is a member of and we come back and assess that in a few years time.

Senator LIGHTFOOT—I could assume, or the committee could assume, that we are not likely to meet those targets by the year 2010?

Mr Bowdler—I do not think anyone can speculate on that at this point. It is an iterative process and requires our making our own progress as well as the other APEC economies. APEC is quite a unique grouping because of the involvement of leaders. They meet every year. In transport, ministers meet at least every couple of years and industries are closely involved. It has a different focus from a lot of other international bodies. It has

made progress that many outsiders see as fairly surprising, given the range of economies involved over the last five to six years. I do not think anyone can have a pessimistic outlook. I think one could be surprised what will happen into the next century.

Just coming back to your point on deadlines, if you note the Australian Individual Action Plan that was done last year, that does not have deadlines for transport. For aviation, they are spread out over the period. We have not set deadlines for 2000, 2005 and 2010 at this point. But that could well be changed when the government revisits the IAP again in a year or in two years time. It is reviewed every year. There is a review under way at the moment, which is being coordinated by the Department of Foreign Affairs and Trade. This will be fixed up for the leaders meeting in November in Vancouver. I would not be surprised if you do not start to see some more specifics in this over the next few years. But it is very hard to predict at this point.

Senator LIGHTFOOT—If there were an open skies policy, would that mean that any international air services outside Australia would be able to operate into Australia in unrestricted numbers?

Mr Bowdler—An absolute open skies policy may well be like that, subject to safety checks, environmental checks and all other types of checks. We have to make sure those things are there. There are various options. In international aviation, APEC is a very large slab of the world, but it is not all of the world.

We have got the International Civil Aviation Organisation, ICAO, which has a big say in these things. APEC has to work in with what is happening in the rest of the world. For example, in automotive product—which is another area that Australia is prominent in—we have to work in with what automotive standards are being applied in Europe.

Senator LIGHTFOOT—Just to switch slightly, it was recently announced that two international carriers—one from Malaysia and one from New Zealand—would fly directly to Canberra. Are there any other international carriers that are going to fly directly to Canberra, that you are aware of in the near future?

Mr Wolfe—I might just clarify that. There is a proposal, and that is all it is at the moment, by a Malaysian charter airline to fly international services to Canberra. As I said before, our charter policy is such that we do, in fact, encourage services, particularly to centres outside the capital cities, subject to meeting customs and other requirements. Certainly, there is the possibility in the future for more of these charter services to come to Australia, but they have to meet the appropriate guidelines and one of the factors that we take into account clearly is their impact on scheduled services.

Senator LIGHTFOOT—Are they going to be restricted to charter flights?

Mr Wolfe—That is all they have applied for.

Senator LIGHTFOOT—That was not my question. Are they going to be restricted, from your department's point of view, to charter flights?

Mr Wolfe—No. There are two basic forms of international services in operation here. There are charter services, which operate on an ad hoc basis, and there are scheduled services. Certainly, if a Malaysian carrier wishes to operate as scheduled services here, we would consider it.

Senator LIGHTFOOT—Mr Bowdler, there is another part of the world called the Indian Ocean and Western Australia enjoys a significant coastline with that ocean, as do many other countries, including India which, in population, at least, will be greater than China's by the first half of the next millennium. That also includes South Africa and other parts of the east coast of Africa. What plan, if any, is there to coordinate that part of the world with APEC rim countries?

Mr Bowdler—Those broader trading issues are really for the Department of Foreign Affairs and Trade. We work within the overall guidance set by ministers and that department in terms of our dealings. At the moment, APEC membership is a live issue and there are discussions and significant meetings of leaders and senior ministers about membership.

There is a moratorium on there at the moment, but sooner or later other economies will be looked at and, of course, India and Russia, and so on, have been mentioned in that context. In our department, we will work within the arrangements that are set for us. In terms of our own interests—for example, in aviation—we would be working there with our bilateral dealings with India, South Africa et cetera. We do not have any extra focus in that direction at the moment. We will work within the guidelines set for us by the others.

Senator LIGHTFOOT—Are you aware that Western Australia produces something like 30 per cent of national export income? I think it was Mr Beresford-Wylie who mentioned that the biggest port, in terms of tonnage in the world, was in Western Australia. I am surprised that there is no specific transport policy for that part of the world, given those facts.

Mr Bowdler—We are very well aware of Western Australia's export performance. I also note that Western Australia is very proximate to one of the larger APEC economies in Indonesia and there are a lot of opportunities there. We work with the Western Australian government on those matters through the Air Freight Export Council, that Mr Wolfe has mentioned, and various other dealings, such as our bilateral dealings with Indonesia. We do have policies in that direction, but you could not say that our department has an Indian Ocean policy.

Senator LIGHTFOOT—Are you working with the Western Australian

government on a direct flight from Perth to Canberra, given that Perth is the only mainland capital that does not have a direct flight to its capital city?

Mr Bowdler—It is a little out of my area of expertise. I do not know about you, Mr Wolfe.

Mr Wolfe—There are certainly no impediments for any direct flights between Perth and Canberra. It is completely deregulated. It is a commercial decision for the airlines to make. As I understand it, they have taken that decision for commercial reasons, but there is no impediment.

Senator LIGHTFOOT—Mr Wolfe, as I understand it, under the licensing arrangement, those licences—or specific or additional licences—could be issued, and one of those could be, for instance, that flights from Perth to Sydney would need to stop in Canberra. Is that not possible through your licensing arrangements?

Mr Wolfe—Not for domestic aviation. We are totally deregulated, so it is really a matter for the airlines now. There is no domestic aviation regulation.

Mr Bowdler—It would have to be a commercial opportunity for the domestic airlines and it would have to stack up in bottom line terms, in terms of number of flights, the passenger load on those flights and the positioning of the aircraft et cetera. You just have to look at the ACT and the way the direct flights to Adelaide and Brisbane have developed, and perhaps it is not too far down the track when the airlines will look at the ACT-Perth leg.

Senator LIGHTFOOT—We certainly hope so. I have further questions. China currently trains a significant number of its pilots in Australia. I realise you may take this on notice, Mr Wolfe, but how many pilots were trained in Australia in the last complete year? What is the potential for training more than the requisite number? What are the impediments to training extra numbers of pilots from China?

Mr Wolfe—We can certainly take that on notice. Senator, you are quite right, Australia is recognised as an international training centre. There are a number of facilities. Obviously, the one in Western Australia you are familiar with. There is also one in South Australia at Parafield, and another at Tamworth. I would not think there are too many impediments. In fact, I think they would be more than keen to get more business. I will get some more information on that for you.

Senator LIGHTFOOT—Thank you.

CHAIR—I noticed in your supplementary submission—and I am not going to refer to it specifically—that there were 18 projects listed. Is that the sum total of the number of projects that your department is involved in with APEC?

Mr Bowdler—Is that the action program that you are referring to?

CHAIR—That is right.

Mr Bowdler—That is the work program of the overall Transportation Working Group of APEC. You will see in a number of cases that we are lead economy. In other cases we are fairly substantial participants. There are a couple that we are not really involved in to any degree at all. It would vary and we could run through them all.

CHAIR—No, I do not want to run through them, it is just the number that I am interested in. One of the submissions we have had to us is that the number of projects undertaken by APEC is too many. There are some 320 projects, I think, on the board at this stage. Is it the view of your department that we are likely to be weighed down by too many projects as APEC continues to develop and so we would lose sight of the real plot and will have our resources dissipated over a wide range of projects without actually then being able to achieve the outcomes that we should achieve in a far more focused, narrower group of projects?

Mr Bowdler—That is a reasonable concern. It is certainly a concern that has occupied quite a bit of the time of the Transportation Working Group itself over its recent meetings, to try to make sure that it is managing its agenda, that it should look to retire projects when they are finished, for example, rather than keep them dribbling on in some small way and move on to the next. In our working group we have set up three coordinators to look after key groupings of the activity. For example, Australia is now the coordinator of the human resource development side in the Transportation Working Group.

It is something we are concerned about. We would not like to see this work program grow much more. We would find it hard to keep up our own input, frankly. We are substantial contributors to the work of the working group and if we were to get spread over many more projects that would be a concern to us.

That is why this idea of coordinating groups has come up. As I said, we are the human resource development coordinator. That is meant to help avoid the need for some project groups to meet and to coordinate things more, to keep things moving between sessions. APEC can be a little unwieldy because our working group meets only every six months. It is important to try and keep some progress up between those meetings. So management of the APEC load is a significant one.

Another issue is coordination with other working groups such as customs, for example, on electronic data interchange, and energy might have an interest when you are looking at oil spill issues and so on. Infrastructure is another area of coordination. Coordination within the group and external to it is a significant concern to us and we have been taking quite a prominent role in trying to get those matters resolved.

CHAIR—Who should do the coordination of that within Australia—DFAT? Is that where the responsibility properly lies?

Mr Bowdler—I think the coordinating responsibility appropriately rests with DFAT in terms of our overall APEC performance. I think coordinating arrangements have worked fairly well to date, certainly, from the departmental point of view. We have access to the APEC branch in DFAT and Mr Griffiths and his colleagues are regularly in touch with them. There is a deputy secretaries' meeting that gets together from time to time chaired by DFAT which I always seek to attend. That is another valuable way of helping with the coordination. APEC coordination outside too is probably best done through them, although we do our coordinating with our own industry sector and we invite DFAT people along to those sessions, for example. I think for the moment the arrangements are okay. I am not saying they can't be improved but they do not seem to be significantly deficient.

CHAIR—All right, you have raised industry groups. Could you give us some idea of the liaison that goes on between your organisation and the various industry groups? What actually is the degree of consultation and the level of participation in those groups? Is the consultation process proving positive?

Mr Bowdler—We consult and liaise in various ways with industry groups. Firstly, we would do that on specific issues. When something came up we would go out and talk to them and get their points of view. We also have a transport trade industry consultative group which meets every six months. It invites industry, state government, non-government organisations and so on. Between those two meetings we will send out documents and so on to keep them going.

We also seek to involve industry on the delegations to working group meetings and to ministerial meetings. We are getting senior industry people across APEC and how it works by having them along at meetings.

Mr Griffiths—There is something I could add to that. We do have industry participation in a number of the projects in APEC. For example, on the road transport harmonisation project, we have had the auto parts manufacturers associations directly involved in the work along the way and involved in at least one delegation where that project was being discussed.

CHAIR—Do they actually get involved in any of the formal proceedings of APEC meetings or are they more in an advisory role to government as to what should be said?

Mr Griffiths—They do get involved in the formal proceedings to the extent that there are industry participants on delegations. Probably Australia and the US are the ones that tend to involve industry in their delegations the most. They participate fully in the delegations and sit in the main plenary meetings as part of the delegation. On occasion we have had, for example, the representative from the Federation of Automotive Product

Manufacturers make a statement at the table in support of that particular project I mentioned, the road transport harmonisation project. Also, our industry representatives and other representatives from, say, regulatory bodies that come within the portfolio quite regularly attend pre-meetings of experts and project group meetings prior to the main meeting that is held as part of the transport working group meetings.

CHAIR—We have a bit of a time slippage of which I am aware. The last two questions you may wish to take on notice. One is on the effect of the current currency crisis and stock market crisis on reforms within the aviation, general transport and maritime areas. Will it slow down the reform process or what impacts do you believe it will have?

The last issue that I want to ask about is the issue of non-tariff barriers. It was raised before, I think by Mr Wolfe. It seems that one of the problems in resolving some of the straight tariff barriers is that you then get non-tariff barriers put in their places. Can you give us some idea of your experience as to where maybe a tariff barrier has been pulled down and you are seeing non-tariff barriers being put up instead? Bearing in mind the time I will put those two questions on notice. Can you get back to me. I know Senator Lightfoot has an important question that he wishes to ask.

Senator LIGHTFOOT—My question, Mr Bowdler, is directed to your colleague, Mr Jim Wolfe. The airline industry is vitally important to Western Australia, given that tyranny of distance we so often talk about. There was the mooted third airline about which certain steps were initiated. A deadline was set for the third gate at major airports. Could you give the committee an update on the possibility of that third airline? If the deadline has been passed does that mean that choice of a third airline has been negated? If that third airline is to be initiated, is there a date—even a year I would be happy with, but obviously something a little less generic than that would be good. I guess you see where I am coming from, Mr Wolfe. Can you give the committee as much information as you can on the issue of the third airline.

Mr Wolfe—I will certainly take that on notice. As I understand it the date that has gone past is a date that Qantas, in its negotiations with the prospective Aussie Airlines, and the FAC, had agreed required the lodgment of a payment by Aussie Airlines with Qantas. As the payment was not made by Aussie, something that received some publicity in the paper, I believe Qantas said "as the payment was not received they no longer have an agreement with Aussie". As I understand it there has been no public comment from Aussie Airlines on that. I will certainly check that with the Federal Airports Corporation which will be responsible for liaising between the two parties. That is a deadline which has passed.

Senator LIGHTFOOT—You might be kind enough, Mr Wolfe—in so far as it is proper and I am sure it would be or I would not ask you—to let us know the progress of the damages that Qantas had to pay to Aussie Airlines or certainly to an entity associated

with Aussie Airlines and its progress with respect to the appeal to the High Court.

Mr Wolfe—I will do that.

CHAIR—Thank you. You have a couple of questions that I have given you on notice. I thank you for your patience and tolerance, given that we have run a little bit over time. We formally adjourn these proceedings.

Committee adjourned at 12.13 p.m.