



COMMONWEALTH OF AUSTRALIA

SENATE

FOREIGN AFFAIRS, DEFENCE AND TRADE REFERENCES COMMITTEE

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

CANBERRA

Monday, 17 November 1997

OFFICIAL HANSARD REPORT

CANBERRA

SENATE
FOREIGN AFFAIRS, DEFENCE AND TRADE REFERENCES COMMITTEE

Members:

Senator Hogg (Chair)
Senator Troeth (Deputy Chair)

Senator Cook	Senator Quirke
Senator Eggleston	Senator West
Senator Sandy Macdonald	Senator Woodley

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.

WITNESSES

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Present

Senator Hogg (Chair)

Senator Lightfoot

Senator Quirke

Senator Sandy MacDonald

Participating members

Senator Ferris

The committee met at 9.42 a.m.

Senator Hogg took the chair.

FILLING, Ms Vivienne Louise, Principal Adviser, MTIA, MTIA House, 214 Northbourne Ave, Canberra, Australian Capital Territory 2001

CHAIR—I declare open this meeting of the Senate Foreign Affairs, Defence and Trade References Committee which is inquiring into the matter of Australia in relation to APEC. I welcome Ms Vivienne Filling to this hearing. 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 MTIA dated August 1997. Are there alterations or additions that you would like to make to your submission at this stage?

Ms Filling—No, there are not. I would like to table a copy of a survey that MTIA has recently undertaken of the impact of the Asian economic crisis on the manufacturing and construction industry.

CHAIR—The document tabled by Ms Filling dated November 1997 is headed *MTIA National Survey on Impact of Asian Economic Crisis in the Manufacturing and Construction Industry*. 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. I must apologise for our late start, but that is due to circumstances beyond our control.

Ms Filling—I would like to open my comments by saying that MTIA strongly supports the priority which is placed on APEC by the government. We see that there is a substantial coincidence of APEC objectives and Australia's own interests. Having said that, our submission argues that pursuit of APEC free trade should be an important but by no means exclusive objective of Australia's foreign and trade policy.

Given the importance of the ASEAN market as the destination for exports of Australian products and the rapidly approaching date for the implementation of the ASEAN free trade area, MTIA argues that a priority of Australia's foreign and trade policy must be to obtain membership of AFTA for Australia and New Zealand. We believe that this objective does not conflict with the pursuit of APEC free trade and investment. We believe that it, in fact, complements progress towards achievement of the APEC goals.

Clearly, given the economic and currency turmoil situation in Asia, it is difficult to be definitive about relationships with ASEAN. I have introduced a copy of our survey. The survey covers the responses of 200 companies that are leaders in the manufacturing and construction sectors. They employ approximately 150,000 people and have an annual turnover of almost \$18 billion. Two-thirds of the companies surveyed indicated that they have direct exposure to the crisis. Of these, one half have already been affected. Many others are under pressure from reduced export demand, deferral of projects and the prospect of substantially intensified import competition in the Australian market. At the

same time, a number of the companies perceive opportunities in Asia arising from the crisis although these will obviously carry heightened risk.

If you can bear with me, I will run through some of the key findings of the survey. It found that almost all of the companies directly affected by the crisis expect a deterioration in their exports to South-East and northern Asia—21 per cent expect the reduction in their exports to be significant and 44 per cent expect the reduction to be moderate. Additionally, 80 per cent of the respondents plan to revise downward their earnings potential from the Asian region over the next 12 months—again, 13 per cent significantly and a further 41 per cent moderately.

The survey also found that approximately seven per cent of respondents plan to accelerate their relocation activities to Asia in the light of the competitive advantage conferred on these economies by the depreciation of their currencies. The survey did not deal with the medium-term outlook. It is too early to reassess that in our view. However, it was clear from the comments made by our members that they see a long-term benefit in a more economically viable and stable South-East Asia. In this context, MTIA is very supportive of the packages that the Australian government has offered to Thailand and Indonesia. We also support the very positive and reassuring comments that have been made by senior ministers in recent times about our commitment to the Asian region and our confidence in its future. We see that ensuring solid and sound longer term growth in South-East Asia is very much in Australia's interests.

I would like to conclude my comments by outlining another key theme of our submission—that is, achievement of trade in investment liberalisation in economies of our trading partners will not, in the absence of sustained action on the domestic policy front, solve the dilemmas which are confronting Australia. Our submission stresses that foreign and trade policy cannot be dealt with in isolation and emphasises the need for an integrated foreign, trade and industry policy.

Senator QUIRKE—You say that your members believe that unless domestic policy is right trade liberalisation is not going to make much difference. Could you expand on that a bit more for us?

Ms Filling—Certainly. We believe that if you still have a situation existing in Australia where micro-economic reforms need to be implemented, where you do not have policies encouraging R&D, then you are starting from a base which is less competitive than that existing in overseas countries. We feel it is very important to make sure that domestic policies put in place the environment in which Australian industry can be internationally competitive.

CHAIR—Could I break in there. You mentioned R&D. Has there been an impact on the cut from 150 per cent to 125 per cent?

Ms Filling—Our companies have indicated that there has been an impact. It is

MTIA policy that we support an increase in the R&D concession to 200 per cent.

Senator LIGHTFOOT—To what degree has that impact been? How do you measure it?

Ms Filling—Our companies are indicating that their ability to undertake R&D has been affected by the reduction in the concession.

Senator LIGHTFOOT—But can you give me some tangible figures?

Ms Filling—I can certainly see whether or not we have some figures available on that. I do not have those to hand. From the discussions around our council tables, our member companies are advising us that this certainly has had an impact on them. They are also advising that, in terms of the attractiveness of Australia as a destination for investment, R&D policy is certainly a significant factor and that Australia's 125 per cent R&D tax concession does not measure up to what is available elsewhere. We believe that we should be increasing our emphasis on R&D and increasing the concession to 200 per cent, which is allowable under WTO rules.

Senator LIGHTFOOT—Can you give the committee some idea of the figures for other nations, say in the OECD, that we compete with?

Ms Filling—Yes, I can certainly provide figures to you.

Senator LIGHTFOOT—You will take that on notice as well?

Ms Filling—Okay.

Senator QUIRKE—Leaving R&D to one side, of the other important ingredients in domestic policy in Australia—you mentioned micro-economic reform—what about deliberate government intervention in the industrial process here in Australia? Do your members have any view about that? Do they believe that the government should be actively supporting some more Australian companies to get certain products up and running?

Ms Filling—We believe that the impact of the automotive plan, for example, has been quite significant in that Australia has increased its exports and the competitiveness of the automotive industry. We believe that, yes, there is certainly a role for the Australian government to put in place policies supportive of Australian industry. We believe that we need to put in place more outward-looking policies looking at how we can expand our exports.

Senator QUIRKE—Obviously, the car manufacturers would be members of yours?

Ms Filling—Yes, they certainly are.

Senator QUIRKE—What about the steel plan? Have you got any views on that? That was put in place about the same time as the car plan was—back in 1984, from memory. How have your members seen that go?

Ms Filling—I think that has been successful in terms of increasing—

Senator QUIRKE—Not in the same way as cars.

Ms Filling—It certainly has not had the same degree of success as the car plan. I have seen some figures that have indicated, for example, that policies put in place in the United States in terms of their anti-dumping legislation meant that BHP's exports to the United States were affected, but I do not have any particular statistics that I can provide to you.

Senator QUIRKE—What other sorts of policies would you like to see the government put in place to allow an expansion of trade with most of the countries with which we trade in Asia?

Ms Filling—MTIA released a report called *Make or break: 7 steps to make Australia rich again* and in that policy statement we outlined seven key areas in which we saw that government action was necessary. The first of those was to continue the good macro-economic policy management. The next was to undertake fundamental tax reform. We also stressed the importance of putting in place investment incentives and the need to pursue a closer link between the ASEAN free trade area and Australia and New Zealand. We support the introduction of a powerful investment agency and the continued progress on industrial relations reform. We also stress the need for coordination of industry policy at a very high level.

Senator QUIRKE—I suppose the case would be put that, with many of the countries with which we trade in Asia, the barriers we are trying to pull down are exactly the sorts of things that you want to put up here in Australia.

Ms Filling—MTIA is certainly not advocating a return to high tariffs. In fact, when we were preparing our *Make or break* report, we interviewed up to 200 Australian and international chief executives and 70 per cent of those supported the tariff reduction program, so I am certainly not saying that MTIA is a high protectionist organisation. We are certainly not that and have not been that for a number of years.

What we are saying is that there are certain efforts that need to be made in Australia—for example, on the micro-economic reform front. The easiest part is to reduce tariffs; the hardest part is to get your own domestic environment in place. So MTIA certainly is not advocating an increase in tariffs. As you might be aware, the Malaysian

government recently increased its automotive tariffs from 200 per cent to 300 per cent. That is certainly not the kind of thing that MTIA is advocating.

Senator LIGHTFOOT—Ms Filling, I wonder if you would be able to expand on the attention that you have drawn to the DFAT assessment, that progress in some areas will be difficult given—and I think I quote you—that you refer to ‘the signs of liberalisation fatigue among a number of important players in the region’. Have you seen evidence of liberalisation fatigue, and by what countries? How serious do you think that fatigue is?

Ms Filling—I think the example I have just given of the Malaysian government increasing its tariffs on automotive products from 200 to 300 per cent is a very key example of some liberalisation fatigue.

Senator LIGHTFOOT—Does that affect Australia in export of motor parts and motor cars?

Ms Filling—The 200 per cent barrier was a very significant barrier to our exports. The 300 per cent barrier is even more insurmountable and I think would further encourage automotive manufacturers to—

Senator LIGHTFOOT—To what degree does that tariff increase, or tariffs per se, affect Australian exports?

Ms Filling—Tariffs are a major barrier.

Senator LIGHTFOOT—Yes, I understand that, but how does that affect Australian exports? Have you got any figures you can give the committee?

Ms Filling—I can certainly provide you with figures of our automotive exports to Malaysia; I do not have those to hand.

Senator LIGHTFOOT—What are they in dollar terms? Have you any idea?

Ms Filling—Not to hand, I am sorry, but I can certainly provide you with details.

Senator LIGHTFOOT—Perhaps you could take that on notice as well.

Ms Filling—Yes.

Senator LIGHTFOOT—And the degree to which the increase in tariffs from 200 to 300 per cent has affected the motor vehicle industry.

Ms Filling—I would suggest that the fact that the tariff was already at 200 per

cent was extremely significant and that that was a barrier that is almost impossible to get over. By increasing it to 300 per cent perhaps there is not going to be a readily identifiable impact on our exports, but what it does indicate is that, far from wanting to reduce their tariffs on these particular products, the Malaysian government has further indicated that it is going to quarantine this particular industry from international competition.

Senator LIGHTFOOT—On the same subject, has or will Australia benefit from its unilateral trade liberalisation measures, and if so, in what way?

Ms Filling—I think it is quite well accepted amongst industry that Australia did need to reduce its tariffs, that we needed to become more efficient and have greater competition on the international market. Certainly our economy is more outward looking; our industry is certainly more involved in export than it was, say, in the 1970s. So, yes, we do believe that it was important for Australia to reduce tariffs. Having said that, we are at a stage now where our tariffs are down to a maximum of five per cent with the exception of the textiles, clothing and footwear and the automotive sectors. We believe that any further liberalisation should really be based on the proportionate reduction of tariffs being undertaken by the economies of our trading partners.

Senator LIGHTFOOT—How effective do you think peer pressure is in keeping progress going towards trade liberalisation and facilitation?

Ms Filling—I think the fact that APEC liberalisation is very much based on individual action plans poses a particular challenge for APEC. It is not like the World Trade Organisation where commitments are binding. Under APEC the individual action plans are not binding, so we are going to have to apply pressure and monitoring to the countries to continue to encourage them to reduce their tariffs. I think the recent failure by the US government to get through legislation giving them fast track will have a dampening effect on the achievements that are actually made, in terms of trade and investment liberalisation under APEC.

Senator LIGHTFOOT—That scrutiny would be undertaken by the government? Would you rely on the Australia government figures for that scrutiny or would your organisation do it itself?

Ms Filling—MTIA works very closely with the Department of Foreign Affairs and Trade in terms of our market access priorities. We would certainly be keeping a close eye on it ourselves from what our member companies are saying, particularly where our members are identifying barriers that they are wanting to have eliminated. The Department of Foreign Affairs and Trade will receive that information from us, but they also consult with us directly. So it is very much a team effort. I believe that the department does an excellent job in liaising with all of the various interest groups.

Senator FERRIS—I note from the introduction in your submission that you represent 7,000 companies and you are across 80 per cent of manufactured exports from Australia. That is a pretty impressive list of industries that you cover. I am interested in the extent to which you think your members understood what APEC actually obliges them to do and whether or not you have within your organisation tried to explain that more effectively to those people. Have you had any experience with people in those countries with which you are trading as to how well they understand APEC? By way of introduction I should say that we have had a number of other witnesses who have talked about the difficulties and complexity of explaining APEC to members and to the traders. Is that your experience and can you give us any examples of it?

Ms Filling—I think it depends on the actual nature of the company you are talking about. Certainly MTIA's policy-making body is constituted by representatives from key companies in the manufacturing and construction sectors and APEC policy is discussed in detail around our council tables. Certainly, amongst the key companies in our industry there would be a high level of understanding of what APEC is about.

When you get down to companies that have a focus mainly on their own individual company activities, I think APEC is less well understood. There is a feeling amongst industry that Australia has a tendency to unilaterally liberalise and they are concerned that we will be further reducing our tariffs without eliciting reciprocal reductions on the part of our trading partners.

The APEC agenda itself is just so broad that it is difficult for any particular company to be across the full spectrum. It covers customs, tariffs, standards and mutual recognition agreements. The APEC agenda is extremely comprehensive. I would say that perhaps at a more superficial level there is a wide recognition of APEC and perhaps the broad Bogor goals, but that in terms of the actual detail of APEC there is less recognition and understanding of that.

In terms of what the MTIA is doing to brief our members, we have regular briefings that go to the chief executives of our member companies and we have regular newsletters in which we explain what is happening at APEC. For example, following the last leaders meeting we undertook to circulate to our companies a comprehensive summary of the outcomes of the APEC leaders meeting.

Senator FERRIS—Do you think perhaps our government could do more to try to clarify the issues involved in APEC? Do you think the government has a greater role and communications responsibility, or do you think it should be left to peak bodies such as yours?

Ms Filling—Actually it should be a combined effort. I do believe that the government has recognised there is a need to educate the Australian public with regard to major trade policies. That is demonstrated in terms of the release of the white paper on

foreign and trade policy and also a recent publication, which you may have seen, talking about the benefits of trade liberalisation to the Australian people.

In terms of MTIA, we have a responsibility of reporting to our members government policies, influencing government policies in response to our members' concerns and making sure that their interests are represented. So it is very much a two-way activity.

Senator FERRIS—I take it then that you are happy with the amount of joint communication from your body and government or do you think more needs to be done?

Ms Filling—I think the Department of Foreign Affairs and Trade does a very good job in terms of communicating to peak bodies such as MTIA the implications of APEC. They consulted with us in great detail, for example, on the information technology agreement. We are represented on the business advisory forum on APEC and we have an opportunity to discuss those issues. We are represented on the national trade strategy consultative process and we also have a range of more informal contacts with the department on these particular issues.

Senator FERRIS—So rather than government moving straight out at the top level you would see it as a flow down to the relevant industry bodies who would in turn flow down to their members and perhaps to the wider community?

Ms Filling—I would say a combined approach. Certainly, the flow down is very important. I do believe also that it is important for the government, at the top level, to make clear what its objectives are in relation to APEC through the issue of statements such as the white paper and other policy.

CHAIR—On the issue of the agenda of APEC, you said that a broad and comprehensive agenda is being run in APEC. We have heard some criticisms from other witnesses that the agenda is too wide, too far ranging and that, for example, the number of individual projects should be cut back from, I think, 320 to about 40 so that there is a greater focus on achieving those rather than having people's attention spread too wide so that the ultimate goal might not be achieved. What is your view on that?

Ms Filling—I think it would be wise if the Australian government identified, in conjunction with Australian industry, the particular projects that are considered to be of most interest and most critical to Australia and focused our energies on those. There may be some areas of APEC activities where perhaps we do not see the benefits to be as direct to Australia and they should receive less attention in terms of the allocation of resources.

CHAIR—On the issue of the general membership of APEC, APEC is a voluntary organisation yet in your submission, if I am not misinterpreting it, I get the feeling that, because it is a voluntary organisation as opposed to an organisation that can impose

binding limits, you would prefer to see it in a more rigorous framework. Is that correct?

Ms Filling—I think the fact that the tariff reductions and the investment liberalisations undertaken by economies are voluntary does pose a particular challenge. To impose on APEC a more rigorous process may or may not be possible, given the basis on which it has been developed. I think what it does emphasise is that it is very important for Australia to keep monitoring how the implementation of tariff reductions is actually progressing in the economies of our major trading partners.

CHAIR—One of the strengths of APEC has been its voluntary nature. One may well also describe that as being one of the weaknesses, in another sense. But its real strength lies in the fact that it has been a voluntary organisation with voluntary goals and declarations arrived at by consensus. My experience is, where that is the case, that people are far more likely to deliver than where there are imposed goals where they will find ways to get around the imposed limits. This then raises the issue of not just the tariff barriers but the non-tariff barriers because it is said that if one dismantles the tariff barriers then in their place, surreptitiously, non-tariff barriers are put up. Whilst the focus may well be on tariff barriers now, because that is something that is readily seen, it really boils down to the issue of the combination of both, and therein the strength of a voluntary organisation has the potential to drive it faster than those where there are constraints and limitations. Would you comment on that?

Ms Filling—Certainly the voluntary nature of APEC has seen a reasonably strong demand from countries not yet members of APEC wanting to become members of APEC. I believe that the introduction of the individual action plans is an important step—a modest step—at this stage. I do agree, to a certain extent, with your comments that the voluntary nature is perhaps less threatening to countries. The knowledge that they will be able to directly set their own tariff reduction, non-tariff reduction and investment liberalisation measures perhaps is something that they are more comfortable with than, say, another WTO round where things are negotiated quite extensively.

CHAIR—On the issue of non-tariff barriers, if we look at the currency crisis that is currently taking place in that part of the world—and you have tabled a document on that today; it seems Malaysia responded with a jump in the tariff on cars and automotive parts from 200 to 300 per cent—what is the likelihood that other economies may respond in a non-tariff barrier way to the crisis? How do we monitor that? How do we overcome the non-tariff barrier problems?

Ms Filling—I think it would be understandable that there would possibly be pressure on the governments of the Asian economies to increase the barriers that are existing in their markets. Malaysia is an example to hand with the increase in its automotive tariffs. I do believe, at this stage, that other countries have moved to increase their barriers to that extent. Certainly, we would want to be very careful, in terms of our dealings with these countries, about any moves to further restrict access by Australian

products to their markets. I think that is something that needs to be monitored both at a bilateral level and a regional and multilateral level in terms of APEC and the World Trade Organisation.

CHAIR—How well can organisations such as yours monitor the non-tariff barriers or is that really a prime role for government?

Ms Filling—I believe that industry has a very important role to play in identifying what non-tariff barriers exist to their products. For example, under the discussions that have been taking place with Australian, New Zealand and ASEAN businesses under the AFTA-CER linkage process, we were requested to compile a listing of barriers to trade and investment in ASEAN by the Malaysian minister for trade, Rafidah Aziz. We have done that—it is a document which is several inches thick. It lists a combination of tariff barriers and non-tariff barriers. Admittedly, more detail is available on the non-tariff barriers because they are more readily identifiable. There are some significant non-tariff barriers that are also documented in this particular publication.

As part of this process, the ASEAN business sectors have also compiled a listing of barriers to trade and investment which they see in the economies of Australia and New Zealand. Coming out of the ministerial meeting between CER trade ministers and ASEAN economic ministers held in Kuala Lumpur a month ago, they instructed senior officials to work with the business representatives in their countries to look at the barrier listings, to identify whether or not those barriers are correct, to confirm the details in the document, and to start looking at priority barriers which can be eliminated.

CHAIR—What are the priority non-tariff barriers to come down?

Ms Filling—There are a whole range of non-tariff barriers.

CHAIR—I understand, but in the view of your organisation what are the priority ones?

Ms Filling—I would say that the priority ones would include barriers such as the lack of recognition of Australian standards or unique standards applied in particular economies which add significant additional costs to our companies in trying to access those markets.

CHAIR—If I can just take you back to something that we were discussing very early on and that is the issue of R&D. There are two other areas that I would like your comments on. One is a mixed credit finance scheme. There used to be such a scheme, as you know, called DIFF, which was dismantled. The government is currently contemplating another mixed credit scheme, and we expect that to be announced in the not too distant future. Secondly, there is the issue of the export market development grant scheme. How important are those types of schemes in the promotion of Australian trade into those

markets?

Ms Filling—In a word I would say critical. MTIA was a very strong supporter of the development import finance facility and we have gone on record on numerous occasions with our support for that program. We do support the government's intention or desire to introduce a new mixed credit scheme.

What our companies are telling us is that, in relation to particular projects in Asia where governments are seeking concessional finance, our companies cannot get a seat at the negotiating table unless they have a mixed credit package or concessional finance. It does not matter how competitive their product is in terms of design or quality, they need to have access to concessional finance.

We would be very supportive of the reintroduction of a concessional finance facility into the aid program. We see that the aid program, while fundamentally designed to meet the humanitarian needs of our aid recipients, can also benefit Australian industry. We do not believe that the two objectives are mutually exclusive. While you are in fact benefiting a recipient country through the implementation of a water supply project or a sanitation project, you can promote Australian industry into those particular markets. We have prepared analyses in the past which have shown that companies which have had a development import finance facility funded project in a particular market have then gone on to become much more internationally focused and have won flow-on projects into those particular markets.

In terms of the export market development grant scheme, again we see that this is a very important element of providing export assistance to our companies. We were disappointed at the capping in the funding of the EMDG scheme. We see that the EMDG scheme has been very important in generating increased export focus amongst our members.

CHAIR—It is not just a matter of tariff or non-tariff barriers; it is that vital mix of our domestic policy looking internationally as well that we must get correct.

Ms Filling—That is quite correct, yes.

CHAIR—I ask you to comment on this question: why should South-East Asian countries, which have basically had a 30 per cent devaluation, need to raise tariff or non-tariff barriers? Obviously, the 30 per cent devaluation in itself is a marvellous windfall for their export earning capacity.

Ms Filling—Absolutely, yes.

CHAIR—Can you comment on that briefly?

Ms Filling—I think it boils down to the perceptions of their own manufacturing industry and they need further assistance in terms of problems that their economies are facing. Obviously, yes, the devaluation of the currency provides the greatest boost to their export competitiveness and their import replacing industries that they could achieve.

CHAIR—There are a couple of further issues that I do need to raise. One is the matter of issues other than straight tariff or non-tariff issues, such as environmental issues. With the major bushfires in Sumatra and those areas, should that be an issue that finds its way to the surface in APEC discussions and, if so, what sort of priority should it be given?

Ms Filling—You are asking whether APEC should address environmental disasters?

CHAIR—Environmental issues, and social issues for that matter as well, and I will come to some of the social issues in a moment.

Ms Filling—I would not immediately perceive a role for APEC to be addressing bushfires in Sumatra. Certainly Australia saw a role in assisting Indonesia in putting out the bushfires, but I do not think I would see APEC playing a role in terms of monitoring its reaction to responding to bushfires.

CHAIR—So your organisation does not necessarily see the issue of the health of the environment as impacting on the issue of trade?

Ms Filling—I think that the focus of APEC should be on trade liberalisation and facilitation. There are a myriad of factors that can impact on that, but I think there are other forums for dealing with issues such as human rights and development assistance. I would not immediately see APEC as being the venue to cover all of those kinds of issues.

CHAIR—You said ‘human rights’ there, and that raises social issues. Should APEC be addressing social issues? There are claims that there is slave labour, child labour and other forms of abuse of labour standards in some of these countries and that whilst we may bring down the tariff and non-tariff barriers, these issues will persist as a disincentive or a disadvantage for our exporters. Should those issues be on the table as well, through the APEC forum?

Ms Filling—Quite clearly those conditions do impact on the relative competitiveness of our companies, as opposed to the companies in those countries where those practices exist. Having said that, I think that the very fact that APEC is a voluntary organisation would preclude any serious discussion of these particular issues or any commitments for the reduction of these particular issues.

CHAIR—You raised the issue of the domestic market, talking about industrial

relations policies and the impact there. From your perspective are we talking about us taking our workplace conditions down to meet those that apply in other nations, or are we talking about trying to coax the other nations to bring their standards up? It is a very simplistic model that I put to you, but in the time that is available to us it is probably the best I can do. It raises some very genuine issues that, in my view, if not pursued though the APEC forum will end up with tariff and non-tariff barriers down, but with other barriers put up in their place.

Ms Filling—In terms of MTIA's views on industrial relations we are focusing on improving the flexibility of our own labour force and making that more responsive to the needs of our industry and being internationally competitive. We are certainly not suggesting that we implement situations in Australia which replicate the lowest common denominator in other countries.

The issue of trade and labour standards is an issue which I believe is being addressed through the World Trade Organisation and in fact the United States has in the past pressed very much for that. So there is a forum which is looking at trade and labour standards. My concern with regard to the issue of labour standards in countries is that it is a very sensitive issue and one that I do not think, given APEC's voluntary nature and the reliance on the implementation of individual action plans, will be effectively addressed through the APEC process.

CHAIR—I understand what you say about the sensitivity, but, nonetheless, whilst it is sensitive it may be an issue that can be pursued and resolved over time. I have just one last section of questions. Your organisation, as I understand it, does not support the non-ferrous metals sector for early liberalisation because of opposition by China and Japan and the sensitivities raised by the US; what are the sensitivities raised by the US?

Ms Filling—The US indicated that it had a number of sectors where it was not looking favourably on an accelerated liberalisation. I understand that the US has now indicated that it is more supportive of an early liberalisation in the non-ferrous metal sector. So, to a certain extent the United States itself has said that it will be more supportive. It is less sensitive, perhaps, than it originally indicated.

The reason why we were concerned was that, if the United States was not going to be participating in full in the non-ferrous metals sector liberalisation, and other major countries, such as China, had also indicated their reservations, Australia would face continued barriers in these countries while eliminating barriers in its own. So that was certainly a factor in our reservations with regard to the non-ferrous metals sector.

The other major reservation was the fact that our companies tell us that there are restrictions on the export by other countries of non-ferrous scrap metal. That, in fact, is a major input into their production of extruded metals and they felt some scepticism about the ability, first of all, of a sectoral agreement to address those tariff barriers and some

scepticism about the preparedness of countries to actually eliminate those non-tariff barriers. Looking at the example of the information technology agreement in its early stages, that is very much focused on the elimination of tariff barriers and not yet on non-tariff barriers. So, for those reasons, our member companies were concerned about the non-ferrous metals sector liberalisation.

CHAIR—Was your concern raised with DFAT or with the government at any stage?

Ms Filling—Yes, it certainly was.

CHAIR—I presume they went into bat on your behalf.

Ms Filling—They were certainly made aware of our concerns. We also provided them with a list of product sectors where we felt that, if a non-ferrous metal sectoral liberalisation agreement went ahead, we would like to have these particular product categories excluded. The department did proceed with the nomination of the non-ferrous metals sector for early liberalisation, taking on board our particular concerns.

CHAIR—On the issue of government, should government at some stage be looking to bow out of APEC and leave it up to the business community to take the brunt, or is there a role for leadership by government in the APEC forum?

Ms Filling—I think there certainly is a very important role for government leadership and that this will continue. If the government were to bow out of the process, certainly businesses could work together in identifying non-tariff measures, tariff measures and investment barriers that they would want to have eliminated. When it comes down to it, you need, first of all, the support of the government for the actual elimination of those barriers and the leadership to keep its government departments and businesses striving for this objective of trade and investment liberalisation. I do not believe that APEC would, in fact, achieve the Bogor goals if the governments were to bow out of the process.

Senator LIGHTFOOT—I have one brief question and I hope you do not have to take it on notice. Is the 200 per cent tariff protection envisaged to rise to 300 per cent across the board of all imports of motor vehicle parts and motor vehicles per se? Or is that on specified motor vehicles at the top end of what one might call the luxury end of the market?

Ms Filling—My understanding is that it is on the completely built-up motor vehicles and that there are varying levels of tariffs applying to the inputs to the process of production of the automotive final product.

Senator LIGHTFOOT—What do they range between? You are saying that the 200 per cent to a proposed 300 per cent is at the top end and that there is lower tariff

protection.

Ms Filling—That is right. You will find that in many countries, such as Malaysia, there is actually what we call ‘tariff escalation’ and that with the increase in the value added component of the product the rate of tariff increases.

Senator LIGHTFOOT—So what is the bottom end?

Ms Filling—The bottom end, I would say, would be about 20 per cent on various automotive components ranging up to 300 per cent for the fully built-up product.

Senator LIGHTFOOT—The 300 per cent would be on, if I could name a few, the Rolls Royces, the BMWs and the Mercedes Benzs et cetera. Am I on the right track?

Ms Filling—Yes, I think you are on the right track. I do not think it is necessarily just on the luxury vehicles; I think it would be on fully built-up cars.

Senator LIGHTFOOT—So what cars that are exported from Australia to Malaysia is that 200 or 300 per cent put on—if any?

Ms Filling—As for the cars that we would export from Australia to Malaysia, I do not know if they would actually get over the 200 per cent barrier at this stage. But my understanding is that the 300 per cent tariff is at the very top range of the tariff and that applies to fully built-up automotive vehicles.

Senator LIGHTFOOT—So that would not affect Australia?

Ms Filling—Australia’s ability to export the cars into Malaysia is very much prevented by the presence of the tariff.

Senator LIGHTFOOT—That would be a re-export of cars?

Ms Filling—Yes, the export of Australian vehicles to Malaysia is significantly affected by the presence of these very high tariff barriers.

Senator LIGHTFOOT—But not the envisaged 300 per cent? Can you be more specific on that, please?

Ms Filling—I am sorry?

Senator LIGHTFOOT—How is the export of motor vehicles from Australia as complete vehicles affected by the top end—the luxury end, as we agreed—of the market? How does that tariff protection affect them? Are we in that category?

Ms Filling—I think you are trying to say that the 300 per cent tariff would only relate to luxury vehicles.

Senator LIGHTFOOT—I thought that was what we established.

Ms Filling—No, I do not believe that the 300 per cent tariff actually applies only to luxury vehicles. I believe that it applies to fully built-up vehicles.

Senator LIGHTFOOT—Of any kind?

Ms Filling—Yes.

CHAIR—Would you take this on notice and find out the names of the various vehicles that are, or have been, exported from Australia into that market, what tariff did apply to them previously, and what tariff now applies to them.

Senator LIGHTFOOT—Yes, that would cover it, unless you are able to answer it now, Ms Filling.

Ms Filling—I would like to have the opportunity to provide the specific details as requested by the chairman.

CHAIR—If you could just tell us if it is Toyota, Holden, Ford or whatever it might be.

Senator LIGHTFOOT—If Ms Filling would be kind enough to see—if it does not apply in that top category—what percentage applies to what cars that are exported from Australia to Malaysia.

CHAIR—Yes.

Senator LIGHTFOOT—That is all.

Ms Filling—Yes.

CHAIR—Ms Filling, we finally got to the end. Thank you very much for your time and I offer our apologies for the late start. If there is any subsequent evidence that you wish to provide us with, we would be only too pleased to receive it.

Ms Filling—Thank you.

[10.33 a.m.]

HORSTMAN, Mr Mark, Research Coordinator, Australian Conservation Foundation, 340 Gore Street, Fitzroy, Victoria 3065

REYNOLDS, Ms Anna, National Liaison Officer, Australian Conservation Foundation, PO Box 2699, 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 Conservation Foundation dated September 1997. Are there any alterations or additions that you would like to make to your submission at this stage?

Mr Horstman—No, thank you.

CHAIR—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. Before we commence, I do apologise for the inconvenience this morning. We will try to split the time we have remaining with the next witnesses so we do not cut you too short.

Mr Horstman—Approximately how much time do you think we would have?

CHAIR—I would think that we would go to about 10 past 11.

Mr Horstman—Thank you for the opportunity to speak to you today. We would like to briefly step through our submission and highlight some of the main points that we have made. Being from the Australian Conservation Foundation what we would like to do today is emphasise the ecological nature of trade and highlight the need for trade agreements to incorporate environmental agreements. We believe that we need to think about the fundamental objectives of what trade is for. One of the objectives of trade liberalisation must be to ensure that the basic needs of all nations are met and, therefore, that sustainable development does not remain just an abstract concept if it is clear that all human communities do not have the bare necessities for survival.

In recent years the rapid growth, which has been fuelled largely by foreign investment and trade openness, has made east Asia the economic success story of the world. That economic success, however, is coming at the expense of severe and rising ecological degradation. I would just like to mention for you some of the disturbing ecological trends which are developing in the Asia-Pacific region.

We are seeing problems that can be broadly summarised as lack of access for people to clean water because it is becoming increasingly polluted. We are seeing severe air pollution. Land degradation due to agricultural conversion, erosion and soil depletion in

the Asia-Pacific region is the world's highest. Toxic waste and the trade thereof is becoming a major issue as toxic waste is exported from OECD countries to Asian countries. For example, from 1991 to 1996 the Philippines was importing almost two tonnes of toxic lead acid battery waste every hour. To our country, that is recycling batteries to the Philippines, that is introducing toxic industries to residential communities.

The deforestation rates of tropical timber in the Asia-Pacific region are the world's highest with the predictions that, at the current rate of harvesting, timber reserves in Asia will not last more than 40 years. Water pollution is another issue I mentioned. Of the total 43 rivers in Thailand, for example, 25 were found to be contaminated in 1991 by leachates and spills from mining and other operations. We can also point to examples of the decline of fisheries, particularly in Chile. I have mentioned toxic waste. There is also the loss of wetlands and coastal habitats.

These trends are what are currently existing in the Asia-Pacific region. By all accounts, the trends appear to be increasing in their severity. One of the things we wish to do today is not to debate too much the extent to which trade liberalisation is causing this increasing ecological degradation but to ask and analyse what our current trade policies are doing to address these trends in ecological degradation.

We have rapid economic growth leading to ecological degradation in the region. That, we contend, creates serious problems for trade itself. The ecological degradation bears large financial costs for clean up and so forth. It creates irreversible damage which may reduce or cut off options for trade and investment. Economic performance is directly affected by the ability of ecosystems to tolerate extraction rates of timber or minerals and so forth and also their capacity to assimilate waste.

We believe the adoption of environmental agreements as part of the daily business of trade would assist in enhancing and promoting community support of those trading activities and the liberalisation processes attached to them. Most importantly, this would ensure that those trade and investment options continue to be open for future generations.

One of the main take home messages we want to leave with you today is that there is a clear link between trade and the environment. There is an ecological dimension to trade which we fear is not being recognised enough in our policy making. We need to remember when we are talking about exports and imports of timber, minerals, fish or crops that we are also talking about the trade of forests, catchments, soils, wildlife and other ecological features.

Ms Reynolds—I would like to briefly address one of the terms of reference of the committee which is APEC's progress towards Australia's economic trade and regional objectives and the domestic implications. In addressing this term of reference, we first had to work out what Australia's economic and trade liberalisation objectives are. As we noted in our submission, we went to two documents that have come out in the last year. Our

general comment to the committee is that Australia's objectives are not well known to the general public; the general public do not know much about APEC and the World Trade Organisation, et cetera.

We looked at those documents to see how well we thought they addressed Australia's environmental objectives and also some of the disturbing trends that are occurring in the region. The picture we developed was not such a good one. Both documents overall we feel omit ecological sustainability from their considerations and really have not incorporated environmental concerns into the trade policy.

CHAIR—Could you nominate the two documents for the sake of the *Hansard* record?

Ms Reynolds—They are entitled *In the national interest* and *Trade outcomes and objective statement* and are from DFAT. I guess one of the main points about *In the national interest* is that in defining the national interest it does not identify ecological sustainability as part of our national interest, which we would assert is contrary to public opinion. The environment consistently rates as being as important as economic development for around 70 per cent of the Australian community. The most recent survey which showed that was the Australian Bureau of Statistics survey in 1997.

There are almost no references throughout the document to environment. What is particularly disturbing is that, towards the end of the document, environment is identified as a potential threat to Australia's national interest. It states that international action to address sustainable development may threaten our national interest. On links between trade and environment there is very limited recognition—although there is recognition that there is a link—but there is a disclaimer that states that solving environmental problems through linking trade and environment may be contrary to Australia's national interest. We find it a little strange—and I think the Australian community would—that they are saying that solving a problem could be contrary to Australia's national interest. So I think there are substantial limitations in the breadth of that document.

In terms of *Trade outcomes and objective statement*, one of our concerns is that it notes that a key objective of our trade policy should be to cut the regulatory burden faced by business. Although it sounds like a good principle for the business community, it rings a few alarm bells for environment groups because we are concerned that this is code for relaxing environmental laws. The community likes being there to ensure that environment and economic development are balanced.

We would assert that both documents are out of step with key statements made by APEC. The APEC leaders and APEC environment ministers meetings last year noted the need to link and fully incorporate environment with economic decision making. We could say that both documents are also out of step with Australia's intergovernmental agreement on the environment. We believe that both documents are out of step with public opinion,

which I have said recognised the links and the importance of both environment and economic development. We would also suggest that there are contradictory elements to these elements. While they recognise the value in multilateral agreements on economics, multilateral agreements on the environment are seen as a potential threat, which we think is slightly contradictory.

The other comment we would like to make about our role in APEC and how well that addresses some of the environmental trends that are occurring in the region and also in our own country is that our individual action plan, while addressing most of the economic issues that are raised at APEC meetings, does not address some of the environmental diplomacy that has occurred through APEC.

There is increasingly discussion at the APEC leaders level and ministerial level and working groups regarding the environment and the potential problems caused by damaging environmental trends in the region. But this simply is not making it into Australia's individual action plan, which we think is an oversight of Australia's ability to respond to the APEC agenda.

We believe that the limited nature of this trade policy reflects the narrow range of views that have been sought in developing these documents. Free trade is not currently broadly supported by the community and there is even some backlash, which I think some people call liberalisation fatigue. Good policy that has the support of the broader community will generally get broader acceptance in the community.

We have acknowledged in our submission that there is a need both to broaden the involvement of people at the APEC level and also domestically through bodies such as the Trade Policy Advisory Committee. It has to broaden out from the big end of town and incorporate expertise from environmental NGOs, advocates and other areas that reflect the diversity of the community because the economic trends and environmental trends happening in our region all impact on APEC and the broader community. Really the broader community, if it is going to support and understand APEC, needs to have a better stake in the development of our responses to it.

Mr Horstman—To conclude our introduction, Anna has mentioned that our analysis of both the trade policy documents has shown a startling lack of reference to environment and a reluctance to incorporate environmental concerns into that. We would re-emphasise our concern that ecological sustainability needs to be fully recognised as part of Australia's national interest and certainly not passed off as some kind of threat to that.

Clearly, there is a logical, moral and ethical argument as well as an economic argument for that, but I also point out that there is a major government program at the moment that also defines environmental concerns as part of the national interest—that is the COAG review process. In a few weeks time all of the premiers of all of the states and the Prime Minister will sign off on a heads of agreement defining roles and

responsibilities between the states and the Commonwealth on the environment.

Part of that heads of agreement defines matters of national environmental significance. They include such things as world heritage areas, Ramsar wetlands, endangered species, migratory species, nuclear activities, the marine and costal environment, reducing greenhouse emissions and enhancing greenhouse sinks, ozone depleting substances, conserving biological diversity, protecting forests, genetically modified organisms, agricultural and industrial chemicals, hazardous wastes, access to biological resources, wildlife trade, quarantine, feral animals and weeds and foreign aid proposals. These are but some of the issues that are now officially recognised as of national environmental significance, and therefore it is a short step to assume that therefore they are in the national interest.

We certainly believe that that kind of policy making should be incorporated into that of the Department of Foreign Affairs and Trade. On balance after our analysis we are concerned that, less than a week away from this year's APEC summit meetings, the Australian government with our current policies is ill-equipped to meet the environmental challenges that have been identified as a key theme by this year's host country, Canada, and that with our current policies Australia lacks the necessary vision to enable our country to play a leadership role in achieving ecologically sustainable development in the Asia-Pacific region.

CHAIR—On the issue that you raise about the trade policies and the lack of any direction in terms of the environment, what is the position in respect of other governments in the APEC area? How many governments have an integrated environment and trade policy? Is the Australian government a government in isolation? What are the trends in this area?

Ms Reynolds—I cannot give you a detailed answer because we have not looked in detail at all the different policies of the different nations. It is a reasonably difficult and large project to undertake. I would say that the majority of countries have also not developed the links fully between environment and economic integration. However, at the APEC level, there have been lots of good statements such as, 'From now on, our country will, in our economic decision making, incorporate environmental issues into those decisions' or 'We won't reduce our domestic environmental standards to attract foreign investment.' The APEC leaders and APEC ministerial declarations are increasingly saying these things but, of course, back home those countries do not seem to be following it up with action, and Australia is no different.

We suggest though that Australia has had a good reputation internationally in being a leader on environmental issues, and, I guess, as a developed country in the APEC region, we should also be able to take a lead in APEC and do a bit better than many of other countries on this issue. Also, Canada, as we mentioned, the host of this year's conference, has identified environment as a key theme for this year's meeting. We suggest

that that shows that Canada has recognised that environment is an increasingly significant problem in the region and therefore has to be more fully integrated with economic decision making.

CHAIR—In your statement you referred to how governments are fairly reluctant to get into this area and yet the whole driving force of APEC seems to be the business community. It seems to me that, unless there is some acceptance by the business community of the issue of the environment it is going to be left out in the whole area of APEC. How does one get the business community to accept this issue in a serious way?

Ms Reynolds—I think there is obviously a role for governments in signalling through various policies and actions that it is not simply going to reduce environmental regulation, that it is not going to say that the business community can have a free run and that it is not going to look after environmental concerns on behalf of the broader community. But, on a more practical level, to do with this place and the way that policy is developed, there are bodies around. For example, the Trade Policy Advisory Council is largely made up of very influential business interests. If we had some environmental advocates, say, to regularly engage in dialogue with these influential business people then that dialogue between those people from very different sectors would, I guess, get people to start understanding the other person's perspective a bit better.

Senator FERRIS—Ms Reynolds, could you further explain two of the recommendations that you have made towards the end of your submission. The first one at paragraph 2.3 reads:

The ACF recommends to the Senate Committee that:

The Australian Government support and implement the central incorporation of environmental policies, considerations and regulation into its domestic policy responses to international trade agreements to ensure that:

It then lists various things to be undertaken. Thinking about the fires in Asia, how would you see the government implementing that recommendation in relation to that environmental disaster?

Mr Horstman—We are obviously talking about something more than organising an international effort to send planes full of water to help put the bushfires out.

Senator FERRIS—I realise that.

Mr Horstman—We are addressing systemic problems, I think, that lead to large forest fires in primary forest areas which are basically symptomatic of increasing rates of land conversion to meet growing export demand for tropical timber products. One of the reasons we see environmental damage occurring from rapid economic growth is basic market failures and intervention failures. These really are the root cause of many of the

environmental, so-called, problems.

Senator FERRIS—If I can just try to pull you to the point I am trying to extract here, if we were to adopt this particular recommendation, how would it operate in a circumstance such as we had in Asia? Are you suggesting—thinking about this issue, for example—that we should in some way try, from Australia, to regulate forest clearance? I am really trying to get to the essence of your recommendation in relation to what clearly was disastrous not only for the countries involved, but also for those people in the northern part of Australia who experienced some of the reaction to it?

Mr Horstman—Absolutely. I fear you probably have to leave soon so I will be as brief as possible. There are two ways that it can be done. I am not suggesting that Australia should be attempting to regulate Indonesia's rate of forest clearance, because Australia just is not in a position to be able to tell anyone how not to clear land. We have got some of the highest rates in the region.

What we are suggesting is a twofold process. APEC should be concerned, firstly, with the region-wide spread of environmental standards and encouraging cooperation between countries for the gradual upward harmonisation of those standards; and, secondly, addressing market and intervention failures. Simply, that is a way to ensure that the market properly accounts for the use of environmental services and for any damage that may result, to allocate a real value to the functions and features of ecosystems, and to ensure that property rights are properly allocated for the use of environmental resources. So it is a standard-setting process as well as a rewiring of the way that the economics is calculated and predicted.

Senator FERRIS—I just have one other question, and I will run the risk of being late for the next meeting so that I can ask it. Again, it goes to recommendation 5 where you suggest:

The Australian Government advocate for the WTO and APEC to introduce consultation, reporting and decision making structures for trade agreements that are based on democratic principles. This includes:

.Commitments to these agreements go through a process of Parliamentary scrutiny and debate.

Could you explain to me how you would see that working?

Ms Reynolds—I guess I am not the expert on parliamentary procedures; you people probably have a better idea. The main point of that recommendation is that we are concerned that there is very little discussion about these multilateral trade agreements which increasingly are having an impact on domestic policy making and the lives of people in Australia. We think it would be better for understanding about APEC, and probably better for general acceptance in the community about free trade and APEC, if there was improved discussion, debate and dialogue about Australia signing up to these

processes.

We felt that the parliament, as the place where Australia's representatives meet, would be the most appropriate place for there to be greater discussion and greater debate about, say, Australia's individual action plan; for it to go through a committee process or a special period of debate in the parliament; for the government to stand up and say, 'This is what we are going to commit to this year,' and for opposition parties to say, 'We do not like this,' or 'We think this could be expanded on,' or 'We think this is a great initiative'; and for there to be just a little more discussion and dialogue.

Senator FERRIS—But how would that work in a practical sense if so much of this material is developed as a result of the negotiations and discussions that take place at the regular meetings? What you are suggesting, in a practical sense, would mean that we would state a position and debate it, and when the round of meetings and negotiations took place it may not bear any resemblance to what might finally be agreed to as a result of the meeting; and in debating and perhaps dividing, even along political lines, on that particular issue, we may substantially undermine our negotiating power when we got to the meetings.

Ms Reynolds—My understanding is that, because of the voluntary nature of APEC, the individual action plan is simply an offering to take to the meeting so that leaders do not actually have to negotiate on points and say, 'We are doing this. What are you doing?' It is simply a reporting back about, 'This is what we are committing to. This is what our country is willing to bring to the table as far as the APEC process goes.'

I think it is a bit different because of the voluntary nature of APEC; it does allow for there to be some discussion in Australia beforehand. The reality is that the executive of government can develop an individual action plan and take it to APEC without discussion with the parliament, but it would be a courtesy or a way for there to be a bit more dialogue and a bit more—

Senator FERRIS—Inclusive.

Ms Reynolds—Inclusive discussion, yes.

Senator QUIRKE—Obviously the issue of this year, and in fact probably the issue of the decade, is greenhouse gas emissions. At this end of the world we seem to have a fairly major problem with that; I am not talking about the Australian government's attitude to greenhouse gas emissions but, in fact the attitudes of most of the Asia-Pacific partners. What sort of pressure should we be bringing to bear on these countries and how should they be reducing their greenhouse gas emissions? They are responsible for a fairly large amount of them.

Ms Reynolds—Of course I agree that we have a role in ensuring that energy that

is produced in the region in the future is produced in a sustainable way, because if the Asia-Pacific nations develop the kind of greenhouse gas consumption that we have here in Australia then we are going to see easily a tripling of the concentration of greenhouse gases in the atmosphere which will bring substantial problems in terms of climate change. So yes, we have a significant interest in ensuring that energy policy, through APEC, is moving towards sustainability and a lack of dependence on fossil fuels.

I think Australia has been in a difficult position in playing that leadership role because we are so concerned about our coal exports and Australia is a very big exporter of coal. So we have not been great advocates for playing a leadership role in the APEC community in saying, 'We really need to, as a region, cut our regional emissions.' We would suggest that Australia has a lot of work to do.

I think the other important point to make in terms of looking to those other countries to take action is that, for example, each Australian currently produces about 20 times more greenhouse gas emissions than each Indian and each Australian produces about 10 times more greenhouse gas emissions than each Chinese person. We also have to take the lead.

The G7 group, which a lot of our APEC partners are part of, has actually called for a 20 per cent reduction in greenhouse gas emissions by—I think—2020. They have called for a very substantial cut from the developed countries. They are rightly saying, 'You wealthy industrialised countries have largely created this build-up of greenhouse gas emissions. Sure, we are probably going to be contributing more significantly in the future, but largely it has been a problem created by industrialised countries to this date and you really need to take the lead.' It is a difficult one.

We think APEC is a perfect forum for there to be better discussion and stronger action in terms of making sure that those rapidly growing countries do not jump on the fossil fuel bandwagon, and do explore other options. We think if Australia could have a change of focus then we potentially have a lot of money to make in new industries and selling renewable exports to the APEC region.

Senator QUIRKE—With the equation that we are dealing with, it may well be that Australians, Canadians, Americans and Europeans generally, per capita, are vast energy consumers. That obviously has greenhouse implications. We are going to be joined by other societies, particularly in South-East Asia. I do not think the economic bubble has burst. It has just slowed in its rate of inflation during the course of this year. We have had the situation where Singapore, Hong Kong and Taiwan have joined the ranks of the highest per capita income countries in the world.

There is no doubt that, within the next 25 or 30 years, we are probably going to see other societies, particularly in South-East Asia, join the nations of North-East Asia that managed to break through to these ranks in the 1960s and the 1970s. Isn't it the case that

they are going to be committed to fossil fuel generation of energy unless they go nuclear or take other more dramatic options yet to be proven?

Ms Reynolds—It certainly seems that, at the moment, the majority of power in the region is going to come from the traditional fossil fuel sources. I agree with you that it is an incredibly serious problem. I would prefer that Australia, instead of taking its current stand on greenhouse gas emissions, was taking a much stronger advocacy role about the need for us to turn around the way energy is produced in the region and to start moving towards more sustainable methods of producing energy.

In that sense, we could be taking a role in promoting our gas reserves and for greater transfer from coal usage in places like China to gas. We could also be promoting the expanding renewable technology—solar and wind power—which is no longer just an outsider in the energy market. They are becoming the high growth, high job creating investment industries. If we had a different focus, rather than just selling coal, Australians could be playing a really active role. I think we need to. I do agree with you that, potentially, the Asia-Pacific region could create problems for the world if they just followed the traditional burning of lots of fossil fuels pattern that we have in industrialised countries.

Mr Horstman—An additional problem with a focus on fossil fuels is the system that comes with it. That is a very centralised means of energy production and transmission which tends to militate against the introduction of new or more sustainable energy forms. We are not just pushing coal and fossil fuels. We are also exporting this old idea that you have to have a centralised electricity grid in order for people to have fridges and washing machines. Certainly, you do need base load power for industry, but there is great scope for the decentralisation of energy grids and provision of energy services rather than just having a lot of wires coming out from a coal fired power station. There certainly is some expertise in Australia and, as Anna has pointed out, there are huge export opportunities for us in APEC and great opportunities for that to expand throughout Asia Pacific.

Senator QUIRKE—I think you have sidestepped the nuclear hook that I threw out. It is true that a lot of these societies, for all sorts of reasons that may be good or bad, are also going nuclear. What is the ACF's attitude to that? That, of course, is a non-greenhouse gas. It may have all sorts of other problems, but it is not producing greenhouse gases for the enormous quantities of electricity that are necessary and produced in fact.

Ms Reynolds—Our understanding of the nuclear power industry is that it is becoming a less favourable choice for governments and private investors around the world because of the high start-up costs, the major infrastructure required. Increasingly, options like renewable solar and wind and gas are simply more economically viable. We need to keep an eye on nuclear development in the region, but the economics will mean that nuclear power really is not going to be such a growth industry as people think it might be in this greenhouse period.

Senator LIGHTFOOT—I have a couple of questions and I am aware of the time. Mr Horstman, you gave an answer almost in passing that Australia has the highest rate of land clearing in the world. I wonder whether you mean that literally. I have the figures for Western Australia. I think it is important that we do not denigrate our nation unnecessarily. Land clearing is something that everyone takes very seriously. I am aware that Western Australia is one-third of nation. It has a million square miles made up of 38 per cent pastoral leases, which are not being cleared, slightly less than seven per cent is farming area, which is not being cleared, and the balance is crown land or other reserves.

There is some clear-felling going on which I am distressed about with respect to our old-growth native forests. But that is minuscule in comparison to the one million square miles. Perhaps you would like to qualify what you meant when you said that we have the highest rates of land clearing in the region?

Mr Horstman—I will certainly clarify my comments. They were that we have amongst the highest rates of clearing in the region. We are amongst the highest in the region, but certainly not the highest in the world. There are others that can lay claim to that. There is a dispute about the actual figures because there is a dispute about what kind of forest is being cleared. But somewhere between 400,000 and 500,000 hectares a year is being cleared in Australia.

Senator LIGHTFOOT—Where is that taking place?

Mr Horstman—The large majority of that is in Queensland, which is around about 350,000 hectares and certainly much more than in Western Australia. We are not only looking at the current rates of clearing as they happen year by year now, but at what has happened in the past as well. In the region you will see in our submission that—and I guess this is what earns it its title as a developed country—Australia's share of total land area converted is around about 60 per cent, which is one of highest rates of land area converted in the region. So historically we have made quite an impact on the natural vegetation and currently on an annual basis we are still doing that to the tune of about 500,000 hectares a year.

Senator LIGHTFOOT—In terms of Western Australia you would have to agree that it is a minuscule amount—even though it is distressing—that is being cleared.

Mr Horstman—Perhaps you could inform us what the current rate for clearing in Western Australia is? I am not sure whether it is minuscule or not.

Senator LIGHTFOOT—I gave you the figures. I really do not want to inform you. I want you to inform the committee.

Mr Horstman—I can certainly get back to you with figures for every state.

Senator LIGHTFOOT—Yes, that may be of some assistance to the committee. Ms Reynolds, you said *inter alia* that there were 20 times more greenhouse emissions in Australia than in China. I cannot remember who said that there are lies, damned lies and statistics, but on this occasion your statistics could be misleading. Australia's population in terms of percentage has 1.4 per cent of the global CO₂ emissions. That is rather high, but the United States has 24 per cent with a similar land mass. Australia is almost precisely the same as mainland United States. In effect in terms of our land mass that gives us a very low emission rate.

What you failed to say in China was that in terms of their land mass that is an exceedingly high CO₂ emission. I do not believe that Australia has any more responsibility to reduce its emissions until other nations bring theirs down. In other words, we cannot look purely at a statistic. If we use a combination of land mass and population, Australia has a very low emission.

Mr Horstman, I think you made a comment with respect to coal. As to coal-fired power stations, it is not just base load power stations for industry; it is base load power stations for natural consumption, for people throughout our community during the hours of six in the morning to eight in the morning and during the hours of six at night until eight at night. That is when we need our base load power stations. Pardon me for saying this, but the Australian Conservation Foundation has been part of the problem—not the solution.

If you had allowed, and did not vehemently oppose, the establishment of nuclear power stations in Australia, those CO₂ emissions in Australia would have been exceedingly low. France has 80 per cent of its power from nuclear. It is one of the lowest CO₂ emission countries in the world, given its population size. Sweden, which a lot of people take note of, particularly your organisation, with some justification, has about 50 per cent of its power from nuclear, once again with low CO₂ emissions.

I am saying that, until we understand that coal fired power stations in Australia can be replaced with only nuclear power stations, if it is going to be economically effective—much as I would like to agree with you on renewables, wind power and solar power, they are impractical at the moment—we cannot have opposition to our economic growth in Australia merely to fulfil what you and your organisation see as an ideal.

In an ideal and perfect world, I would have to say that I agree with you, but I do think that there should be less opposition to nuclear power, because we are going to be left behind in that area if we are not very careful. Economically, I would find that very distressing for Australia. Are you going to continue to oppose nuclear power given your knowledge—you are accepted as someone authoritative—and given the greenhouse problems and gas emissions from coal fired power stations—not just those, of course, but that is one of the major contributors to it?

Ms Reynolds—Yes, we are going to continue to oppose nuclear power, for two reasons. One is based on our principle that nuclear power is not a sustainable form of power and that there are problems that have not yet been addressed in terms of the removal of waste.

Senator LIGHTFOOT—It is sustainable for only several thousand years.

Ms Reynolds—However, there is another aspect that I think is really important to focus on, and that is that we really think that nuclear power is not going to be supported by the community, so it is a foolish policy option to pursue. A third is that we just have to look at the economic trends of nuclear power to see that it is not returning on investment. The return on investment from nuclear power—and even from coal—is just simply sliding year by year. Compare this with the 25 per cent to 30 per cent growth rates and returns on investment that solar and wind are providing.

Senator LIGHTFOOT—What is a unit cost of between, say, solar and wind and—

Ms Reynolds—It is dropping rapidly. I am not an energy expert, but we did have an energy expert here in Australia a few weeks ago. Chris Flavin, from the Worldwatch Institute, stated that wind power per unit is now becoming very comparable to coal, and all over the world—

Senator LIGHTFOOT—Are you aware of what that unit cost is?

Ms Reynolds—I could not tell you. I can take that on notice and provide it for you.

Senator LIGHTFOOT—Are you aware of the wind farm that supplied those unit costs?

Ms Reynolds—My understanding is that in Europe and Japan these technologies are becoming incredibly mainstream and that, unless you are in these new growth areas, it is like the equivalent of missing out on the computer revolution. These are generating some of the highest growth rates in economies such as Japan and Europe and higher growth rates than were ever seen in computer technologies. So we would say, just purely on the economics, that choosing nuclear power, with its incredible start-up costs, combined with the risks and the lack of public support, is simply not a winner. Renewables increasingly are becoming the winners, and we think Australia should back the winners.

Senator LIGHTFOOT—Are you aware that Westinghouse and General Electric in the United States have the new generation of nuclear power plants that, in terms of their initial investment, are very similar to coal fired power stations? Are you aware of that?

Ms Reynolds—No, I was not but, again, the trends are showing that coal's return on investment is currently at about four per cent compared with 30 per cent or 40 per cent return on investment to renewables. It is just not going to be one of the growth areas of the future.

Senator LIGHTFOOT—With respect, the figures that you were quoting vary all over the world. I am not too sure which country you are quoting, or whether you are quoting an aggregate of all the countries, saying that coal fired power stations return four per cent. It is very difficult to work those out in terms of the investment that they generate.

Ms Reynolds—I guess it is global trends that I am focusing on but I guess that is what we are talking about here in terms of APEC and regional—

Senator LIGHTFOOT—In answer to my question, I guess you are saying no, you are going to continue to oppose the introduction of nuclear power into Australia.

Mr Horstman—That is correct.

Senator LIGHTFOOT—Does that also include the upgrading of medical research facilities with respect to Lucas Heights?

Mr Horstman—Our current policy is opposed to that. Could I ask a question in return? Are you advocating the establishment of a nuclear power system in Australia?

Senator LIGHTFOOT—I would rather we ask the questions.

CHAIR—Mr Horstman, I think that is out of order. Senator Lightfoot should ask the questions.

Mr Horstman—All right.

Senator LIGHTFOOT—Perhaps I could just ask you something off my prepared text. It relates to your submission in which you state at the end of the section on 'Trade Outcomes and Objectives Statement' that:

. . . Objective 3.1.1 is in direct contradiction with key statements from the APEC process, such as:

"We will all work . . . to promote sustainable development; trade and investment in the region, through a vision for APEC that encourages members to integrate environmental considerations into their policy."

Objective 3.1.1 addresses the need to:

. . . raise continually Australia's international competitiveness by . . . cutting the regulatory burden

faced by business.

However, on 3.2 you state, among other things:

This requires the effective integration of economic and environmental considerations in decision-making processes, in order to improve community well-being and to benefit future generations.

My questions are: are you taking objective 3.1.1 out of context in light of what I have just read with respect to 3.2, and can you give specific examples of where implementation of the statement is in contradiction of APEC principles?

Mr Horstman—If I could just refer you to the sources of those quotes, the point we are making on that page is that objective 3.1.1 in the trade outcomes and objectives statement is inconsistent with the intergovernmental agreement on the environment as well as the vision statement from the APEC leaders meeting of 1994. We are simply making the point that the DFAT policy refers to raising international competitiveness by cutting the regulatory burden. We are concerned that that is about targeting regulation that aims to protect environmental standards. That is inconsistent with domestic policies, such as the IGAE, which talks about integrating the economic and environmental rather than having one competing against the other.

Secondly, that is inconsistent with international statements, such as the statement from the leaders in 1994, that we will promote sustainable development. They talked there, once again, about integrating environmental considerations into policies. So the simple point we are making is that while our domestic and international agreements, if you like, talk about integration the most recent trade policy from DFAT fails to recognise the need for that integration and, instead, identifies environmental regulation as something affecting economic competitiveness.

Senator LIGHTFOOT—Your submission also states the concern that, in accord with Australia's 1996 IAP, the government has abolished its powers to control the export of all raw materials, except uranium, and has left the others, except uranium, to the states. Your submission argues that this affects the government's ability to protect heritage sites and endangered species and to prevent the unsustainable development of sites which are against the national interest. Could you give the committee some examples where this has proven to be the case?

Mr Horstman—This change was made by amending the Customs Act by dropping a couple of regulations there. What that means, in effect, is that there is now no trigger for Commonwealth environmental laws, such as the Environment Protection (Impact of Proposals) Act, or the Endangered Species Act, for areas that sit on the National Estate.

Senator LIGHTFOOT—How does that affect endangered species, for instance?

Mr Horstman—Often areas that are listed on the National Estate are listed for their particular environmental value which often includes habitat for endangered species and communities.

Senator LIGHTFOOT—Can you give examples of that?

Mr Horstman—The two examples I have suggested there are at Fraser Island where it is, I guess, a unique ecosystem, rather than a specific habitat for endangered species, and at North Stradbroke Island where export control powers were critical for some time in assisting to make decisions about how and where mining operations would take place, and ensuring that they took place in a way that did not damage the habitat of important species.

Senator LIGHTFOOT—So you are saying that there is not actually any evidence of endangered species, but it is more that habitat destruction could impact upon endangered species?

Mr Horstman—There are endangered species listed from North Stradbroke Island.

Senator LIGHTFOOT—Could you give an example of those, please?

Mr Horstman—I will take that on notice, too, Senator. We acknowledge that those protections are imperfect and indirect mechanisms to ensure the protection of the natural environment in the national interest, but they were the only ways to do that in many circumstances. They have been removed, and there has been no replacement trigger as yet introduced to ensure that the Commonwealth government has a role to ensure that these sites are developed in a sustainable way—if at all. We look to the current Commonwealth review of environment legislation to ensure that some replacement trigger is made and that there are more direct mechanisms to ensure that there is a role for the national government to act in the national interest.

CHAIR—I have got one further question and it is in respect of your submission, at page 44. About midway down the page you say:

Australia is to be congratulated for passing a resolution at the UNGASS meeting, that recognised the role of trade and environment NGOs . . .

Does such a resolution achieve a goal of greater involvement of APEC decision making by environmental NGOs?

Ms Reynolds—I think that the resolution put by Australia really related more to the World Trade Organisation. Australia has been a reasonable advocate in saying that there should be better dialogue between major groups, and that includes environment NGOs and their WTO.

CHAIR—Does that impact on the APEC process, then?

Ms Reynolds—Not really. It all helps, because a lot of these processes are linked and a lot of the bureaucrats and the players that are involved in our and other countries' WTO negotiations will also have a role in APEC. So I guess it is Australia showing its support for broader dialogue with a range of groups. But no, as far as APEC goes, it has been a very closed shop to business. We were in Manila for the last APEC leaders summit and it was very much a matter of 'APEC means business'. It was open doors to the business community, but experts and advocates from other sectors were not encouraged to have input into the APEC agenda. I guess that it is in some ways seen as causing some problems, or diverting attention away from the agenda of tariff reduction to involve other groups. We would suggest that while it is so focused just on business—and, largely, big businesses—it is simply not going to win the support of the community. So it is better to open up these processes a bit more.

Mr Horstman—We appreciate the meetings we have had with the Minister for Trade—that is, ACF along with other NGOs concerned with these issues—and we look forward to those continuing. At all those meetings we raised the limited nature of public participation in these processes and the need to make some structural change—for example, in the Trade Policy Advisory Council—to ensure that there is a wider range of views informing our policy making process. Really, by the time you get to an international level at WTO, that is a top level way for international NGOs to be involved. We believe the whole process would be much better served by having NGOs on the ground and from a wide range of interests involved at the domestic policy making level as well.

CHAIR—I think we had better stop there. The committee was due to sit until midday, but it is my intention to extend the hearing to at least 12.15 p.m. to give the next witnesses adequate time to present their evidence. Whilst we could have carried on this discussion with you for a much longer period of time, the information that you have provided to the committee has been very informative indeed. Thank you for your indulgence to the committee this morning by putting up with the delay. The committee will contact you if it needs to, and I trust it will receive further submissions from you if necessary. Thank you very much for your time.

[11.34 a.m.]

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HARTLAND, Ms Kerri Gaye, Assistant Secretary, International Energy Branch, Energy Division, Department of Primary Industries and Energy, Edmund Barton Building, Canberra, Australian Capital Territory 2600

ROBERTS, Mr Ivan Mead, Senior Economist, Agriculture Branch, Australian Bureau of Agricultural and Resource Economics, Edmund Barton Building, Canberra, Australian Capital Territory 2600

THIEME, Mr Reinhard, Director, APEC and Trade Policy Section, International Branch, Department of Primary Industries and Energy, Edmund Barton Building, Canberra, Australian Capital Territory 2600

CHAIR—I welcome Dr Dennis Gebbie and other officers from the Department of Primary Industries and Energy. 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 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 Primary Industries and Energy dated September 1997. The committee has already made this submission a public document. Are there any alterations or additions you would like to make at this stage?

Dr Gebbie—Yes, there is one. On page 4 of the submission, the figure of \$20 billion was given in the first paragraph under the food and agriculture heading as our food exports to the region. That figure should in fact be \$10 billion; I think \$20 billion was our total exports and not those to the APEC region.

CHAIR—If there are no further corrections or alterations, I invite you to make an opening statement and then we will proceed to questions. As I indicated at the end of the last witnesses, we are running late and I apologise to you for that. We will seek to go through to about quarter past 12 or thereabouts to enable the evidence to be taken. Thank you.

Dr Gebbie—Thank you, Mr Chairman. I will make some introductory remarks. First, the Department of Primary Industries and Energy welcomes the opportunity to provide a submission to this inquiry and to appear before the committee today. APEC is a key element of the government's overall trade strategy and has important implications for portfolio industries. The APEC region is the main destination for exports of Australian agricultural, mineral and energy products and accounted for around two-thirds of Australia's primary exports, roughly \$30 billion in exports, in 1995-96.

APEC's goals of trade and investment liberalisation are therefore potentially very significant for portfolio industries which continue to face a range of market access restrictions in many APEC member economies. Economic modelling by the Australian Bureau of Agriculture and Resource Economics of the benefits of APEC liberalisation has indicated that full implementation of APEC commitments would significantly boost both domestic and regional economic growth.

In terms of trade, major beneficiaries are expected to be Australian bulk exports of primary commodities and also value adding industries where Australia has a comparative advantage—for example, processed food, agricultural products and more highly processed mineral products which face escalating tariff structures in many APEC economies.

I would like to briefly outline the range of APEC processes and activities in which the department is actively involved, with a view to pursuing market opportunities and influencing the trade and investment environment within which portfolio industries operate. Food demand and production patterns are undergoing major transformation in many APEC economies as a result of rapid economic growth, rising per capita incomes and population change. Australian exports of unprocessed and processed food to the APEC region are currently valued at around \$10 billion. There is significant potential for growth, which is recognised, for example, in the government establishing the Supermarket to Asia initiative. To realise the full potential of this, however, will require increased trade liberalisation and improved market access.

A major concern of DPIE has been to ensure that the individual action plans prepared by APEC economies to implement APEC's trade liberalisation goals include agriculture and food issues. We are looking for reductions in tariffs and tariff peaks as well as elimination of non-tariff measures such as import licensing, export subsidies, import bans and import monopoly arrangements.

In addition, portfolio industries are looking for greater transparency of regulations

and procedures in areas such as quarantine, food inspection and customs clearance as well as greater alignment of standards with internationally accepted standards. While realistically, liberalisation of agricultural products is only likely to be at the margin in the short term, the IAP process has nevertheless been valuable in increasing the transparency of trade and investment related measures applying in member economies.

In addition to the IAP process, APEC is currently identifying sectors where early liberalisation may be possible in the short to medium term. Sectors put forward include a number of interests to this portfolio. Food products, energy and non-ferrous metals were all nominated by Australia and there are others such as fish and fish products, oilseeds and forest products where we have a significant interest. The final list will be a matter for ministers to decide in Vancouver in a few days time.

The department has been participating in three APEC groups dealing with food and agricultural issues. A task force on food was established last year in response to concerns over food security by some APEC economies, particularly Japan and Korea. As part of the work of the task force, ABARE and its Korean counterpart agency are jointly responsible for analysis of supply and demand trends, including trade flows and stocks and the major changes which have occurred both globally and in the APEC region since the early 1970s.

This work is expected to continue over the next 12 months or so but analysis to date has confirmed that agricultural economists are generally optimistic about the long-term outlook. Projections show that agricultural production will keep pace with population growth and increases in demand generated by rising incomes. This work also points to the need to further reduce trade barriers to allow markets to efficiently allocate resources to meet the increasing demand for a range of food products in the region in response to both increasing population and changing dietary preferences.

The department has recently taken on the role of lead shepherd of the fisheries working group which is seeking to develop region-wide approaches to trade and marketing of fisheries and aquaculture products while adopting principles of sustainable management of the resource. Fishing is one of the major economic activities in the region and forms a significant part of the economic base in a number of economies.

The working group is addressing a range of trade related and environmental issues to improve fisheries management. The group also has a strong commitment to aquaculture because of the potential for growth and its potential importance in filling the predicted shortfall in wild catch fish. Fisheries is also important in terms of addressing regional food security concerns.

The department has also been active in the experts group on agricultural technical cooperation which, while not dealing directly with trade related issues such as market access, nevertheless provides a mechanism for addressing a range of issues relevant to facilitating trade in areas such as agricultural biotechnology, marketing, processing and

distribution of agricultural products and cooperation in plant and animal quarantine and pest management.

While the current ATC work program is in its early days, it largely reflects the priorities of the developing APEC economies. Nevertheless, it provides an important forum for sharing experiences and gives us an opportunity to try to influence national decision making processes on agricultural reforms which will be essential for progressing further agricultural liberalisation in many APEC economies.

Last but by no means least, on the energy side the department has been the lead shepherd for the energy working group since its establishment in 1990. The energy sector is of vital importance to the continuing economic growth of APEC, with energy demand expected to grow at over two per cent per annum up to 2010. This is double the projected growth rate for the OECD area. A recent study suggests that investment in power infrastructure of around \$US1.6 trillion will be required in the APEC region over this period to meet the increased demand.

There are clearly significant potential opportunities for Australia to tap into the region's increasing demand for energy and energy infrastructure, and one of the key objectives of our involvement in the energy working group is to facilitate access to that market by Australian business. The energy working group provides a regional forum for frank and open discussion of national energy policies and planning priorities, for sharing basic resource demand and supply outlook data, and for considering the regional policy implications and responses to wide ranging energy related issues.

In this regard the working group was instrumental in bringing together APEC energy ministers for the first time in 1996 in Sydney and again earlier this year in Canada. Ministers are scheduled to meet again in Japan in October next year. The energy working group is characterised by a strong business involvement, both directly in the group's activities and through the more formal, ad hoc business forum established in June last year. In addition, an electricity regulators forum has also been established to assist in the development of efficient electricity industries and to encourage business sector involvement in energy infrastructure. Business involvement is in fact an important portfolio objective in all APEC activities, if we are to achieve early gains from APEC and maintain strong public support behind APEC liberalisation.

All in all, we believe the energy working group has been one of the most efficient working groups in APEC. That concludes my introductory remarks, Mr Chairman. We would be pleased to elaborate on anything we have said here.

CHAIR—Thanks, Dr Gebbie. Senator Lightfoot has questions.

Senator LIGHTFOOT—Dr Gebbie, with respect to comprehensiveness, which was a word used on some occasions in your submission, the DPIE notes that the

agreement by APEC leaders in Osaka in 1995 embraced the concept of comprehensiveness, which was especially important for primary products, as it included sensitive sectors such as agriculture and the liberalisation process. Have the actions of APEC economies, since that agreement in 1995, demonstrated a genuine commitment to comprehensiveness? And in what way has this been evident?

Dr Gebbie—The concept of comprehensiveness was really a code word for ensuring that agriculture and food were included in the trade and investment liberalisation objectives of APEC. For a country like Australia and, indeed, for this portfolio, it was essential that agriculture not be left out simply because it is a very sensitive sector to many of the APEC economies. We believe that comprehensiveness was and has been accepted by all the APEC economies; and, in the actions of the economies to date, I do not think there is any evidence that there has been any backsliding from that.

We have always believed—realistically, I think—that agricultural liberalisation will occur substantively towards the end of the APEC time periods of 2010 and 2020, and we certainly were not expecting to see any wholesale agricultural liberalisation prior to that time. I do not have a full list here in front of me but, to date, there are a number of economies that have included their Uruguay Round commitments into their IAPs in a helpful way, and there have been a few cases where economies have unilaterally included further agricultural liberalisation as part of the IAP process.

We are certainly not pessimistic about agriculture, but we are of course in the transition period of the Uruguay Round outcome, and it will not be until early next century that that transition period is over. It is a very difficult adjustment period for many countries in the agricultural area. In addition to that, as you would be aware, in 1999 there is a mandated further WTO agriculture negotiation, and so I think it would be quite unrealistic to expect APEC economies to be too forthcoming in the period preceding the WTO negotiations, in particular: they simply do not want to show their hand or their negotiating position prior to that. Indeed, that will be the next significant occasion for agricultural liberalisation at the multilateral level, rather than seeing any wholesale moves towards that in the APEC process.

You would be aware, I think, that in the early voluntary sectoral liberalisation activity which was going to be considered this week by ministers in Vancouver there are some agricultural aspects which are significant. It is a bit too early to forecast what might happen there. There are a number of things going on which are consistent with APEC, but perhaps APEC is going to have to play second fiddle for a while pending the outcomes of some of these other processes.

Senator LIGHTFOOT—Dr Gebbie, you mentioned there were some countries that had already manifested trade liberalisation with respect to agricultural products; can you name some of those countries and/or those agricultural products?

Dr Gebbie—Yes, for example, in the 1997 IAPs which have been submitted: Indonesia is allowing producer importers to import raw sugar and is aligning its food standards more with international standards; Korea has reduced tariffs on raw sugar, wool and wool tops; Thailand has increased its quota for imported skim milk powder; and the Philippines is aligning its national sanitary and phytosanitary standards on processed fruit and vegetable products with international standards. They are a few of the key things. Also, Japan is aligning its plant quarantine policies and practices more with international standards. These are a number of things, but by no means all, that have been included in this year's IAPs in the agricultural area.

Senator LIGHTFOOT—Is that liberalisation, or mooted liberalisation, likely to be affected by the recent downturn in those respective countries' economies or the devaluation of their currencies against the Australian and US dollars?

Dr Gebbie—It is difficult to say. That is an important question. We do not see any reason why they should be and indeed we will be taking every opportunity to keep the pressure on, to see that these measures are not rolled back. The IAP process is of course a voluntary one. These measures are not binding so it is, in principle, possible for measures to be wound back, but I do not see anything at the moment to indicate that that might happen.

One part of these countries' strategies for dealing with these problems will be to trade their way out, and open trade regimes, generally, will be helpful in that process. I think, again, this should encourage them not to roll back what they have done. I am sure some of the packages provided by the international financial institutions will be focusing very closely on open trade regimes and further domestic deregulation. There will be a number of pressures on these countries to see that there is no move towards greater protectionism in order to deal with these problems. Mr Roberts, do you have anything to add?

Mr Roberts—I think that answers it.

Senator LIGHTFOOT—Dr Gebbie, you mentioned in your opening address that there was going to be 16 trillion investment by APEC over a period; I missed the period and I missed the currency. Could you tell the committee what that currency and the period was, with respect to energy?

Mr Alderson—That was \$1.6 trillion.

Senator LIGHTFOOT—It was 1.6 trillion?

Mr Alderson—Yes.

Senator LIGHTFOOT—I beg your pardon, I have got it written down here as 16

trillion, okay.

Mr Alderson—That was US dollars.

Senator LIGHTFOOT—That was US dollars, was it?

Mr Alderson—Yes. That was into the Asia-Pacific, into the APEC economies, into power infrastructure—a large slice of that being into China.

Senator LIGHTFOOT—Over what period was that?

Mr Alderson—Sorry, that was to 2010.

Senator LIGHTFOOT—2010. Can you give the committee some idea of what energy medium is going to be utilised there? Is it going to be coal, gas, oil, nuclear or renewables? Perhaps you could elaborate on what percentage of that is attributable to the investment.

Mr Alderson—Senator, it is not trite to say all media. There is absolutely no doubt that into the foreseeable future, the APEC economies in our region will continue to rely heavily on coal, but there is, also, underlying the aspirations for economic growth, dependency on energy to fuel that growth. There is an increased interest in gas so we have both coal and gas. A number of economies will continue with nuclear power programs. There are certainly some opportunities for renewable energy, particularly in remote villages and site locations in countries like Indonesia, Thailand, et cetera.

But indications are that the dominant fuel for stationary energy sources will continue to be coal. From an Australian perspective that provides opportunities not only for our basic fuels of coal, gas and uranium but also for the technologies attendant on that. We produce low sulfur coals and so we are looking at enhancing our capabilities for environmentally friendly, if you like, technologies and for services. With the transformation of the Australian energy sector with the reform of the electricity and gas sectors, there is a whole new body of commercial activities associated with improving energy efficiencies. It provides opportunities across the board. In Japan they are known as the three Es and essentially the drive for economic growth, energy security and environmental mitigation are the three things that are factored into much of the group's activities.

Senator LIGHTFOOT—Given that Australia's greatest export—at times at least—is coal, is the Australian government likely to impose some restrictions on who could use Australian coal along the lines of export of uranium where the recipients of Australian uranium must sign the nuclear non-proliferation treaty? Is Australia likely to insist on something with respect to scrubbers and are the greenhouse emissions being reduced as a result of receiving our coal?

Mr Alderson—Senator, it would be inappropriate for me to speculate on government policy in the future. Let me make one observation and it really is not directly to the question that you asked but, when the APEC energy ministers met in Edmonton in August of this year, the primary environmental drive, if you like, that received unanimous agreement by all APEC ministers was a drive to improve energy efficiency, whether that was in a technical sense or an end use efficiency sense, a demand sense, but fully within the compass of those things that made economic sense.

I would not wish to speculate on future government policy as it would be inappropriate for me as an official. But there is a consciousness on the part of APEC ministers that, whatever fuel source is being used and will be used, there is an imperative both for economic and environmental reasons to improve efficiency. There is a raft of programs on technological cooperation and energy management programs—the sorts of things that will give you the win-win situation.

Dr Gebbie—I think you would have to look very closely at our trade obligations in that context as well. It is not always appreciated that there are similar disciplines on exporters as there are on importers in terms of imposing quantitative restrictions of any kind. There are currently no WTO rules relating to trade and environment linkages. Those sorts of issues are under intensive discussion in the WTO right now, but at this time there are no firm WTO rules and disciplines so you would have to look very closely at that particular area.

Senator LIGHTFOOT—There seems to be an inverse relationship between the uranium reserves and the uranium exports of Canada, with whom we are often compared, and those of Australia, which is often quoted as being the Saudi Arabia of uranium. Are we likely to close that gap with respect to the export dominance that Canada has with its rather modest reserves and our significant reserves of uranium, perhaps the biggest delineated in the world, and our modest exports?

Mr Alderson—The government policy in place now, with all of the correct monitoring processes in train, is really a market oriented approach. If we are able to achieve improved market share from our commercial sector, that will occur, but the real drivers will be the marketplace and economic circumstances. They will drive our ability to attack market share one way or another.

Senator LIGHTFOOT—Mr Alderson, in your view does that mean Indonesia would contribute to increasing uranium exports, given their recent announcements of, interest in and, in fact, preparation for nuclear power in Indonesia?

Mr Alderson—Were Australia to be satisfied that all the safeguards are properly met, I would imagine there would be no factors to inhibit its exports.

Senator LIGHTFOOT—Are there any other countries that would be similarly

disposed?

Mr Alderson—I honestly cannot answer that question. I could take it on notice, but I do not have that information with me.

Senator LIGHTFOOT—If you could take it on notice, Mr Alderson, that would be appreciated.

Mr Alderson—Right.

Senator LIGHTFOOT—Mr Alderson, you are the energy expert in the panel, so that is why I am directing my question to you. I visited Calvert Cliffs nuclear power facility some three or four years ago. It is on the environmentally sensitive area of Chesapeake Bay in the United States—right on the bay. It pumps in several million gallons of sea water per minute from the bottom of the bay and returns it to the top several degrees warmer, so it does not affect the ecology terribly much. The two nuclear power plants there were built in the 1970s. One is a Westinghouse and one is a General Electric. The power facility produces electricity for the Baltimore Gas and Electricity Grid—I think it is called—which is a listed company, for about US2c a kilowatt hour. That is exceedingly cheap electricity. Do you see any form of power in Australia being produced at such a modest price?

Mr Alderson—I am very surprised at that price of US2c a kilowatt hour. We have the micro-economic reform process in place in order to allow competition between fuel types and within the holistic market. The reforms that have taken place so far have served to drive down electricity prices fairly significantly. Whether that is sustainable, given the supply-demand balance eventually, is yet to be seen. To the best of my knowledge, however, we have nothing that produces for 2c a kilowatt hour, and I really do not know how they achieved that arithmetic. Far be it for me to suggest that it is not possible, but it is very surprising.

Senator LIGHTFOOT—I did say US cents, which is A3c. It produces it for the Baltimore grid, which in turn attaches a tariff for the use of their grid, but from the power station. In fact, it was quoted to me in document form at US1.5c a kilowatt hour, which I found exceedingly difficult to grasp. But I put it to US2c and that would equate to A3c. It is also at a wholesale price, if I could use that term, where it leaves the facility at a production cost of US2c a kilowatt hour. What is the cheapest form of electricity in Australia? From what is it produced?

Mr Alderson—I cannot answer that directly. It really does depend on the circumstances, because for both coal and gas we have a natural resource endowment in those areas. My understanding is that the bulk of our coal fired power stations are towards best practice. They scatter around, but they are fairly efficient. But also, of course, with gas and the new infrastructure taking place, gas is efficient. I cannot cite a particular

generation plant, or what have you, that produces energy, but certainly, in certain instances, both coal and gas are highly competitive.

Senator LIGHTFOOT—Would you put a rounded figure of 10c a unit?

Mr Alderson—Something under that, I think.

Senator LIGHTFOOT—Would that be cheaper, or more expensive, than hydro power produced under the Snowy Mountains scheme?

Mr Alderson—I cannot give you the figures on that, Senator; I do not know. But of course our hydro power in Tasmania, and out of the Snowy, is also efficient. I have not got figures on renewables in certain locations, of course; renewables are highly competitive if you take into account remote locations and the need for transmission infrastructure, et cetera. But, speaking as a generality, Australia is a highly efficient producer of energy and electricity.

Senator LIGHTFOOT—So that the production and the unit cost of electricity in Australia, from whatever source, are not an impediment to exports?

Mr Alderson—Indeed not. We have managed to build some energy intensive industry capacity here because of our reliability in terms of supply of energy and our energy costs—aluminium smelters, et cetera.

Senator LIGHTFOOT—Aluminium smelters, I think, Mr Alderson, are subsidised, at least to some degree, by other areas of industry. I think it used to be 4c a unit that gas—to the alumina powder industry, of which we are the biggest exporter in the world, I understand—was supplied, which is clearly under the production and delivery cost. With respect to coal, that is indisputably going to be the major source in the next decade of electricity or energy production; is that correct?

Mr Alderson—You are talking about Australia?

Senator LIGHTFOOT—Yes.

Mr Alderson—Senator, I think there are two or three factors to take into account. One is the economic life of our currently installed generation capacity—the bulk of our electricity, as you know, is from coal fired power stations—and whether anything arises to change those economics. The second is that there is a significant increase in the utilisation of gas within Australia, both directly and for electricity generation, so one would assume that gas will take an increasing share of the basic power source.

Senator LIGHTFOOT—But not the dominance?

Mr Alderson—Not the dominance within that period, no. Indications are that coal will continue to supply, if you like, the largest share.

Senator LIGHTFOOT—And that coal perhaps would exclude brown coal?

Mr Alderson—I am just taking coal collectively; you have brown coal in, of course, Yallourn and black coal in Queensland and New South Wales. The indications at this stage are that coal will continue to account for, if you like, the largest share of fuel into the system, all things being equal.

Senator LIGHTFOOT—I have just one other question, Mr Chairman, and thank you very much for allowing me this time. It has nothing to do with energy, in which I have a particular interest, incidentally. My question is: is it public policy to phase out, decrease or increase the granting of licences to foreign vessels to fish within the economic zone of Australia and its territories?

Mr Cox—I think that is a question I will have to take on notice. I do not have any indication of a move, in any direction, in that regard.

Senator LIGHTFOOT—That was a very short answer but I appreciate it, thank you, Mr Cox.

CHAIR—Thank you, Senator Lightfoot. I have a few questions myself. The first one I want to raise is in respect of the value of APEC to the average Australian. You outlined in your opening statement a number of areas where there appears to be liberalisation. In respect to Indonesia and Korea it is raw sugar, in Thailand it is skim milk, and in the Philippines it is fruit and vegetables and so on. How do we actually translate this into something that the average Australian can understand?

Whilst your department may well deal with this on a fairly high plane and you understand what you are talking about, to the average Australian it is just something that is way up there in the never-never. Is there a real benefit that you can translate into the liberalisation process and the facilitation process for the average Australian, and how do you go about it?

Dr Gebbie—The key aspects of APEC are probably the 2010 and 2020 trade and investment liberalisation objectives. Anything out that far in time is a little bit hard to grapple with for anybody, let alone the general public. As for business, I mentioned in the opening statement the importance of involving businesses as much as possible in APEC activities. It is clear to me that the business focus is on much shorter term achievements or advantages coming out of APEC rather than the ultimate end points of 2010.

It is important that we have some shorter term gains that will be understood quite directly by business and the public. This is precisely the reason for the attempts at early

voluntary sectoral liberalisation which will be considered in Vancouver this week and next. Without some gains in areas like that, it will be very difficult to maintain a positive focus on APEC by business and the public.

One other thing I would say is that in terms of trade liberalisation in general, in Australia at the moment it is not clear to me that we have firm public support behind further liberalisation. The Minister for Trade and our own portfolio minister, Mr Anderson, are finding this out increasingly as they tour Australia. It is a very difficult environment in rural Australia at the moment to ensure support behind trade liberalisation, whether it is APEC or WTO or wherever.

It is very important that we put every effort we can into achieving some early gains. If all we are holding out there is the ultimate liberalisation in 2010 or 2020 then it is going to be very difficult to maintain public interest and support and to convince them that the APEC process, which started off a few years ago with quite a big public furore in one way or another, will be beneficial.

I should have also mentioned that not only is it the trade and investment liberalisation next century that is important but there is a very strong focus in APEC on trade facilitation work. The idea there is to focus and get concrete results on very real impediments to doing business in the APEC region. The sorts of things that are going on in the facilitation area should not be forgotten. They will be quite important also to maintaining strong near-term business interest in what is going on there.

CHAIR—I will come to the facilitation in a moment. One issue that does concern me and a couple of my colleagues is that there seems to be nothing that can be translated into simple terms for the average person in the street to understand. If I can go one step above that, there are the people involved in the business community; and in this case you have identified the primary producers, the farmers and so on. I would imagine there are a large number of those people who, again, do not understand the benefits of APEC. When you go to the next level up, the leaders of industry organisations clearly have an understanding of what APEC is about and, of course, on that same plane are people such as yourselves in various government departments, as well as government itself.

What I am concerned about are the gaps that exist and the bridging of those gaps. As you have clearly identified, without support the process is going to be difficult—let alone imposing the other problems that trade liberalisation and facilitation are going to face, such as whether APEC is going to be the poor cousin to the WTO. Just on that purely domestic front, how does one keep up the support and the momentum that seem to be needed to convince the public that something really is happening that is benefiting them?

Dr Gebbie—There has been quite a lot of effort put into this and, as I indicated, not entirely successfully. To date, there has been quite a bit of economic data published,

which attempts to show the benefits of trade liberalisation. The government has been quite active in various contexts in trying to do the same thing. This is not in a specific APEC context but rather trade liberalisation in general, whether that be APEC, WTO or bilateral trade gains. There have been attempts to consolidate the gains that have been made through trade liberalisation in recent years and to show what that is worth in terms of dollars and jobs. Again I say that there is a lot more that needs to be done in this area, and I think our ministers would say that they have not yet won this battle in rural Australia.

CHAIR—Who is actually responsible for the education process, in your view? Is it the business community, government, your department or a combination of all those?

Dr Gebbie—I think it is a combination.

CHAIR—Who should coordinate it, then?

Dr Gebbie—That is a good question. I am aware certainly that the minister is putting a lot of effort into trying to encourage our successful export industries to do a lot more work in rural Australia in putting across the message that trade liberalisation means improved living standards and jobs. Industry has been basically accepting of this, although I think they would admit that they have a long way to go as well. Some of the things are not apparent. If you take our wheat exports, generally the wheat is grown in some area of rural Australia. If it is being exported, as most of it is, it then goes off to a single export agency—the Wheat Board—and the grower and the population in the area of regional Australia where it was grown do not know what happens to it.

There has been some talk of putting effort into going back to the production area and trying to do more there to show exactly what happens to that wheat: does it go to Indonesia, Japan, China or wherever? In this way, it will hopefully demonstrate not only the gains from trade liberalisation but also the importance of the Asian region and, indeed, the APEC region to our exports of a particular commodity.

That sort of concept has been raised with the grains industry and also the dairy industry which I know is looking closely at that. I have heard Mr Fischer suggest that every wheat silo in rural Australia should have written on it where that wheat goes in terms of its ultimate destination so that the people in that local area realise the importance of the exports and the end destinations in the APEC region. They are some of the fairly novel ideas to try to overcome the problems you are talking about.

CHAIR—I think if you went out and asked the average Australian about APEC they would ask you to stop swearing at them. I do not know whether that is necessarily a good thing or a bad thing. Some may have a well-founded view that APEC has no value. Others who are informed may see APEC as being of some real consequence for our society. Can you comment briefly on the issue of facilitation and what is happening at the

APEC level in terms of the liberalisation of facilitation? Facilitation is one of the real barriers that exists in our export industries.

Mr Thieme—In terms of facilitation there is an ongoing program in a number of areas. A number of working groups are working on that at the moment. The customs group is one. The standards and conformance subcommittee is another area. There is also a group looking at tariff related databases. Business travel is another area that has been in the news. They are four areas of facilitation which are not product specific but basically tend to improve the operating environment for industry. For example, the tariff database that is now on the Internet is the first time that there has been a compilation of all the applied tariff rates for all the APEC economies in one spot and in English. Business can access that free of charge. In that sense it increases the transparency in the business environment and reduces transaction costs. Customs arrangements are going into electronic data exchange and things like that. You would have to talk to the customs people to see exactly what they are doing. Again, it reduces the transaction costs.

CHAIR—Are you people directly involved in these groups or do you liaise with another department which is involved seeing they take on a broader range of issues?

Mr Thieme—We liaise with another department on those issues.

CHAIR—One issue that goes beyond the tariffs and also beyond facilitation is the issue of quarantine. I would imagine that that is going to be the real non-tariff barrier of the future. Whilst we are accused of using quarantine as a means of restricting entry into our marketplace, I would imagine that there are going to be other countries out there in the APEC group that use that argument as well. How do we not see the abuse of quarantine because, from some of the evidence I have had presented to me on some issues in the primary industries area, there seems to be quite legitimate quarantine reasons for not opening up your marketplace? How is this problem resolved in forums like APEC? I presume it is not only a problem in APEC but also a problem in other multilateral areas as well.

Dr Gebbie—You are right there. Particularly during the transition phase in the Uruguay Round implementation, technical barriers to trade such as quarantine are really looming as very significant in terms of impediments to our trade. These are being addressed in APEC, but I would have to say that it is early days. There is a quarantine element in the agricultural technical cooperation experts group. We have also negotiated a mutual recognition agreement or an umbrella MRA on conformity assessment of food products within APEC.

One of the problems in not advancing as fast and as far as we would have hoped here is the new WTO Sanitary and Phytosanitary agreement. It has been in force only since 1995 and we are still coming to grips in many ways with its effective operation. Countries in the APEC region are learning progressively what it all means and what their

obligations under that agreement will be. The agreement has a good many concepts in it which are not clearly defined and which will probably have to be defined through WTO legal dispute settlement panel processes over time. The lack of clarity and understanding of the SPS agreement are certainly a barrier to advancing as fast as we would wish in the APEC context.

One of the things that is working well is gaining greater transparency in what does exist in the various economies, gaining greater confidence in the regulatory arrangements that operate, and again progressively moving more towards harmonisation of the way SPS issues are handled throughout the APEC region.

As I said, I would summarise by saying it is early days. However, you are right, it is a very important area and we will be giving that a lot of attention in APEC in the days ahead.

CHAIR—I am going to have to terminate this by 12.30 p.m. so if I can get a very brief answer to my next question, I would appreciate it. In respect of value adding, it seems to me from reading your submission that as tariff barriers are dismantled with our trading partners there is a real opportunity for us, rather than exporting the raw material, to value add and thereby gain a further advantage which otherwise would not have been there for us. Is that a reasonable interpretation to place on what you have put in your submission?

Mr Roberts—To the extent that we have a comparative advantage in those industries then we will tend towards the processing of those products. It does depend very much on us being able to keep ahead of the game in terms of our ability to process the products and to add the value itself.

CHAIR—What are we doing to promote value adding because this will be something that comes on line downstream a bit?

Dr Gebbie—We have worked to get the domestic economic circumstances right. Micro-economic reform is going to be increasingly important. We have to keep the pace of micro-economic reform domestically in line with what is going on in terms of market access opportunities abroad because otherwise we will not have the international competitiveness to exploit those market opportunities overseas if we do not do that.

One thing that is very important in APEC is the tariff escalation issue in that while in the Uruguay Round we made a good start in getting the barriers on unprocessed agricultural products down, in general in Asia there remain quite high barriers to our processed foods. That is an area which has to be addressed either through APEC or the next WTO negotiations. The only other alternative would be to locate and invest in Asia behind the barriers, but we would hope to maintain as much of that investment as possible within Australia. The first preference there would be to get the barriers down.

CHAIR—Dr Gebbie, I thank you and your officers for attending the inquiry. Unfortunately, we have run out of time. Undoubtedly there are a lot more issues that could have been pursued but so that we are not in breach of our rules I adjourn these proceedings.

Committee adjourned at 12.30 p.m.