



COMMONWEALTH OF AUSTRALIA

# SENATE

## Official Committee Hansard

**FOREIGN AFFAIRS, DEFENCE AND TRADE REFERENCES  
COMMITTEE**

**Reference: Australia in relation to Asia Pacific economic cooperation (APEC)**

**THURSDAY, 5 FEBRUARY 1998**

**MELBOURNE**

BY AUTHORITY OF THE SENATE  
CANBERRA 1997

**INTERNET**

The Proof and Official Hansards of the Senate and the House of Representatives debates, and the Proof and Official Hansards of committee hearings are available on the Internet

**<http://www.aph.gov.au/hansard>**



## SENATE

Thursday, 5 February 1998

### FOREIGN AFFAIRS, DEFENCE AND TRADE REFERENCES COMMITTEE

**Members:** Senator Hogg (*Chair*), Senator Cook, Senator Eggleston, Senator Lightfoot, Senator Sandy Macdonald, Senator Quirke, Senator West, Senator Woodley

**Participating members:** Senator Abetz, Senator Bolkus, Senator Brown, Senator Brownhill, Senator Calvert, Senator Chapman, Senator Colston, Senator Faulkner, Senator Harradine, Senator Margetts, Senator Schacht

**Senators attending the hearing:** Senator Hogg, Senator Lightfoot and Senator Sandy Macdonald

Matter referred by the Senate 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

<b>BRYCE, Mr Robert McKinnon, Plastics and Chemicals Industries Association, Level 4, 380 St Kilda Road, Melbourne, Victoria</b>	<b>557</b>
<b>DEWAN, Mr Timothy, Regional Manager Marketing for South East Asia, Australian Wheat Board, 528 Lonsdale Street, Melbourne, Victoria 3000</b>	<b>523</b>
<b>ELEK, Dr Andrew, 240 Tinderbox Road, Tinderbox, Tasmania 7054</b>	<b>573</b>
<b>FORAN, Mr Matthew Brian, Government Relations Adviser, Australian Wheat Board, 528 Lonsdale Street, Melbourne, Victoria 3000</b>	<b>523</b>
<b>HARCOURT, Mr Tim, Research Officer, Australian Council of Trade Unions, 393 Swanston Street, Melbourne, Victoria 3000</b>	<b>546</b>
<b>McALLEN, Mr Bruce James, Plastics and Chemicals Industries Association, Level 4, 380 St Kilda Road, Melbourne, Victoria</b>	<b>557</b>

**Committee met at 9.38 a.m.**

**FORAN, Mr Matthew Brian, Government Relations Adviser, Australian Wheat Board, 528 Lonsdale Street, Melbourne, Victoria 3000**

**DEWAN, Mr Timothy, Regional Manager Marketing for South East Asia, Australian Wheat Board, 528 Lonsdale Street, Melbourne, Victoria 3000**

**CHAIR**—I declare open this public meeting of the Senate Foreign Affairs, Defence and Trade References Committee, which is inquiring into the matter of Australia and APEC and welcome the representatives from the Australian Wheat Board 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 Australian Wheat Board dated August 1997. Are there any alterations or additions you would like to make to the submission at this stage?

**Mr Foran**—No.

**CHAIR**—The committee has already made the submission a public document. Further, I would request that at the end of the session, if you would remain behind briefly so that the Hansard officer can verify details and information provided to the hearing, so that we have a correct record of the proceedings, we would appreciate that.

Thank you for your cooperation in bringing your time slot forward to assist us with the conduct of the business today. I now invite you to make an opening statement and then we will proceed to questions.

**Mr Dewan**—Thank you, Mr Chairman. I think it is probably appropriate to give a few opening remarks on the Australian wheat industry and its importance to Australia as a whole.

On average Australian wheat exports are worth in excess of A\$3 billion to Australia on an annual basis. That can vary quite dramatically, given the nature of the industry we are in, being agriculture. We are reliant on the environment and weather conditions as to whether we have a big crop or little crop. For example, last year we had the biggest crop on record, where we had a crop size of 23 million tonnes, and this year we had a crop size of 19 million tonnes so it can vary quite significantly. Last year the revenue from the Australian wheat crop was in excess of \$A4 billion.

The APEC region is one of our major regions which we export into. That region accounts for probably more than 30 per cent of the world trade of wheat and in excess of 50 per cent in a typical year of the Australian wheat trade and exports. So it is very significant to us, given the nature of the players in the APEC region.

You have the biggest wheat producers in the world in that region, also the biggest wheat importers, namely China, being the biggest producer in the world and also the biggest wheat

importer in the world. You have Canada and the US, who are typically big players in terms of their production and their exports.

The region is of high significance to us because it comprises a number of the higher premium markets where greater emphasis is placed on quality and improved quality attributes of the wheat that is coming out of Australia, which is certainly a marketing advantage that we have, given the quality attributes of Australian wheat and the importance that is placed on that by many of the customers in that region, so certainly greater premiums can be achieved in that region.

By way of background on the markets, probably the No. 1 market in that region for Australia is Indonesia, followed by Japan, China, Malaysia and the Republic of Korea. The AWB is a strong supporter of the APEC initiatives. We are certainly in favour of having the liberalisation of international trade in agricultural commodities and products.

We have a number of criterion and objectives that we would like to comment upon, the first of these being that we are certainly in favour of seeing an objective to have more free and open trade, whereby we can trade into countries without any disadvantage to anyone else. The AWB is confident that we have a product, we have the grain quality, to meet any requirements within the markets and it should not be a hindrance to our role in trading grain in the region. We are certainly a major player today within the APEC region. Fifty per cent of our export production is going into that region and we certainly plan to be in there for the long-term.

We are of the view that it is important that agricultural trade policy be given equal priority, in terms of any reforms, in relation to the manufacturing and other services.

With regard to the WTO momentum, the AWB markets into many wheat areas where we do not necessarily see free and open trade. There has long been the use of subsidies, both by the Europeans and the US in terms of the form of their EEP. They have not been used for the last couple of years, but the ability to use those subsidies is still available in the US, and the Europeans are still using it in small amounts, but not in any markets that have an impact on Australia.

At the same time, we believe that there should be momentum to be removing any of these distorting mechanisms, principally these subsidised sales. So any momentum through APEC in terms of maintaining a position for the removal of the subsidies is certainly a favourable position for us.

The question of market access and trade barriers in terms of the wheat industry is not as critical for us. It is not something that we face on a regular basis, whereby we are disadvantaged into any of the APEC countries, but it is still certainly more of importance in terms of some of the downstream processing, where there can be some barriers that would hinder potential growth in the downstream processing of wheat products that would enable us to have a greater share of premium markets and capture greater premiums. As I said, we are strongly in support of the inclusion of food in the liberalisation.

Another issue is that since the last round of the GATT agreement, the US in its Farm Bill has been talking of bringing in the issue of state trading enterprises and their role in terms of the GATT rounds, and they are certainly making it a higher agenda for the US. They certainly have the view that we have a lack of transparency, that we are a trade distortion from the US perspective. It is believed that this may have an impact on where the APEC committee is working.

Certainly the AWB regards itself as being a totally commercial organisation, with zero assistance from government or funding from the Australian government. A lot of the allegations put to us by the US in terms of the STEs and the monopolies that we have we feel are unjustified, with the view that the APEC agenda should not be sidetracked by the US in terms of the state trading enterprises. With that, I might stop, if anyone has any questions.

**CHAIR**—Do you wish to make a statement, Mr Foran?

**Mr Foran**—No.

**Senator SANDY MACDONALD**—In relation to the single desk that you enjoy, and no doubt all political parties in Australia would support, and I know that may change in the next few years, is that one of the criticisms that the Americans weekly try and accuse you of and say that that gives you an unfair trading advantage?

**Mr Dewan**—That is one of the issues they bring up, yes, that we do have that monopoly, so that we are in a position that if we want to come in and take market share, we do that, and reduce our growers' returns. They also have the view that there are some sort of support mechanisms there, although they have never been able to identify them. It is probably true that there are more concerns about other state trading enterprises than the AWB; we just happen to be caught up in that overall grouping of STEs.

**Senator SANDY MACDONALD**—Are you able to give a ballpark figure of the US dollar per tonne advantage of your single desk status?

**Mr Dewan**—Under the last review, I think it was about \$2-something. It was identified in the last industry review into the organisation.

**Senator SANDY MACDONALD**—As low as \$2?

**Mr Dewan**—Yes, \$US2. We would probably argue that it is probably more like somewhere between \$5 to \$7. But that was what came out of the industry review.

**Senator SANDY MACDONALD**—I have heard figures much higher than that. I suppose it is like asking how long is a piece of rope, but if you are trying to promote the advantage of the single desk to Australian producers, then I have heard figures of \$20 to \$25 a tonne. It is not that high?

**Mr Dewan**—I would not agree with \$20 to \$25. I think \$5 to \$7 as a whole would be closer to the mark, and that is US dollars so you are talking in the order of \$A10 at the moment.

**Senator SANDY MACDONALD**—You said that China was your third largest market.

**Mr Dewan**—Yes.

**Senator SANDY MACDONALD**—Which is your oldest market?

**Mr Dewan**—China would have to be in there. Indonesia we would have been in for in excess of 20 years and Malaysia and Singapore for well over 30 years in some of those flour mills.

**Senator SANDY MACDONALD**—I think China probably is your oldest market, I think you have exported there since 1949 and have consistently sold to them.

**Mr Dewan**—We consistently sell to China, although China, being the biggest wheat producer, can also at times be the biggest wheat importer. We have not sold any significant tonnage into China for three years now.

**Senator SANDY MACDONALD**—You say China is not only potentially the biggest producer, it is the world's biggest importer of wheat?

**Mr Dewan**—That is right.

**Senator SANDY MACDONALD**—Does it dwarf the Canadians and the Americans?

**Mr Dewan**—Yes. China for the last couple of years has produced in excess of 110 million tonnes of wheat. Australia this year has produced 19 million tonnes, Canada is about 24 million tonnes and the US is around the 60 to 65 million tonnes mark.

**Senator SANDY MACDONALD**—Does the AWB play any role in technical assistance in growing that crop and processing it?

**Mr Dewan**—Not so much in the growing side; that is more left to the department of agriculture in terms of the strict agronomic characteristics. We have an involvement in terms of giving the market signals back to the farming community in Australia: what does the market want in terms of the quality characteristics of the grain to meet the end products? We have a strong role in giving direction to the industry there.

At the same time, we have a lot of technical assistance that we offer to customers in terms of processing, flour milling and how to get the best advantages out of Australian wheat.

**Senator SANDY MACDONALD**—When you export into China do you face any tariff imposts?

**Mr Dewan**—None that are any more prohibitive than any other importer.

**Senator SANDY MACDONALD**—It just seems to me that for a couple of reasons our markets in APEC in terms of wheat generally do not produce wheat. If they do not produce wheat, obviously food is necessary and they have to have it; therefore they do not require any tariff protection for their own industries. If they do produce wheat, when they do import it, obviously, because very often they are not free market economies like China, they are going to want it at the time that they want it. Therefore, they will probably keep you happy in years when they do not necessarily want to import because they may have a problem the next year or the year after.

I can understand that, but I think you made the point that while you do not have a level of trade barrier that upsets you, in downstream processing there are barriers which affect you. Do they directly affect you or affect Australian companies which wish to export into those markets?

**Mr Dewan**—They would potentially have an impact on other companies wanting to export into places such as China. I cannot give you examples but there are certainly ones I have heard of at times where there are hindrances to getting products into some countries.

**Senator SANDY MACDONALD**—Matthew, can I ask you a final question. In terms of the advantage of trade liberalisation to the Australian farmer, I think generally that is a section of the community that does very much understand the advantages of it. Does the AWB play a part in promoting that cause and does it play a part in educating the rest of the community about the advantages of trade liberalisation to the Australian economy as a whole?

**Mr Foran**—Absolutely, on your first point. It does play a role as an active participant, in partnership with government in terms of pushing the concepts of free trade and trade liberalisation; hence why we are here today.

In terms of educating the general public or the farming community, I guess it does, possibly not to the extent or degree that it should. I agree that there is probably real advantage in making farmers aware of the fact that the product that they grow on the farm, that they drop in the silo, they should not be forgetting about it at the silo, that it does go into export markets.

For instance, 80 per cent of wheat goes into export markets, so they should be aware of the trade barriers that we face, tariff or non-tariff, and also the barriers that downstream manufacturers, not just in Australia but perhaps in wheat export markets that we have, are having getting into other countries as well.

**Senator LIGHTFOOT**—What is the exposure, if any, by the Wheat Board to those economies that are having some fiscal problems at the moment?

**Mr Dewan**—In terms of financial exposure, very little.

**Senator LIGHTFOOT**—What does very little mean?

**Mr Dewan**—Negligible.

**Senator LIGHTFOOT**—Negligible?

**Mr Dewan**—It is effectively less than A\$1 million currently that we would face, and that is also being addressed and it will be wound down. The majority of our business is fully covered. If we have credit packages they are 100 per cent insured. At the moment the balance of the other is cash against documents or prepayment.

**Senator LIGHTFOOT**—Are there any sovereign guarantees?

**Mr Dewan**—No sovereign guarantees at this stage; the majority of them are basically company guarantees, in terms of the APEC region. That is not to say in the future that may not change; there are obviously a lot of concerns at the moment in terms of the changing environment in South-East Asia.

**Senator LIGHTFOOT**—What is the potential exposure then?

**Mr Dewan**—The potential problem we face is more loss of market share. If we are unable to compete—

**Senator LIGHTFOOT**—By the United States?

**Mr Dewan**—Principally, yes, and also the Canadians.

**Senator LIGHTFOOT**—Why do you say that?

**Mr Dewan**—In terms of US GSM packages, at the moment they have a US\$1 billion package for South Korea and they have in excess of a US\$1 billion package for South-East Asia in terms of their GSM 102 and 103 programs. Again, it is subject to the individual country and also the company within the country as to the interest rates that the US will charge and also the terms of the credit packages.

From our understanding at the moment, in terms of the AWB getting commercial credit packages, we can get access to some commercial credit packages for different countries and companies, but we are certainly far from competitive versus the US GSM packages.

**Senator LIGHTFOOT**—These are packages that are supported by the United States?

**Mr Dewan**—Correct. They are US government packages, yes. If you take the example of Indonesia, they have a US\$410 million package over two years credit. Our understanding is that the interest rates on that are very low.

**Senator LIGHTFOOT**—What does very low mean? What is the figure?

**Mr Dewan**—We would probably be in the vicinity of one to 1.5 per cent above LIBOR out of what the US are prepared to offer.

**Senator LIGHTFOOT**—So that is a one to 1.5 per cent margin on LIBOR?

**Mr Dewan**—No, GSM is a margin over LIBOR and then we are 1.5 per cent higher than that. That is the best we can get at the moment.

**Senator LIGHTFOOT**—Where does that rate come from?

**Mr Dewan**—Commercial banks.

**Senator LIGHTFOOT**—It is a commercial rate?

**Mr Dewan**—Yes.

**Senator LIGHTFOOT**—Predominantly from?

**Mr Dewan**—Some banks in Australia and also overseas banks.

**Senator LIGHTFOOT**—A consortium of banks?

**Mr Dewan**—A consortium of banks, yes.

**Senator LIGHTFOOT**—Are they Australian domiciled banks?

**Mr Dewan**—Not all of them, no.

**Senator LIGHTFOOT**—Are they predominantly Australian domiciled banks?

**Mr Dewan**—No.

**Senator LIGHTFOOT**—Are they happy with that exposure?

**Mr Dewan**—At this stage, yes. But that has not been accepted by the buyers in Indonesia; it is certainly in a state of flux. In terms of the IMF packages there, in terms of the deregulation of the wheat industry there, in terms of the distribution of the flour side, there have been monopolies for many years. The last IMF package in the middle of January effectively gave them a bit over a two-week period to throw the industry into total turmoil and go from one of government control to one of total deregulation. That has not happened yet. It will happen in the future but they are trying to work through how that system will change.

Where we face problems is in terms of not being competitive on the credit ratings. Let us look at a market such as the US. They had less than 100,000 tonnes of business into Indonesia last year so they certainly have not been in a position to have a major share in the Indonesian market. They have certainly threatened with the EEP for many years but that has been fought off by Australia and other parties into that market. The Indonesian market has also had GSM credit available previously but, given their current crisis, they are in need of that credit and certainly the whole industry will be deregulated. So that is where we face

significant threats from both the Canadians and the Americans that we will lose market share.

**Senator LIGHTFOOT**—Given that the Australian Wheat Board, at least to f.o.b. level—or right up to f.o.b. level—is the most efficient in the world, where is the disquiet coming from within the Wheat Board itself? Is it as a result of potential exposure or is it more inclined to be with respect to market share loss?

**Mr Dewan**—In terms of the current Asian crisis?

**Senator LIGHTFOOT**—Yes.

**Mr Dewan**—It would be more in terms of market share loss in the longer term.

**Senator LIGHTFOOT**—Have you any firm indication that you are imminently losing or about to lose market share?

**Mr Dewan**—The firm indications are coming from some of the buyers, in particular Indonesia, which is No. 1 within that region, who are saying that they will be forced to use GSM within the next three months.

**Senator LIGHTFOOT**—To what degree?

**Mr Dewan**—That is up to them to determine at this stage. With a \$400 million package potentially available for them, that is a sizeable chunk of the wheat that they could switch back to the US.

**Senator LIGHTFOOT**—Is the Wheat Board considering applying or has it applied for wheat export guarantees?

**Mr Dewan**—Not as yet, because we have the commercial facility expression of interest from this consortium of banks that is currently available.

**Senator LIGHTFOOT**—Is that something you take as a matter of course?

**Mr Dewan**—We will try that route first.

**Senator LIGHTFOOT**—Do you take that as a matter of course?

**Mr Dewan**—No.

**Senator LIGHTFOOT**—You do not?

**Mr Dewan**—No.

**Senator LIGHTFOOT**—It is only in these times where they have become manifestly risky that you take insurance?

**Mr Dewan**—No. We are generally risk averse in terms of credit packages. If we were to supply credit to a market we would normally have those 100 per cent insured through commercial channels. If we are not able to get commercial coverage, that is when we would apply to EFIC effectively.

**Senator LIGHTFOOT**—You do not expect any problems with respect to that?

**Mr Dewan**—A lot of the time the commercial sector will also back off. With EFIC, that is what the commercial sector is doing. At the moment there are a lot of discussions between the consortium of banks that have been having discussions with us and the buyers in Indonesia, but also with EFIC, so it may be a combination between the two. At this stage we have not applied to EFIC for Indonesia.

**Senator LIGHTFOOT**—In your opinion does the Australian Wheat Board go right up to the edge of APEC's commitment to conformity with the WTO?

**Mr Dewan**—I believe so, yes.

**Senator LIGHTFOOT**—It goes right up to the edge; it does not go beyond that?

**Mr Dewan**—Would you like to comment further on that, Matthew?

**Senator LIGHTFOOT**—It is a nebulous question but perhaps you could give me a nebulous answer.

**Mr Foran**—I am not sure that it is a case of either going up to the edge or slotting in behind. As far as the Wheat Board is concerned, as Tim outlined in his opening remarks, we are very confident of our product, we are very confident of the relationship we have with our clients in the APEC region and outside it, we can provide them with the right product to their exacting needs.

As a consequence, it is quite obvious that we would want to see trade done on an equal footing without any trade distorting measures in there, because we think on a level playing field we can beat the competition.

We are very supportive of the APEC process, we are very supportive of trade liberalisation under the WTO, and I guess we would welcome any trade liberalisation measures. It is not just an issue of going up to the APEC level or up to the WTO level.

**Senator SANDY MACDONALD**—You mentioned that obviously in normal commercial practice you cover your exposure always if you are providing credit, and then you said that if it was not available commercially you would then go to EFIC. I thought EFIC was used all the time.

**Mr Dewan**—No.

**Senator SANDY MACDONALD**—Why is it not used all the time?

**Mr Dewan**—It depends on the rates that are available. At times, subject to the country you go into, you may get more favourable rates out of the commercial sector than out of EFIC. At this stage, with the Prime Minister's announcement yesterday, we do not know what the current implications are. Obviously it is a very favourable and positive response for us, but we do not know the details of the credit package that is available from government. That may not be as favourable as the commercial sector is able to offer, so it is really taking the best possible package that is available and which is the most suitable and competitive into the marketplace.

At the same time we will be competing against the Canadians and Americans doing the same thing—offering the most competitive package for the buyer.

**Senator SANDY MACDONALD**—You mentioned that the largest market we have in APEC is Indonesia, and I guess it is probably the tiger economy that has been most affected by the meltdown.

**Mr Foran**—Yes.

**Senator SANDY MACDONALD**—Can you give some indication as to how your market has grown there over the last decade?

**Mr Dewan**—If we go back four or five years, about 800,000 to 900,000 tonnes of Australian wheat was exported into Indonesia. In the last 12 months we exported just under 2.5 million tonnes. Indonesia has been growing at approximately five to 10 per cent, compound growth, per year in terms of its demand. It has the biggest flour milling complex in the world and has new flour mills being built. Another one has had its first cargo of Australian wheat commissioned, which is sailing up there as we speak, so the market has been growing tremendously over the last 10 years. A lot of the estimates were that, by early 2000, it could be importing in excess six million tonnes per year.

**Senator SANDY MACDONALD**—From Australia?

**Mr Dewan**—Not necessarily from Australia—worldwide. If we maintain our current market share in that, that would be in excess of three to 3.5 million tonnes.

**Senator SANDY MACDONALD**—Could you educate me a little as to why it is that when people's standard of living increases they use more wheat? What food is it that they eat? What is the substitution that grain provides to their previous diet?

**Mr Dewan**—Predominantly, in places like Indonesia, it is going out of a rice based diet, which is still their major staple, but it is also going to more Western style foods such as buns, in places like McDonald's and all the fast food chains, and they have quite a high requirement for flour. You get an increase in things like biscuits, all the different breads.

So it is a swing from having rice three meals a day to substituting with bread for a meal, eating more snacks of biscuits. Those who can afford it will also have the high value cakes. You see a lot of Danish pastries and those sorts of things in a lot of these countries now, with the growing middle class and upper class in a lot of places. Whilst it may be small

percentage wise, in terms of an Indonesian population of 200 million people, it is still a very large chunk of the population that can afford to buy the higher value luxury goods.

But it is true to say also a lot of those will be the ones who will be in decline in terms of the current crisis. A lot of people will probably tighten their belt that one notch and turn away from a lot of those.

**Senator SANDY MACDONALD**—How long since you have been to Indonesia?

**Mr Dewan**—Six weeks.

**Senator SANDY MACDONALD**—What do your on the ground intelligence, the people that you speak to there, say about the economic fallout?

**Mr Dewan**—It is very much subject to who you talk to. Everyone has a differing opinion. I suppose, Indonesia being the worst hit, the majority of the buyers that we talk to and other industry players up there believe that it will take another couple of years to sort itself out. They all have their own views as to why, whether it be the president's family, whether it has been corruption, mismanagement of the country—everyone has their differing views and opinions, but I think most of them are of the view that it will take several years to stabilise.

It is true to say at the moment we are seeing no major impact in terms of demand on our product, because wheat is probably a fair staple there, and whilst we will see a decline in demand for breads, high value breads and pastries and cakes, for cheaper products such as instant noodles, the demand is going up rapidly. People can swing out of the higher cost goods down into the lower cost goods, and instant noodles is one of those.

**Senator SANDY MACDONALD**—Do you have, with an established market like Indonesia, taking 2.5 million tonnes a year, a seasonal pattern to your exports, or when you have an agreement with a number of importers in a country, are they taking shipments every month?

**Mr Dewan**—Constantly. We are constantly shipping in excess of about 180,000 tonnes per month to Indonesia.

**Senator SANDY MACDONALD**—Month in, month out?

**Mr Dewan**—Yes. There will be some cyclic trends, where they may increase by one or two shipments in a month. For example, at the moment, in the lead-up to Ramadan, you will see a build-up of flour stocks. Back in the last quarter of 1997 we saw it start to peak there. It drops off a little bit and then it goes along its merry way.

**Senator SANDY MACDONALD**—Where is that going from? Is that being shipped from Newcastle?

**Mr Dewan**—All over Australia. Predominantly there would be 50 per cent, perhaps a little more, out of Western Australia, and then the balance from New South Wales, some from Queensland, a little bit from Victoria.

**Senator SANDY MACDONALD**—What is your average size dump of bulk carrier?

**Mr Dewan**—The minimum into Indonesia is a 32,000 tonne shipment.

**Senator SANDY MACDONALD**—So eight or 10 ships a month are going out to Indonesia carrying wheat?

**Mr Dewan**—Yes. They have their own fleet of vessels which actually just ply up and back.

**Senator SANDY MACDONALD**—Who is ‘they’?

**Mr Dewan**—The group which is the biggest flour group in Indonesia have their own vessels; they just ply the waters up and back. They sail down empty, they load; predominantly they will do west coast loads; sailing time is about seven days. So again that puts us in a very good position, even with the current economic crisis. It means with the short sailing time, short turnaround times, for them it is shorter financing time, shorter sailing times, it has implications for just-in-time inventories, so we are in a good position to satisfy the customer’s needs there. Also in this current economic crisis it puts us on a better footing.

**Senator SANDY MACDONALD**—You said that it was the No. 1 market.

**Mr Dewan**—Yes.

**Senator SANDY MACDONALD**—Would you describe the relationship that you have with them as our best relationship with any of those four countries?

**Mr Dewan**—I would not necessarily say the best. Probably one of the things we do pride ourselves on is very much a relationship style of marketing. I suppose the most difficult one would have to be the Chinese, where it is the government that is buying. But within Indonesia we have excellent relationships with the mills who are the ones who dictate—even though it had been the government buying, they were the ones who dictated to the government what to buy, and that has certainly been in our favour, in terms of the mills saying, ‘We need X amount of Australian wheat.’

**Senator SANDY MACDONALD**—I think you are absolutely right, because at the end of the day you can have trade rules and you can have trade undertakings and you can have bilateral or regional undertakings, but the reason that people trade with you is because they like you. They might need you, but at the end of the day, if there is a favour to be given, they will give it to you if they like you, and it is very important to have a human face to your marketing.

**Mr Dewan**—Yes.

**Senator SANDY MACDONALD**—Thank you.

**Senator LIGHTFOOT**—I want to ask you several questions about potential exports. With India, which is fast approaching one billion people and by today's statistics is expected to pass China, it seems odd that, given its proximity to Australia, it is not figuring in the first five export countries with respect to our wheat. Why is that?

**Mr Dewan**—India is not in the table. If you were to take India last year, it was certainly up in the top five. It is subject to the region that the table has been prepared on. There are other bigger markets as well, but this is purely of the APEC region. India, a bit like China, is one of the major producers in the world, but 99 per cent of the time for domestic consumption, given the size of the population there. India produces typically somewhere between 65 million and 68 million tonnes of wheat, again far surpassing—

**Senator LIGHTFOOT**—Are they big per capita consumers of wheat?

**Mr Dewan**—Yes.

**Senator LIGHTFOOT**—When you say that, who do they compare with in terms of per capita consumption; more or less than China?

**Mr Dewan**—I think they would probably be less than China, but not by a great deal.

**Senator LIGHTFOOT**—So they produce about the same amount of wheat on an annual basis as China?

**Mr Dewan**—No, China would be not quite double.

**Senator LIGHTFOOT**—I meant to say the United States.

**Mr Dewan**—Yes, similar size. We exported—and we have the last of those shipments loading at the moment—over the last 14 months just under 2.4 million tonnes of wheat to India. I think India will for the longer term be a more reliable market in terms of its import requirement.

If we go back in history, 18 months ago India was exporting wheat in direct competition to us because they had surplus to their own domestic requirements; they were exporting wheat into a lot of the South-East Asian countries. Eight months later we had a contract with them to import 1.5 million tonnes. So they are potential swingers in that regard, subject to their own domestic crop.

Longer term, I think there are certainly a lot of opportunities with the Indian market, but it is subject to their own domestic shortfall. But we would expect, with their growth in population and some of the predictions of their population growth that we see, together with urbanisation and lack of land available, that they will become long-term net importers of wheat.

**Senator LIGHTFOOT**—In terms of your forward market plan, is there a strong correlation between the increased standard of living in some of the Third World and less developed countries and the increase in the per capita consumption of wheat—that is, a shift away from their usual staple, perhaps not significant initially, into the more refined products that wheat produces?

**Mr Dewan**—Clearly there is in a vast number of countries. I suppose it is true to say that, going back 20 years in the wheat industry we were basically a commodity exporter who exported a very undifferentiated product. Today our product—it is a bit like branding sand—we have specialised wheat to meet exacting customer requirements, such as very specialised wheat that is purpose grown for instant noodles. We have wheat that is grown for a whole range of different end products, again to meet that shift in consumer demand, going from a fairly average sort of product to quite a specialised and high quality good.

**Senator LIGHTFOOT**—What percentage of the national crop did Western Australia produce this year, roughly?

**Mr Dewan**—About 40 per cent.

**Senator LIGHTFOOT**—Is there a possibility of expanding the national crop? You have just said that as the standard of living increases in less developed countries, so their penchant for consumption of refined wheat product increases; where is the expansion of the national crop going to come from? Is it going to be as a result of expansion in terms of hectares plantings, is it going to be as a result of a greater harvest per hectare or is it both of those?

**Mr Dewan**—I would suggest it is probably more of the latter rather than the former, given the general feeling within the department of agriculture that the area of land really cannot be expanded that much more, because you are getting into marginal land that is a lot more variable in terms of its production ability. The greater advances will come in terms of yield per hectare, and that will be a combination of new varieties, greater disease resistance within the varieties and greater yield potential. Those will be the factors that will enable us to have a greater yield potential.

There has been a lot of talk about the GMOs—genetically modified organisms—which we are seeing in the US and there has been quite a bit of debate over the use of GMOs. Potentially that may be the only way longer term, through having these sorts of things, that will give us the breakthrough that will enable us to go from the current yields that we are experiencing today up to that next plateau of yield potential.

**Senator LIGHTFOOT**—Given that most of the national crop is exported, what part, if any, in a detrimental sense, does cabotage with respect to coastal shipping play?

**Mr Dewan**—I do not know the answer to that question.

**Senator LIGHTFOOT**—If you do not know, the answer is probably not much.

**Mr Dewan**—The only place I know it would have some impact is on shipments going across to New Zealand.

**Senator LIGHTFOOT**—But that is not a significant part of our exports?

**Mr Dewan**—No, it is not.

**Senator LIGHTFOOT**—What about the Webb Dock dispute, where do you see that going in terms of the Australian Wheat Board? Given that there is very little required of maritime union workers on wheat exports these days, how do you see that in three months or six months time?

**Mr Dewan**—Good question. I suppose it very much depends whether the dispute escalates; we may become involved and we may have a disruption to our shipping programs. Obviously that is not a position we would like to see.

It is true to say we have had a long relationship with the Maritime Union of Australia; we have a good relationship with them, but we have also had our problems with them in the past. We have seen significant improvements in recent years, going back to the WIRA reforms, five to seven years ago, in terms of the loading rates, the staffing rates, costs and turnaround times. We believe, in terms of loading on wheat vessels, they are probably, if not at world's best practice, not very far from it.

**Senator LIGHTFOOT**—How do we compare? Do we superimpose the United States or Canada?

**Mr Dewan**—United States, Canada, Argentina, Europe, yes.

**Senator LIGHTFOOT**—We are roughly equivalent on tonnes per hour per man or whatever it is called.

**Mr Dewan**—Yes. We believe we are very efficient and our costs in terms of the waterfront are very low. They have come down dramatically from what they were five years ago to what they were today, so they have come down significantly in that regard. Yes, there can be improvements made in terms of the waterfront—obviously that is positive—but we believe where we stand today we are already very good. Obviously we would hate to be drawn into the dispute because it would impact on, firstly, our reputation and, secondly, our ability to ship the crop that we are currently in major swing in full export mode on.

**Senator LIGHTFOOT**—I do not intend to draw you out on my next question because of the sensitivity of it, but do you have a sensitivity plan in the event of a national strike by the maritime union?

**Mr Dewan**—We do. The problem is, if you are caught, there is not a lot you can physically do about it in terms of getting grain to your customers. The critical thing for us at the moment is this. You asked some questions earlier about the Asian currency crisis, and we have seen the customers there change very much from having an inventory to having zero inventory to going to just-in-time management. Our reputation will be severely damaged if there is a problem. If a customer's vessel ends up being delayed in an Australian port for two or three weeks and he is expecting it, it will have a significant impact on our credibility and future business opportunities.

**Senator LIGHTFOOT**—To what degree, in terms of dollars or percentage or any way you like to express it, is the payment of subsidy, directly or indirectly, being made by the United States government to its exporters of wheat?

**Mr Dewan**—The main export subsidy they had been using was the US EEP.

**Senator LIGHTFOOT**—That acronym stands for?

**Mr Dewan**—Export enhancement program.

**Senator LIGHTFOOT**—That applies across a fairly wide cross-section, not just grain?

**Mr Dewan**—Correct. That has not been used since May 1995, I think that was the last time it was used.

**Senator LIGHTFOOT**—Why has it not been used?

**Mr Dewan**—Lack of need.

**Senator LIGHTFOOT**—Based on?

**Mr Dewan**—Current world prices, current market demand for US grain and also a reduction in the use of European subsidies by the EU.

**Senator LIGHTFOOT**—And the EU, where the North Americans say their compulsion to assist their grain growers comes from—that is, that the EU started the enhancement program—are they still using it?

**Mr Dewan**—They are still using it to a small degree. They are not pricing it so that it is forcing the Americans' hand and it is also not really touching on American markets, it is more in the European region that they are using the subsidies and the north African region.

**Senator LIGHTFOOT**—In relation to some of the more touchy areas of the world, because of political instability or because of the economic crisis or monetary crisis or the currency crisis—among them Iraq, Pakistan, Afghanistan—how do they figure in the attention that you give markets of that nature? The Iraq market is reasonably significant but it would not break the Wheat Board if you lost it.

**Mr Dewan**—No, it is true to say if we lost Iraq it would not break us, but it is certainly a significant market to the AWB and to Australian farmers. It is one that we have had excellent relationships with.

**Senator LIGHTFOOT**—Do you continue to have that relationship with them?

**Mr Dewan**—Yes, we do. We continue to have regular delegations going in there. Only during the Gulf War crisis did we stop shipments. Shipments resumed as soon as they physically could back to Iraq with quite a range of payment mechanisms. We now have regular sales of wheat to Iraq.

**Senator LIGHTFOOT**—Sanctions, of course, do not apply to them?

**Mr Dewan**—No, it is through the UN oil for food program and the tenders there.

**Senator LIGHTFOOT**—How is the Wheat Board paid?

**Mr Dewan**—By UN cash.

**Senator LIGHTFOOT**—In cash dollars?

**Mr Dewan**—Yes.

**Senator LIGHTFOOT**—The contract is in US dollars?

**Mr Dewan**—Yes.

**Senator LIGHTFOOT**—And contracts in Afghanistan and Pakistan?

**Mr Dewan**—Pakistan we sell to on a credit basis, and we have that insured through EFIC and also the commercial sector for the balance. Again it is US dollar sales. It is a tender process, so if we are successful in the tender we will make a sale; if not, we will go to the next one. Pakistan is quite a sizeable buyer in the region. Afghanistan is not, as a whole, a wheat importer.

**Senator LIGHTFOOT**—Given the big exports to Africa or the African content, apart from north Africa where you enjoy some modicum of export success, in relation to the sub-Saharan, what attention do you give that area, which has vast potential but has probably corresponding risks?

**Mr Dewan**—Not as much attention as we pay to the traditional markets. Certainly it is fair to say that we have dealings with some countries in there—probably more so in the last two to three years. We have been exporting in the sub-Saharan region, but we certainly do not pay as much attention to it.

It is also fair to say that, given the current market demand for Australian wheat, we do not have enough to go around. Last year, we exported the entire size of this year's crop; we had basically 4.5 million tonnes less exports this year than we had last year. If we had the same size crop, I would be quite confident that we would be able to place the vast majority of it. There is certainly a strong market demand for our grain, so in that regard we are probably in a bit more of a luxurious position where we can be a little bit more selective in terms of the markets we are supplying into.

**Senator LIGHTFOOT**—Given the three major trading blocs in the world, what one do you see as most important to your organisation?

**Mr Foran**—I presume you mean in terms of the European Union, APEC and NAFTA?

**Senator LIGHTFOOT**—Yes.

**Mr Foran**—I think quite clearly—I would not call APEC a trading bloc—that would be by far the most important region for us. We have seen the current financial difficulties in Asia. The only thing that is certain is that the outcome is uncertain, but it appears that it will be a short-term problem, although there may be considerable pain in that short term.

**Senator LIGHTFOOT**—Short-term problem with respect to?

**Mr Foran**—Basically to the economic crisis within those markets.

**Senator LIGHTFOOT**—Could you name those markets?

**Mr Foran**—I think it is fairly public, the Philippines, Malaysia, Indonesia, South Korea—

**Senator LIGHTFOOT**—Thailand is not a big importer of our wheat?

**Mr Dewan**—We export about 50 per cent of Thailand's import wheat demand, which last year was just over 300,000 tonnes.

**Senator LIGHTFOOT**—Where do they rank in Australian exports?

**Mr Dewan**—In the middle really. Outside of the top 10; probably in the top 20.

**Mr Foran**—I think the long-term fundamentals in that region are still quite good, given, as Tim said, urbanisation and changing dietary habits. One issue that we did not mention before was the shift towards more meat-based products which has an indirect impact on feed grain, so that also increases the demand for grains. I would think that region, in a direct sense, is probably the most important out of the three.

NAFTA and the European Union, I suppose, have the potential on the basis that they are our competitors, but in terms of actually selling into those markets, no, they would not rank anywhere near as high as APEC.

**Senator LIGHTFOOT**—If I could recap on some of what you said, are you saying that the currency crises in those nations you mentioned is short term? I think you said the Wheat Board's view is that it is short term.

**Mr Foran**—From what we can gather from what we have seen and what has been reported, it appears that it is going to be a short-term problem. As I said, there seems to be a fair bit of pain in that short-term period, but the fundamentals do point to a long term situation being much better.

**Senator LIGHTFOOT**—What would you like to see APEC do in order to assist you, if anything? Should it concentrate its efforts in another direction other than it is?

**Mr Foran**—No, I do not think so. As our submission states, a lot of APEC's focus has been on voluntary tariff reductions—on a voluntary basis, but harmonisation of standards and things like that. From our perspective, in terms of wheat sales, we would see APEC's most

important role would be in ensuring that there is standardisation or harmonisation of sanitary and phytosanitary standards, which make the process of exporting into these countries that much easier, so that there are agreed standards.

On a slightly more peripheral level, we should have tariff relativities, so that grains which compete directly with wheat at least are on the same level. That would be where we would see the main benefit from APEC.

**Senator LIGHTFOOT**—Have some countries put imposts, one way or another, on the export of our product?

**Mr Dewan**—Not in terms of a wheat exporter competing with another wheat exporter, no, but different grains certainly have different tariffs, subject to their own domestic industries, where they may be trying to protect a domestic industry.

**Senator LIGHTFOOT**—So you are quite satisfied that of the organisations represented in APEC and subject to World Trade Organisation regulations, that there is no breach of that which is detrimental to our wheat exports?

**Mr Foran**—I would not think so.

**Senator LIGHTFOOT**—I think that is all. Thank you, gentlemen; I very much appreciate your evidence.

**CHAIR**—Gentlemen, my colleagues have covered most of what I wish to ask, but I have a couple of issues. In respect of APEC, we have seen the admission of Russia to APEC and we have also seen the exclusion for the next 10 years of India. What difference will that make to your commodity in terms of access to markets and so on?

**Mr Dewan**—I would suggest little, but I would probably need time to think about that and do some review. I would suggest little.

**CHAIR**—As I understand, not only is India a major producer but so is Russia.

**Mr Dewan**—Correct.

**CHAIR**—And here you would have for the first time a real major producer not only having access through Europe but seeking access through APEC. Do you see that as being an important role of APEC?

**Mr Dewan**—Without thinking through the exact implications, I am not sure. I can see Russia's biggest threat to the grain industry at the moment is not so much into the APEC region; it is more potentially the European market, and it is maintaining and feeding itself at the moment. Russia certainly has huge opportunities longer term but I believe getting its own house in order, in terms of being self-sufficient to its own demand in the former states, is where Russia's potential lies at the moment.

**CHAIR**—With the voluntary nature of APEC, will APEC be able to achieve the reduction in tariff barriers and non-tariff barriers by the 2010 and 2020 Bogor goals?

**Mr Foran**—I hope so.

**CHAIR**—You hope so but, as you know and I know, the difference between APEC and the WTO is that the WTO has mandatory goals and mandatory targets, whereas APEC does not. It is described as being one of the weaknesses of APEC and some say that this could lead to instability within APEC over a longer period of time, as no-one is prepared to grapple with the hard issues. Obviously, in terms of your industry the hard issue is in the downstream processing and so on and it does not seem to me that, even if one takes even an optimistic view, we are going to reach the Bogor declaration goals.

What role, therefore, do you see APEC playing? Will it become just a paper tiger, so to speak, a nice meeting club, or what role do you want it to play?

**Mr Foran**—I guess I would be very careful to speculate on what the outcome of the whole APEC process is going to be. I certainly do not profess to be an APEC expert. It was interesting that you said the Achilles heel of the APEC process has been described as its voluntary nature, but that has also been described as one of its strong points.

**CHAIR**—Correct.

**Mr Foran**—As I said, I am very hesitant to speculate on the outcome. We do see that APEC is very different from any other trading arrangement, in the sense that it seems to be almost a violent consensus that liberalisation is good. The extent to which that occurs I guess is a little bit unclear, but everyone seems to be driving in the same direction.

We would want to see the countries within APEC, including Australia, Japan and some of the more high profile countries, take a leading stance in pushing for liberalisation and pushing for uniform liberalisation.

**CHAIR**—Do you see APEC as having a leverage role within the WTO such that it may bring about at the next round a greater emphasis on the areas that you are interested in, the food areas and food processing areas?

**Mr Foran**—Yes, I think it could be used as a leverage role, or at the very least could be very complementary to the WTO process and perhaps undertake preparatory work and start to drive in a particular direction.

**CHAIR**—The last question I wish to pursue with you is the issue of non-tariff barriers. What precisely are the non-tariff barriers that you are faced with? I presume they are different in the grain area as opposed to the downstream product areas. Can you identify them, firstly, in the grains area, as opposed to the other area, and then identify the other area for us, please?

**Mr Dewan**—A lot of the non-tariff barriers would be ones which can be put up, such as phytosanitary issues or disease issues within the grains area in particular.

The Americans have been having an ongoing debate cum dispute with the Chinese over a disease called TCK, which has had a fairly negative impact on the Americans' ability to be viable and competitive in terms of their freight shipping positions, whereby they are not allowed to ship out of the Pacific north-west; they have to take all the wheat that goes into China out of the Gulf, purely for this disease reason. The Americans believe that is a straight trade barrier, a non-tariff barrier to their trading and they are having a long ongoing dispute on that.

We face minimal barriers in terms of the wheat industry today that are of hindrance. There are times when we may not necessarily agree with some of the contractual specifications, but you can have contractual specifications and phytosanitary specifications that may have a hindrance on our competitiveness and our ability to supply into some markets. Providing they are scientifically based, we have no objection to them, but if they are not and they seem to favour one country as opposed to another, that is when we may have some problems with them. But they are very few and far between today.

**CHAIR**—What has been done in the APEC forum? Are there any working groups to overcome these problems that you have just identified?

**Mr Dewan**—Not that I am aware, no. Certainly on a government to government basis the department of primary industries in Australia will liaise with a foreign government's equivalent body on any of the phytosanitary or health issues barriers that may be put up.

**Senator SANDY MACDONALD**—When you mentioned the bulk handling reform, when did that take place?

**Mr Dewan**—The major one was during the WIRA, which I believe was five to seven years ago.

**Senator SANDY MACDONALD**—That is the reform of the waterfront in late 1989?

**Mr Dewan**—Yes.

**Senator SANDY MACDONALD**—Where are the bulk handling depots situated?

**Mr Dewan**—There are 18 export terminals around Australia. There are three in Queensland, two in New South Wales, two in Victoria, seven in South Australia and four in Western Australia.

**Senator SANDY MACDONALD**—Did the reform process apply to all of those?

**Mr Dewan**—Yes.

**Senator SANDY MACDONALD**—Was a large amount of capital expended at the time?

**Mr Dewan**—I cannot answer that; I do not know.

**Senator SANDY MACDONALD**—Can you describe what the reforms were?

**Mr Dewan**—A lot of it was staffing levels and overall costs in terms of the staffing levels required to man vessels when they were loading; shift penalties, working hours.

**Senator SANDY MACDONALD**—Can you explain what actually happens in a bulk loading depot, the degree of skill necessary to load a bulk ship?

**Mr Dewan**—In effect, a vessel will turn up and numerous inspections are undertaken to make sure of its seaworthiness condition, that it meets international maritime award rates in terms of the payments to staff and that the vessel is suitable and clean to actually load the bulk cargo—that there are no contaminations.

From the time it is passed, it will be moved on to the berth by tug boats. The holds are opened and then there are overhead cranes which move out; they have a spout which comes down and they go into what is called the free pour and pour grain in. Depending on the size of the grain terminal, they can load at up to 5,000 tonnes per hour into a vessel at that stage. When they start to get up, that is when they have to slow down the loading rights and the free pour is stopped and they will put trimmers on to those. That is when they have one person down on the deck and another one to advise the crane operator as to where to pour the grain, to get the grain even in terms of the hatch and the loading. You also have the back operations, where they are feeding the grain loading belts, but that is normally undertaken by the bulk handling authorities rather than the stevedores on the waterfront.

**Senator SANDY MACDONALD**—What level of skill is required?

**Mr Dewan**—It is difficult to say. I would not expect it would be an extremely onerous job.

**Senator SANDY MACDONALD**—Is there any physical work involved?

**Mr Dewan**—Not that I am aware of in terms of physical labour, no. It is more of a communications role.

**Senator SANDY MACDONALD**—More pressing a button?

**Mr Dewan**—Pressing a button, and there is obviously a fair amount of technical skill in terms of getting the grain level within a hatch on board a vessel, making sure you are loading at the correct rates, to enable stability to be maintained on the vessel.

**Senator SANDY MACDONALD**—Who makes the decision about whether a ship is suitable to be accepted into the facility, on the basis that it meets international standards in terms of its award conditions?

**Mr Dewan**—I am not sure exactly. I know the department of primary industries inspects the vessels.

**Senator SANDY MACDONALD**—Is that an Australian government decision?

**Mr Dewan**—Certainly the Australian government inspects it to make sure it is clean and suitable to load. In terms of whether it meets all the international conditions, I know that there is an inspection carried out, but I do not know precisely by who. I can get back to you on that one.

**Senator SANDY MACDONALD**—I would like to know who makes the decision after the ship meets the export conditions of cleanliness and meeting the expectations of the shipper of the product, who makes the decision as to whether the ship is an acceptable ship to come into the port.

**Mr Dewan**—There is also an international body like Lloyd's register, so it would be classified under the Lloyd's register. Again, that is assessment in terms of the seaworthiness of the vessel.

In terms of what we use, we consider its reputation in terms of knowing what the condition of a vessel is through past experience and the shippers and the companies that we are dealing with, so we make an assessment ourselves, but that is certainly not a pass or fail situation in terms of somebody saying, 'Yes, this one is fit to load.' We have been known to reject vessels on the basis of past experience when they are nominated to us by buyers, and also when we charter vessels ourselves.

**Senator SANDY MACDONALD**—Do you have any memory of what occurred before the WIRA changes?

**Mr Dewan**—Quite a bit, yes. I can remember customers that were continually very frustrated. I know one customer in Malaysia, no matter where his vessel seemed to go, he seemed to be constantly caught up in various strikes around Australia, with vessels delayed and problems.

Certainly the response from customers is very positive now and they are highly appreciative of the efforts that have been made in Australia to improve their conditions and they are certainly positive in terms of what we use as one of the marketing tools to be in a position to sell our crop and promote our crop.

**Senator SANDY MACDONALD**—I do not expect you to answer this, but do you expect that part of the compliability of the MUA with respect to these changes could be rather summed up in the sense that if they said, 'No, we are not going to press the button,' you and Matthew could pop down to the depot and do it?

**Mr Dewan**—We have done that before. Seven or eight years ago we did have two AWB staff in our shipping inspection who were past sailors, merchant shippers, who physically loaded a vessel in Queensland. We had two AWB staff who went and did it, and that brought about part of the reforms. We have been down that route.

**CHAIR**—Thank you. We are over time now, so I do thank you very much for your evidence today.

**Proceedings suspended from 10.43 a.m. to 10.55 a.m.**

**HARCOURT, Mr Tim, Research Officer, Australian Council of Trade Unions, 393 Swanston Street, Melbourne, Victoria 3000**

**CHAIR**—I welcome Mr Tim Harcourt from the Australian Council of Trade Unions to this hearing. The committee prefers all evidence to be given in public but, should you wish at any stage 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 ACTU dated 7 August 1997. Are there any alterations or additions you would like to make to the submission at this stage?

**Mr Harcourt**—Senator, it seems a long time ago that I wrote it but there are no alterations. I may add some comments on transcript.

**CHAIR**—The committee has already made the submission a public document. I would request at the end of your proceedings that you just remain behind for a few moments so that the *Hansard* officer can verify details and information provided to the hearing by you. It would be most helpful. I will now invite you to make an opening statement and then we will proceed to questions.

**Mr Harcourt**—Thank you, Senator. I assume you have all got a copy of the submission with the nice green and gold cover from the ACTU.

**Senator LIGHTFOOT**—I think I was missing one, Mr Harcourt, but I would be very pleased to receive one at some stage.

**Mr Harcourt**—I have only one with me, Senator.

**Senator LIGHTFOOT**—We will get through.

**Mr Harcourt**—We will get through. What I propose to do is to speak to the submission. I will not read it out word for word but just speak to certain excerpts from it, and if you are awake at the end of that I will proceed to questions.

First of all, the ACTU welcomes the opportunity to make a submission to this committee's inquiry into Australia in relation to APEC. With an increasingly integrated world economy, trade unions need to be aware of the impact of trade and investment developments on workers' living standards, and in turn we say there is much that trade unions have done historically and can do currently and in future to assist trade and development for Australia. For example, we say much of the work done in Australia by the work force and their representatives in the union movement over the past decade has assisted Australia in lifting our rate of international competitiveness.

Can I say that we are not experts in trade policy. No doubt this committee will have had a number of people with certain expertise in APEC and the WTO and the nuts and bolts of trade policy. The ACTU and our affiliates are mainly concerned with four things: jobs and

living standards in an increasingly globalised economy, the protection and defence of worker and union rights according to internationally accepted core labour standards, the development of effective union structures and strategies and the promotion of a democratic, sustainable and just community in which all people have the opportunity to develop their full potential.

The submission that we put together is in five sections. First of all, the background to APEC as an important part of Australia's trade strategy is outlined; second, the social dimension of APEC is outlined; third, international trade union approaches to APEC are outlined with specific reference to the Asia-Pacific labour network which is associated with the International Confederation of Free Trade Unions, to which we belong; fourthly, research and information needs of APEC are discussed in brief form; and, finally, the submission is summarised and recommendations made on the future directions of APEC.

In section 2 of our submission we outline various economic data referring to Australia's trade patterns, and no doubt they are familiar to the members of this committee. We note the importance over the last two decades of APEC's share of Australian exports and we note at 2.2 and 2.3 of the submission that in 1975-76 65.3 per cent of Australian exports went to APEC countries, whilst in 1995-96, 20 years on, the APEC share of Australian exports had risen to 75.9 per cent—almost 76 per cent of our total exports. So we recognise the importance of APEC to our export markets. I sourced those figures from the Department of Foreign Affairs and Trade.

Similarly with our share of imports: APEC in 1975-76 accounted for 55.9 per cent of Australian imports, whilst in 1995-96 APEC accounted for 67.1 per cent of imports to Australia. The material in our submission, in the charts and tables, notes the increasing importance of APEC as a source of our trade and in addition the imports from East Asia in terms of our present and our future. We say that as a small local economy Australia needs to take advantage of its trade and geographical position within the Asia-Pacific region.

Section 3 of the submission goes to the social dimension of APEC, and we say at section 3.1:

Whilst APEC has principally focused on trade and investment cooperation in the Asia Pacific region there are signs that there is a social or community dimension to APEC that needs to be recognised and incorporated into the working agenda of APEC.

We note in our submission that the Subic declaration, made in 1996 at the Philippines summit, noted at point 15:

We recognise that our vision of community can be strengthened only if our efforts benefit all citizens. As an essential complement to our trade and investment liberalisation agenda, economic and technical cooperation helps APEC members to participate more fully in and benefit from an open global trading environment, thus ensuring that liberalised trade contributes to sustainable growth and equitable development and to a reduction in economic disparities.

We think that is a clear signal that their distribution aspects of trade and investment liberalisation are considered important to the APEC agenda, and the APEC leaders certainly recognised that in the Subic declaration.

This is not in the submission but I just want to add this to the transcript. The submission was written before the Vancouver summit, thus it only takes the material up to the Philip-pines summit. I just note that in the APEC 1997 leaders' declaration from Vancouver, the first paragraph says:

A recognition of sustainable growth and equitable development and to unlock the full potential of the people who live here.

That is at section 1, and also in section 4 just a mention of the connection of community:

By connecting the community APEC has helped us to build relationships and share knowledge to improve the well-being of our citizens. These partnerships enhance our prosperity and progress, enrich our lives and foster the spirit of the APEC community.

I think members of the committee will note the importance of the Subic declaration in noting that in trade and investment cooperation is very necessary but, to be sufficient, there has to be some recognition of community, equity and social development.

I just note in passing that the World Bank chief, Mr Wolfensohn, who has recently visited some of the South-East Asian countries, has recognised the importance of safety nets and distribution in dealing with the current economic crisis, as a result of his visits to Thailand and Indonesia that have recently occurred.

We also mention at section 3.6 of our submission the importance of the social and community dimension. We say that within the definition of 'social' and 'community' this encompasses labour related issues such as labour standards and human resource development, as well as questions of income distribution and community development.

If I can refer the committee to section 3.8 of our submission, we refer to the tripartite working party on labour standards which was chaired by former trade minister the Hon. Michael Duffy. The report on labour standards in the Asia-Pacific region, hereby known as the Duffy report, produced an analysis of core labour standards—that is, freedom of association and collective bargaining, non-discrimination in employment, prohibition of forced labour and prohibition of child labour—and non-core labour standards, that is, minimal wages, occupational health and safety, and workers with family responsibilities.

In looking at the importance of labour standards in the region, the Duffy report saw quite a clear role for APEC in this way. The Duffy report, if I can refer to sections 3.11 and 3.12, noted that APEC is quite unique as an informal non-negotiating forum and that:

APEC works on a consensus approach aiming to reach decisions supported by, and thus likely to be implemented by, all members.

Furthermore, the working party was of the view that APEC could be used to gradually develop a constructive dialogue on core labour standards. I quote from the report:

Having regard to the growing significance of the labour standards issue in international fora the working party is of the view that, notwithstanding the present lack of consensus on the inclusion of labour standards in APEC, it will, at some stage, be necessary for APEC to address labour standards issues as it develops as a forum for broad-based economic cooperation.

In essence what we put in our submission is that there are problems with labour standards in the region and in worker rights and APEC is a good forum to tackle some of these problems. It is not a binding legal organisation such as the WTO, so it is a slightly more appropriate mechanism to use to look at problems of labour and social inequality.

At section 4 we have outlined the trade union approaches to APEC, and of significant importance is the development of what we call the Asia-Pacific labour network set up by the ICFTU. For the committee's interest, the ICFTU is the International Confederation of Free Trade Unions. It was basically the non-communist trade union body set up in international circles at the end of World War II, and that is the one that Australia belongs to, and typically Western democracies have belonged to, and it is one that will only accept membership on the basis that they are free trade unions, not controlled by the government, by the military or by the communist party in certain countries. So it is the organisation that typically Western democratic unions have belonged to.

What the ICFTU Asia-Pacific network essentially wishes to do is to provide an avenue for trade union involvement in the APEC process on the basis of social policy and economic policy and also to put views on the use of APEC and other international instruments to assist the problems of labour and to support ILO conventions and labour standards within APEC. In essence there are several views that we have domestically and internationally on how we handle a group such as APEC, and they are outlined at page 11 of our submission, at section 4.1.

What we say is that, first, it is important for us to understand APEC and how it will affect workers' employment opportunities, job security, wages and living standards, not only in terms of trade but also in terms of investment flows, customs procedures, standards and conformance.

Secondly, it is important to make a decision about labour's role in the APEC process. For instance, we have a view that it is important to have an international body that can assist, given that there are many different countries in APEC and a wide range of different economic backgrounds and rates of economic development. We can see there is an international role for the ICFTU to play, but we also see a role nationally in which we can influence our own domestic agenda with government and business and the community.

So with us it is a question of resources. In many cases, given that Australia is a small country, we can play an important but non-threatening role in international fora, but it also makes it more important for us to look at our own domestic agenda. Certainly for unions we perhaps do not have the resources to go to every APEC meeting, to every working party meeting, but we can strategically pick areas that are important to us. For instance, human resource development and the development of skills we see as one area where we can offer something and also we can influence the agenda.

One thing that has influenced our thinking is the effect of globalisation on skilled and unskilled workers. Some people have approached globalisation in terms of just putting up trade barriers whenever something is going to hurt you. But what we say is important is to provide skill development for the work force and productivity improvement, so whatever

changes come internationally we are able to handle them and we are also able to ensure that people can make an honest living.

There is some evidence we have seen in the economic literature that increasing globalisation can hurt unskilled workers. There is a group of skilled workers that do quite well out of globalisation because they have got the education and the skills, and for them it is actually quite a good thing, but perhaps for people with not the same level of skills it can be quite threatening. So we think an effort can be made in improving skills, human resource development, to assist the work force and assist Australian firms. So that is part of our approach and we think that ties into the human resource elements of APEC.

We have mentioned in the submission the consultative framework that the Asia-Pacific labour network has proposed. In essence, the labour network has proposed a meeting or a process similar to the business network that occurs in APEC, the APEC Business Advisory Council.

The consultative framework in terms of our suggestions is outlined at section 4.8 where we say it is to consist of the following: the establishment of regular contacts between our labour network and the APEC secretariat for the exchange of information; secondly, the invitation, as observers, of trade union experts drawn from our network to selected APEC committees and working groups such as human resource development, international and sectoral development; thirdly, the inclusion of trade union representation in consultative committees established by members and, where appropriate, in delegations to APEC meetings; and, lastly, an annual meeting between the host of the leaders meeting and a high level delegation from the ICFTU Asian Pacific labour network to discuss issues of mutual interest.

In terms of the meetings, the network was able to have a delegation meet the Prime Minister of Japan in 1995, in Osaka, and the Japanese Prime Minister at the time agreed that the benefits of economic development in APEC needed to reach ordinary citizens and needed to be understood by the APEC leaders.

The same was done in the Philippines. The Philippines statement from the ICFTU recognised the importance of shared prosperity in the Subic declaration, the need for the partnership between unions, business and government and the importance of labour standards for poverty alleviation and social stability.

Something that is not mentioned in the submission that is near to hand is the ICFTU labour network's statement from Vancouver in Canada. Essentially the trade union people met in Ottawa and a delegation saw Prime Minister Chretien. In the declaration there were essentially eight key points coming out of the labour declaration: first of all, trade union expertise in APEC meetings; secondly, the establishment of regular contacts between the labour network and the APEC secretariat for the exchange of information; thirdly, the inclusion of trade union and civil society representatives in national consultative committees established by members and, where appropriate, in national delegations to APEC meetings; fourthly, to maintain at future labour APEC leaders meetings the precedent of an annual meeting between the host of the leaders meeting and a high level delegation from the ICFTU Asia-Pacific labour network; fifthly, the implementation of the new APEC human resource

development project on workplace best practice agreed to in the APEC HRD ministerial meeting in Seoul, Korea in September 1997; sixthly, the setting up of a subgroup of APEC human resource development working group dedicated to the social dimension of APEC; seventhly, the inclusion on the agenda of an APEC human resource development working group on the question of core ILO standards in the APEC region and the establishment of a labour management advisory council from the HRD working group; and, lastly and eighthly, the endorsement of the principle of an APEC labour forum and discussions involving the ICFTU Asia-Pacific Labour Network on how to bring this about. That is from Ottawa, Canada, October 1997.

Finally, we would point to evidence that labour standards are an important part of international trade and an important way of enhancing the development of trade and economic cooperation. We note from the Duffy report that when they surveyed the interactive economic evidence on trade and labour standards they found that claims that labour standards were considered backdoor or disguised protectionism were wrong when you looked at the evidence that showed that labour standards and international trade can be complementary, and they quote from the OECD report on trade and labour standards:

In conclusion, it can be said that in order to raise people's material living standards countries should seek economic growth using trade and labour market policies as appropriate means to that end. Labour standards in international trade can be complementary. Such complementarities should be sought by countries and companies and fostered by the international community.

Secondly, the World Bank in its 1995 world development report noted the positive contributions that unions and the development of labour standards can make to international trade competitiveness and productivity. I quote from the World Bank report:

Trade union activities can be conducive to high efficiency and productivity. Unions provide their members with important services. At the plant level, they provide workers with a collective voice and by balancing the power relationship between workers and managers, unions limit employer behaviour that is arbitrary, exploitative or retaliatory. By establishing grievance and arbitration procedures, unions reduce turnover, promote stability in the work force—conditions which, when combined with an overall improvement in industrial relations, enhance workers' productivity.

In summary we say that, firstly, trade union involvement in labour standards mechanisms within APEC would be good for economic growth and international economic cooperation. We say that there should be an APEC labour forum at the APEC meetings in similar fashion to the APEC Business Advisory Council. Furthermore, APEC governments should involve trade union expertise and consultation in their own domestic forums relating to APEC, and we say that the involvement of trade union expertise in specialised APEC working areas, such as human resource development, would also be of benefit to the APEC process.

Fifthly, the submission mentions the important research and information requirements associated with economic and social integration. I understand that the committee has had submissions by Mr Alan Oxley of the APEC study centre. We support the improvement of research and information requirements and we must let the committee know the APEC study has been very good to involve business, unions and the community. We have worked with them on disseminating information about APEC and we have had good involvement with them and with the business community through them.

Finally, if I can just come to the summary of the report on page 17, our submission has covered the importance of APEC to Australia's trade strategies, the social dimensions to APEC, trade union approaches to APEC and research and information within APEC. We have noted the overall importance of trade and investment objectives but we say there needs to be a further understanding of the social and community dimension to APEC, and we say this will promote the trade and investment objectives rather than cause a roadblock for them.

We say that there is some small recognition of the social dimension to APEC in the Subic declaration and in Vancouver and this is welcome but should be built upon. Finally, to assist in meeting the economic and social objectives of APEC, the ACTU recommends greater union involvement in the APEC process and support for greater research and information resources in APEC. Educational resources will assist community understanding, and trade union involvement has been shown to have both economic and social benefits in the process of international integration of national economies.

Finally, on page 18 we have our recommendations. Could I just put that in the transcript, if that is appropriate.

**CHAIR**—I think that there is no need to.

**Mr Harcourt**—You have the recommendations 1 to 10 outlined in the submission.

**CHAIR**—Yes. Thanks very much, Mr Harcourt. Firstly, you spoke of an ICFTU report in Vancouver at that meeting. Are you able to supply us with a copy of that report?

**Mr Harcourt**—Yes, I can supply a document that the ACTU has put together and it is entitled *International Confederation of Free Trade Unions: Report of the Third Conference of the ICFTU Asia Pacific Labour Network: Ottawa, Canada*, and the statement I read was statement No. 2. I have a copy with me so I can leave the committee that copy and I can mark the extracts that I read.

**CHAIR**—Thank you. Secondly, one of the issues that I have been concerned with is the fact that there is generally a lack of knowledge out in the community about APEC's role, what it is meant to achieve and so on. Whilst the APEC study centre and other organisations are taking the education of APEC seriously in trying to take it out to the public, there is very much a general lack of understanding of what trade liberalisation is about. Hence we see issues that have directly confronted the trade union movement such as the TCF industry and the motor vehicle industry and the issue of tariffs there. Is it simply a matter of educating the work force to get some degree of compliance and some degree of understanding on the issue of tariffs, or is there more that needs to be done, as I assume other industries may well be affected in a similar vein? How do we handle it?

**Mr Harcourt**—First of all, I would agree with you about the education objective. The APEC study centre does its best with the resources it has got and we are not heavily resourced. I mean, obviously APEC is not one of our core business issues. It is something that we do as a peak council that has got resource constraints.

What we would say is that there is in our constituency a fair bit of suspicion of trade liberalisation and globalisation. A lot of the debate just focuses on tariffs alone, in particular industries, whereas trade liberalisation or globalisation is to do with all sorts of things—customs and investment, non-tariff barriers and so on. What we would say is that for the parliament to continue community support for, if you like, engagement in the global economy and to see Australia as having a good role to play and the parliament having a good role to play, it is probably best to be quite rigorous and quite truthful about the effects of trade liberalisation. I think if APEC, for instance, is seen as something where it is just heads of governments with occasional input from the top CEOs of various businesses around the world, it is probably not going to have much support, and that is why you are seeing the people's summit in Vancouver and similar bodies in the Philippines rallying against APEC. If you had more transparency and more involvement—in our case representatives of labour, but representatives of other groups, whether they be rural groups or community groups—you might bring on more understanding.

For instance, I did some work on the GATT when the GATT was being signed, and generally we thought that having proper multilateral trade laws is good for Australia, but there was opposition to the GATT. It is not so much here but certainly in countries like India they spray paint GATT stuff all over the walls, and APEC, and the same in the Philippines. I did not know they knew what the GATT was, but it was there in the graffiti.

What we are proposing is a policy that will virtually enhance the ability of the parliament to ensure that trade benefits to the community work, because without that people generally will assume quite negative things.

**CHAIR**—Yes, I do not disagree with that. How does one handle the issue of tariff barriers coming down in globalisation in general? It has been described that there are winners and losers as a result of this process that is taking place. It seems to have a head of steam up, which none of us can control. The winners, of course, will always look after themselves. The losers, of course, are invariably where the focus comes about. Those losers can be people in the skilled and the unskilled work force.

**Mr Harcourt**—Yes.

**CHAIR**—They can be dairy producers or they can be citrus producers, as one of my colleagues here will refer to quite frequently. Is there a need for an active role by government to ameliorate the effects on the losers and somehow redirect their strengths, their energies, in other areas to compensate them for the effects of globalisation?

**Mr Harcourt**—I think from the work we have done it seems that there has not been a lot of work performed on the distributional consequences of globalisation of trade. Professor Dani Rodrik from Harvard University has written a book for the International Institute of Economics in which he says that the countries that have been the most successful at trade liberalisation, globalisation, and have had the most open economies have been the ones that have spent more per head of GDP on social security and on having appropriate, for instance, labour regulations. He says that one of the problems we are seeing now is that the same countries that want to make their economies very open are the ones actually cutting back on the compensatory mechanisms.

For instance, one of the best things that the parliament and the government can do is to assist the losers, if you like, or make sure that people are not going to be losers in the future. I am referring to skills and development and training. I would say that some of the mechanisms we have had with award restructuring and some of the training reform agendas have made life for the work force better than it would have been without them, given what has happened with our international economy.

We must do much more, but that is one of the most important things that you can do because if you leave people in rural regions, in regional towns with very high rates of unemployment, with farmers losing money hand over fist, there will be a reaction and I think it will be a protectionist reaction. I think people will put up trade barriers and that will be the push for it. But if you bring about social distribution, ways of assisting the losers or making sure they are not losers or making sure they are going to be winners in the future, you are going to handle trade liberalisation a lot better.

It may not be the forum to air these views but in some ways I think some of the proponents of trade liberalisation have actually handled the issue quite clumsily because they have sometimes tried to deny there are any losers. They have tried to say, 'We will all be winners.' They have said that if you have free trade there will be economic welfare benefits to the whole community so we will all be better off. They have tried to ignore the losers.

Secondly, I guess they have taken quite a unilateralist view of trade and it is primarily targeted at tariff reductions and they have not taken account of non-tariff barriers, anti-dumping and investment guidelines. So I think that the people who have gone in for free trade in a big way have actually handled the debate quite clumsily and that has put pressure on parliamentary representatives, union representatives, business leaders, rural groups and so on.

**CHAIR**—Just on the involvement of the trade union movement itself in trading blocs, you have mentioned the ICFTU. Are the ICFTU or any of the international trade secretariats involved in any other trading blocs such as NAFTA or the European Union? If so, what degree of consultation is there?

**Mr Harcourt**—NAFTA has two side agreements; one is on labour, one is on environment. As I understand it, there are means by which you can take a business to a panel inquiry if you believe that there is an unfair labour practice or they are violating labour standards. I am not very good on the detail but, as I understand it, that was brought in to see if US unions could prosecute Mexican companies that are violating labour standards. But in actual fact in practice it has been used by US companies violating their domestic laws. It is being used against the US rather than Mexican companies. The Mexican unions, the Canadian unions and the AFL-CIO have had involvement in that and they are quite specialist in trade policy.

I think the nature of American trade law provides a lot of scope for interest groups to take quite strong involvement; for instance, the fast track authority to the President to extend free trade authority for the US with Chile has been a big issue in the labour movement over there.

With respect to the Europeans, the European unions are reasonably coordinated, and I know the European Union social charter has had strong union involvement. They have a reasonably cohesive strategy across borders and they are quite well practised at work councils. I think if you have a European company that is in several countries, they have a works council.

**CHAIR**—You see, it has been put to us in evidence here that issues such as labour standards, human rights and so on should be left in the appropriate forums—for example, the United Nations forums or the ILO as such. Why do you believe labour standards and the like should be within the agenda of the APEC forum?

**Mr Harcourt**—I think one of the problems for us is that when we promote core labour standards or take part in the WTO, people say to us, ‘Oh, no, that’s not the appropriate place; it should be in the ILO.’ We say that to governments, and the same governments are actually not big fans of the ILO either. So they essentially tell us to park our trucks in the ILO, because the WTO should not handle the ILO, and when we go to an ILO forum they are white-anting the ILO. So we do not see there is a lot of strategic merit in practice.

Secondly, the ILO has some expertise. What we have tried to put up is that, rather than using a sanctions or stick approach, you can use incentives and try and essentially provide market access and provide trade openness for countries that are improving their labour standards. We say that is better than using threatening sanctions on countries because of the difficulties you have in terms of transparency and who does what.

One thing we have said that is important about WTO and APEC is that they are international bodies, more multilateral bodies rather than country to country. The US had quite strong labour laws where they could attack countries for violating labour standards but it was very bilateral, so they could pick on certain countries and not on others; while we would say that if it is multilateral then there is a degree of fairness that you do not have.

**CHAIR**—Last but not least is the issue of ABAC, which is the APEC Business Advisory Council. You mention that in your submission and obviously the focus is only business. There is no acceptance yet within the APEC environment of the broader social agenda, if we can call it that, whilst it may well be moving slowly down that path. I presume you would support the establishment of a forum for community and non-business organisations, such as trade unions and other interested groups throughout the community, even though there is not a formal mechanism within APEC at this stage?

**Mr Harcourt**—I think we would. I guess our first preference would be for the labour forum alongside business.

**CHAIR**—If you cannot get such a committee, what about just a consultative process with the trade union movement?

**Mr Harcourt**—As a second best, we would be in favour of that.

**CHAIR**—Has there been any consultative process in Australia with the Australian government, either the current government or the previous government, on APEC?

**Mr Harcourt**—We have always had a place of some sort on the Trade Policy Advisory Council and there is an APEC consultative body. As I understand it, we did have representation on it under the previous government. At the moment I know there is a union representative on the Trade Policy Advisory Council.

We have always thought it important, for instance, when the previous government was in power, that there be employer involvement in trade policy for the same reasons. We have actually promoted the involvement of the ACCI and the MTIA in the same fora because we have a preference for knowing the views of the employers on trade policy, too.

I guess our first best would be this: we obviously would like a labour forum at APEC. We would want the labour forum to have the same status as the business forum. We would not be averse to having a labour-employer body, given that we like to know the employer views on trade policy, but, as a second best, obviously there is a community forum that they develop.

**CHAIR**—What would be your feeling if that sort of forum had people nominated by the government rather than nominated by the actual constituent members?

**Mr Harcourt**—So the government would choose the individuals?

**CHAIR**—Yes.

**Mr Harcourt**—Or the reverse?

**CHAIR**—Yes. That is what they do for APEC.

**Mr Harcourt**—I guess we would probably have a bit of a preference for the institution to have a representative. For instance, with TPAC it was typically the ACTU president, so we have a preference for that, and we certainly often have affiliate representation on these boards.

**CHAIR**—Senator Lightfoot.

**Senator LIGHTFOOT**—I am okay. Thanks, Mr Chairman.

**CHAIR**—Senator Macdonald.

**Senator SANDY MACDONALD**—No questions, Mr Chairman.

**CHAIR**—Thank you, Mr Harcourt, for coming. We appreciate the evidence you have given.

[11.47 a.m.]

**BRYCE, Mr Robert McKinnon, Plastics and Chemicals Industries Association, Level 4, 380 St Kilda Road, Melbourne, Victoria**

**McALLEN, Mr Bruce James, Plastics and Chemicals Industries Association, Level 4, 380 St Kilda Road, Melbourne, Victoria**

**CHAIR**—I now welcome back to this hearing Mr Robert Bryce and Mr Bruce McAllen from the Plastics and Chemical Industries Association. We will continue the question and answer session which we started yesterday.

Yesterday we had a fairly lengthy discussion on a whole range of issues. I do not know if we might retrace some of those but, if we do, I do not think it hurts. On the issue of non-tariff barriers, what are the non-tariff barriers that are hindering exports? We touched on this yesterday.

**Mr McAllen**—The non-tariff barriers range across a number of areas. Let me say that one of the prime objectives of the APCCI, which is the APEC Coalition Chemical Industries, at our next meeting in KL is to identify a whole range of non-tariff barriers, get those out on the table and start to address those.

At the moment, we are aware of a number of non-tariff barriers. They include overzealous inspection of shipments as they go into various countries. Some countries will insist on inspecting shipments which they believe to be incorrectly classified, if you like, in terms of the amount of duty they are paying.

**Senator LIGHTFOOT**—These are done for an ulterior motive?

**Mr McAllen**—One hesitates to say why, but those countries seem to have a different approach to dealing with cargo clearances, et cetera. You have got to live in those environments, with the situations where you have proved that you are doing the right thing but you are not actually believed straightaway and so they continue overzealous inspection of shipments. Those sorts of things, I guess, are there.

There is difficulty in getting registration of your chemicals in various countries because of the very protracted and bureaucratically tangled methods that you have got to go through to get your product registered. All countries now have a chemical register which requires that they be given a ticket of approval, if you like, for sale in a particular country, so the registration process is very tangled and involved in lots of countries.

Of course, there are various other problems, but I just hope that our meeting in KL will provide an opportunity for people to be open and frank about the barriers that are there and to list those down and allow them to be looked at, examined and hopefully worked through.

**CHAIR**—One of the things that we have heard is that there is a fair reluctance to disclose the non-tariff barriers because one wonders if this is the other agenda, the counter-vailing agenda to the reduction in the tariff barriers. One of the questions I was going to ask,

following on from your evidence yesterday, is that you put up a number of preconditions which you saw as giving your industry an advantage in the trading world with the tariff barriers down and so on.

There are a number of other things, but it came to my mind that, even with all of that, you may well still be at a disadvantage because of the non-tariff barriers that people put up in their places; so that, whilst all the conditions may be met in terms of the zero tariff in terms of plastics and chemicals, wherever you might be, all your infrastructure costs, tax incentives and whatever else you might want might be accommodated in Australia but you still are really no better off when the incentive has been used by governments in other ways. How do you see that the APEC process overcomes this problem?

**Mr Bryce**—I think it at least gives us the opportunity to highlight what those non-tariff barriers are. Certainly it is correct to say that to actually identify a whole list of them is fairly difficult. Companies have problems in perhaps coming back to the industry association, for example, because they feel that if we put those forward to the Australian government then there would be representation made to that government and they may feel, either themselves or through their local agent, some kind of retribution. So there is a bit of reluctance there.

We were telling the DFAT people yesterday that we must start talking openly to other governments, saying that non-tariff barriers are not on. If the tariffs come down, then we are going to be on to you about non-tariff barriers. I guess that has implications through the WTO because I understand there are mechanisms that we could use to take action if we had to.

**CHAIR**—How widespread are the non-tariff barriers?

**Mr McAllen**—We do not actually have much hard evidence. All we have is experience of people and the difficulties they have had from time to time.

If I could just define non-tariff barriers a little bit more precisely, in saying that there are non-tariff barriers which are broad, and I would use the example there of the difficulty in registration. That probably applies in a number of countries in the APEC forum. But some of the non-tariff barriers, like unnecessary inspection of shipments, et cetera, come about on a bilateral basis, if I could put it that way, and those bilateral difficulties need to be addressed by government in terms of their bilateral negotiations.

We would like to put DFAT on notice that, having established what the non-tariff barriers are, and where they are of a nature that is an issue between just Australia and another country, we would like to have those taken up in bilateral negotiations. I think the Department of Foreign Affairs and Trade would be more than willing and happy to take those to the various trade discussions that they have minister to minister with various countries and put those on the table and have them thrashed out in a bilateral forum.

On the broader issues, I think it is up to the industry to agree how we best utilise the bureaucratic resources. One of the things we were talking about earlier this morning before we came to our meeting here was that the amount of research or test data that has to be done

to satisfy registration for a product is very costly. It is very expensive to have test studies— toxin studies, environmental studies and Worksafe studies—done.

What is becoming evident is that certain countries are well advanced at having expertise in certain areas, so it is a willingness of the various participants to accept studies done in other countries. Will Australia accept studies done by the US and Canada as being suitable to certify, if you like, a chemical in Australia and vice versa? Will they accept studies done by our experts?

So there is a lot of good work that could be done to keep down costs everywhere by more of a willingness to undertake what we would call international harmonisation of standards and procedures and things in that way.

That is the sort of broad non-tariff barrier that we could tackle by, first of all, getting some sort of framework agreement around and then putting that in front of governments and saying, 'Now, will we be able to work out a protocol whereby Australia will accept US studies and the US will accept Australian studies where appropriate?' I am rambling a bit.

**CHAIR**—No, no.

**Mr McAllen**—But that gives you some of the flavour of what is coming through. I would not like the committee to be overconcerned about non-tariff barriers in terms of the future of the Australian industry. I believe they can be solved, those issues. They will not be barriers, if you like, or significant impediments to the development of the industry in Australia. I think they all can be tackled under APEC. That is why we welcome APEC, because it gives us a chance to get these issues out in a proper forum.

**CHAIR**—Your industry, as I understand it now, is well and truly in the spotlight as being one of those which is going to have early voluntary sectoral liberalisation.

**Mr McAllen**—One of the favoured few.

**CHAIR**—That is right.

**Mr McAllen**—That is right. We are one of the nine.

**CHAIR**—So any of these problems will tend to emerge, I would think, far more quickly in your sector than they might in another sector. That is why I am interested. I hear your comment that non-tariff barriers might not be the problem that people think.

**Mr McAllen**—They will be there.

**CHAIR**—They will be there, though. I am just wondering how well coordinated has Australia's approach got to be, given the fact that your industry, and others similarly, are in the spotlight now. Are we well coordinated enough to take on those issues, rather than just being focused on the tariffs themselves?

**Mr Bryce**—I think there are two things there. I would differ slightly with Bruce on this. I think, as the tariff rates come down, the importance of non-tariff barriers will increase. We have not got them down yet so we are only speculating that non-tariff barriers will increase. But, knowing the nature of a number of those economies, it would stagger me if they did not have a crack at trying to increase non-tariff barriers.

Some of the non-tariff barriers, such as product registration and so forth, I do not see so much as a non-tariff barrier. I think people could look at Australia, for example, with our registrations in NICNAS and NRA and all the rest of it, which are slow and the Australians obviously need to be sure that the product that they are approving is okay. But it takes time, and people could say, 'Well, you are using that as a non-tariff barrier.'

I see some of the customs procedures probably as an area of non-tariff barriers, just to make life difficult for you. It is a bit like the French; when the VCRs first came out you could only import them from one customs port and it was up in the mountains and I think they only worked a couple of afternoons a week.

**Senator LIGHTFOOT**—They inspected them, I think, and the inspection took about three months.

**Mr Bryce**—That is right. That is a classic one, but it is things that just make life difficult, like, 'You have not filled in this box,' so that goes on the bottom of the pile again; it is that sort of mentality. Maybe it is nationalism to some extent but a lot of those people make the stuff and they may feel reluctant to import and they will just slow it up.

As far as how well organised we are, we believe that we are probably better organised than most in that we have got a tight industry association. One of our major committees within PACIA addresses these sorts of issues and if anything is happening we will learn about it pretty quickly and, as soon as we heard about it, we would be certainly passing it on to DFAT and to the relevant ministers.

**CHAIR**—How well equipped is government to deal with it?

**Mr McAllen**—As I said before, we would like to put the relevant Australian agencies on notice here—whether it is the customs agency or Foreign Affairs and Trade or whatever it is—to feed off this agenda we have, to identify impediments and to be zealous in tackling them, because lots of those issues will only be able to be dealt with at the bureaucratic level.

How big they will be and how important they will be are very hard to estimate. It is inextricably linked with the investment scenario as well. What sorts of investment rules are we going to have in APEC that will allow one country to invest in another? Obviously, if I invest in Indonesia and the Indonesians require that they have a majority control, for instance, I might not have much difficulty in getting my products into that country. But if I am not a wholly owned Australian industry in a foreign country I might have difficulty. So the trade and investment rules start to intrude there; and it could be bad, good, or a real swings and roundabouts.

**CHAIR**—Just a couple of other questions. Yesterday, you mentioned the industry basically being in Altona and Botany on the eastern seaboard and that the western shores were diverging in an area for the newer developments that will take place. You were saying that, if we had the appropriate developments to produce the chemicals internally, we could reduce our current account deficit by up to half, which is a very significant figure of \$3 billion per annum.

I also formed the opinion—and I want your comment on this as to whether it is a correct opinion—that the industry may get some injection of finance in the east. Basically, it seems to be an industry that is dying, if I could term that in broad terms—I am not going to say it is going to fold completely but because of outdated plant and equipment and so on—and that the real area of growth is the newer areas that may emerge in Western Australia, for a number of reasons.

Is it fair to say that what we will see is not really a reduction in the current account deficit because the industries that we will lose here will then have to import from overseas and the new industries in Western Australia will not replace what has happened in the eastern states but will be in a different area and a different line completely? So on the one hand we will lose and on the other hand we will gain, and the net effect will be to balance out in terms of current account deficit. Is that an incorrect impression?

**Mr Bryce**—I think it is an impression that is probably mixed. Maybe I should try and outline that a little bit more. We have certainly got two major complexes, one at Altona and one in Botany, but there are also a number of other significant chemicals plants. These are complexes, and a complex is where the feedstock comes in and it goes into one product and then into by-products, if you like, that go into the manufactures of the others. So it is a complex, an integrated complex.

We have got operations such as sodium cyanide in Gladstone; we have got a couple of plants up there. We have got a soda ash operation in South Australia which is significant. We have got a couple of titanium dioxide plants which are world scale in Western Australia, and also a fertiliservice plant in Western Australia, and sodium cyanide. So let us not just think that there are just those two. They are obviously very, very important and there is a lot of money on the ground.

There has also been a significant amount of industry rationalisation; in other words, how can the industry maximise the return on its existing investments? They are not going to let these things just fizzle out without a significant fight. Just a couple of them are. For example, Hoechst have pulled out of manufacturing in Australia in a fairly significant way. That means that Kemcor have picked up some of the products that Hoechst operated, so you have got one operator. You have got styrene which is manufactured here in Melbourne by both Dow and Huntsman. They have got two plants but they have formed a marketing organisation and they will market both companies' products under that one marketing organisation and, by doing that, instead of making the whole range of products on one plant for Dow and one plant for Huntsman, they have rationalised their range so they get both those plants operating at maximum capacity and efficiency.

We have recently had the situation in the last couple of months where Montell has purchased the polypropylene business from ICI, or Orica, and the polypropylene plant at Botany will be closed. Montell have announced a \$75 million plant expansion for both their plant in Sydney and their plant down here. So it is very difficult to generalise. I think if we were going to generalise we would say that the plants that are in existence now will have to have money spent on them to increase their capacity further, so that they get bigger. That is what we are wanting these incentives for, to invest further in Australia because the same incentives are being offered to these companies in other parts of the world. As I said yesterday, it is an international bidding process. That is why it is important that government does not necessarily look at this new attractive proposition in the Pilbara, which is totally new, but also looks at what is already on the ground, because, if you go to your board in Houston, or wherever it is, and ask for \$50 million or \$100 million, you will be up against somebody else in one of the Asian countries that may be able to get a better return on their investment because they have had this injection or tax holiday or accelerated depreciation or something like that.

To say that it is all going to go ahead in the west and this other bit drops off is not quite right. The plants that are going to be built in the Pilbara are going to be world scale operations that will be largely export focused, as well as providing some local product. The plants over on this side of the country, and the other ones that I mentioned, will hopefully continue, and that is what we want.

**CHAIR**—One of the key issues—and I think we are fairly much in agreement on this issue—is job security. Governments, regardless of their persuasion, are interested in jobs, jobs and jobs.

**Mr Bryce**—And more jobs.

**CHAIR**—It is a sensitive issue regardless of political persuasion. That is why I was trying to find out what was going to be the result, if you could translate it into that for us as well. Are we seeing a situation that in reaching changes in Altona and Botany you are going to have major displacements of jobs? Are they going to be counterbalanced by the increase of jobs in another place? This also applies to the reduction in the tariff barriers and the non-tariff barriers.

**Mr McAllen**—It is an evolutionary process. I think that is the best way to put it. The existing plants evolved over decades and the conglomerates that are around and the industries that feed off them—whether they are on the complex or they are outside the complex using materials that are coming from those complexes—evolved over many years, possibly, in the case of Botany, from the 1940s through to the 1970s, so over 30 years, and probably a not too dissimilar time frame here in Altona.

What we will see, I believe, is an evolution slowly, as those plants come to the end of their economic life on the eastern seaboard and the complex is growing in the west, and that will take 20 or 30 years. There will not be any question of saying, ‘Turn off Botany. Turn off Altona. Move straight to the North-West Shelf.’ That will not happen. We will have, of course, a very big incremental increase in production when these new plants get established.

But, as Robert said, world scale plants demand a market bigger than Australia can provide, and we will see a lot of that product.

**CHAIR**—That comes down to the issue I raised yesterday, the issue of modelling. I think you have said you have got the Access Economics model there. If people cannot have the picture painted for them, then all sorts of ramifications out of just a bland statement are seen by people and, of course, it sets in train a degree of fear and apprehension about what is going to take place and that is part of the problem.

**Mr McAllen**—This is not in Newcastle. You will never see another steelworks in Australia.

**CHAIR**—But that is part of the problem with APEC as well.

**Mr Bryce**—I guess, being an elected member, you probably think about this whole question of job security from time to time as well. I guess in industry nobody feels secure, whether it be in Australia, Europe or anywhere else; none of our colleagues know whether they are going to have a job tomorrow. I think that is most unfortunate from a social situation because I think people should have a degree of job security.

If I worked for Montell at the moment—they have announced a \$75 million expansion and they are going to significantly increase the size of those plants—I think I would be feeling fairly comfortable from that point of view.

There are other companies where there will be further rationalisation and people would be thinking, ‘Well, if they rationalise, where do I go?’ That is what is so important about manufacturing industry policy in Australia, because we are good at manufacturing, we are very innovative and all the rest of it. The government must provide the right sort of climate so that people do invest.

I cited the case yesterday of Ford, which has had this big downstream effect, and there is a whole range of those sorts of examples. I think that has a lot to do with job security. To give you an example here in Melbourne, there is an ethylene cracker here that is quite old and it will need to be replaced, probably in the next five years or so. If that does not get replaced, the thing is probably all going to fall apart. There has got to be a degree of attractiveness for the Mobil/Exxon people that own that operation back in the States. They have got to have confidence in Australia to say, yes, we are going to spend another \$300 million, \$400 million or \$500 million. That is where that job security thing comes in.

**Mr McAllen**—Chemical plants are a bit like my grandfather’s axe. It has had 14 handles and five heads but it is still my grandfather’s axe.

**CHAIR**—Ned Kelly’s axe. Yes.

**Mr Bryce**—Or a DC3 or something.

**CHAIR**—Could I just ask one further question before passing across to my colleagues. How would PACIA respond to proposals from environmental NGOs to be included in the APEC process? Would this have any difficulties for the chemical trade?

**Mr Bryce**—No, we would be delighted to have that classification. Our American colleagues have got it at CMA. It is a bit of a plug for PACIA, I guess partly because of our former high profile CEO in Michael MacKellar and also the recruitment of people into the organisation, the stream of questioning and opinions sought from our industry from government has increased very, very much over the last 18 months. If there is anything we can do to help continue that, we will do it.

**Mr McAllen**—We are in continual dialogue with environmental groups because of the very nature of the industry. But if your question goes towards the issue of does the industry believe that trade measures or sanctions should be used to obtain environmental objectives, the answer is a firm no.

**CHAIR**—No, I did not say trade measures or sanctions. Should they be involved in the process?

**Mr Bryce**—Non-government organisations?

**CHAIR**—The APEC process currently is fairly much a government process. It has a limited involvement of business—and I say that advisedly—in the sense that it is generally the CEOs and so on. There is a smattering of academics, politicians and so on, but there is a call from other groups outside to become involved in the process.

They say that the APEC process does impinge on some of their interests. I do not think those groups want to necessarily try and run the agenda. I think it would be wrong to say that, but I think they want to be involved; the environmental groups, human rights groups, trade union groups and so on. I am not saying they all fit into your area. There is an APEC Business Advisory Council, as you know.

**Mr McAllen**—ABAC.

**CHAIR**—ABAC, which has three government appointed business people which does give business a link directly into the process. These other groups now are saying that they want not the same status necessarily but a role. They say they have a role to play and should have a role to play and should be involved, yet at this stage they have not been involved.

**Mr Bryce**—Yes. I think business representation is critical. I primarily see the APEC process as a trade thing. Certainly the Americans, for example, have a lot of their business people accompanying the US people around the place.

**Mr McAllen**—Two thousand American businessmen—

**Mr Bryce**—Businesspersons.

**Mr McAllen**—went to Vancouver. It is our observation that the Americans have on hand quick advice from the business sector when a proposal is tabled. Our negotiators are never as well supported by businesses.

**CHAIR**—In other words, we could improve our own internal processes.

**Mr McAllen**—Most definitely.

**Mr Bryce**—I would certainly like to see more business representation than we have at the moment.

**CHAIR**—What about the other organisations?

**Mr Bryce**—Well, it depends who they are. All of those organisations that you mentioned do very good work. I am not really qualified to talk about the human rights people, for example, but I see APEC very much as a trade organisation more so than anything else. I think that it could be a vehicle by which some of these things could be fixed, but I think we have got to fix up the trade things first.

**CHAIR**—It has been said that the agenda of APEC has broadened. The original focus was trade liberalisation and, thereby, tariff barriers; and, of course, now we are getting into a wider agenda of trade facilitation, economic and technical cooperation, and these areas are impinging on these other groups.

**Mr McAllen**—Yes. I think there has to be a degree of caution because I think that the WTO, as it is at the moment, is seen as a policeman for environmental issues by the environmental groups. As I understand it, there does not exist any international organisation that can enforce, if you like, environmental issues on particular countries, other than the protocols that are agreed under Rio and gas emissions, et cetera. But on general environmental issues there does not exist any international organisation. I think some of the environmental groups would see the WTO being used and trade sanctions being used to obtain environmental objectives.

That is an agenda which has been rigorously opposed by DFAT, as I understand it, and by all those that are pretty close to WTO officialdom and whatever, and we would support that line, too. We do not want to see anything that restricts and affects our ability to trade coming out of the environmental agenda.

**CHAIR**—All right. I will pass over to my colleague Senator Lightfoot.

**Senator LIGHTFOOT**—Thank you, Mr Chairman. We only have a few minutes so I can assure you I am not going to be offended if you want to give me some short answers.

**Mr Bryce**—We would like to give you some short answers.

**Senator LIGHTFOOT**—For the sake of *Hansard*, I am just going to read quickly the six companies that are involved in the Pilbara petrochemical process, and they are BP

Chemicals; Dow Chemicals; Hanwha Chemical Corporation; ICI Australia, which is wholly owned in the UK at the moment, I think—

**Mr McAllen**—No, it is not.

**Senator LIGHTFOOT**—It has sold out to—the deal is done, is it?

**Mr McAllen**—It is done.

**Senator LIGHTFOOT**—It was tied up last year.

**Mr McAllen**—It is a 100 per cent Australian company.

**Senator LIGHTFOOT**—That is wonderful. That should be in *Hansard*—that ICI Australia now is Australian. I suppose when we become a republic they will change their name.

**Mr McAllen**—If you put that in *Hansard*, we will send them a bill for the free publicity.

**Senator LIGHTFOOT**—Imperial Chemicals will be changed to ‘Republican Chemicals’; Krupp from Germany; and Samsung from Korea. Are these organisation members of your peak body and, if they are or some of them are—you might be kind enough to say which ones are—do you think that they are the right ones? This may be sensitive but I would like to know if they are the right ones?

**Mr Bryce**—You were talking about job security before.

**Senator LIGHTFOOT**—I do not know whether that is in any way detrimental to job security.

**CHAIR**—Their job security.

**Mr Bryce**—I am talking about my job.

**Senator LIGHTFOOT**—I have to ask you gentlemen to give an unbiased answer to that question. They are obviously of world standard.

**Mr Bryce**—Let me answer the question. I can tell you who our members are because that is public information.

**Senator LIGHTFOOT**—And Dow Chemical, of course, is doing the joint venture with Shell International.

**Mr Bryce**—Yes. BP Chemicals, Dow, Shell, Orica and ICI Australia are members of PACIA. Hanwha and Samsung are Korean companies and they are not members of PACIA; Krupp is not either.

**Senator LIGHTFOOT**—If they came into Australia in any significant manner with respect to chemicals—Samsung are already here in quite a significant way—would you expect them to be members of PACIA?

**Mr Bryce**—Yes. Provided they fulfilled our requirements of practising responsible care, we would not expect them but we would certainly hope that they would come on board.

**Senator LIGHTFOOT**—Yes. I have a perception, after talking for some time with organisations from the east coast of Australia, that there seems to be a bit of a mindset that you do not need to go west. Could I perhaps ask you to verify whether you believe that going west is something analogous to what happened at the turn of the century with respect to California?

I know that we have a population in Western Australia of less than two million people, and that is about one-fifteenth of the population of California. The population of California is almost double that of Australia but the economy is probably three or four times greater than that of Australia.

I am not talking about a microeconomic shift here. In essence I am talking about a—to coin the phrase—mezzo-economic shift. It is not going to be a macroeconomic shift because, even though this plant is \$1.5 billion, it is going to be the start of what I would say, having been in the mining industry most of my life, is a significant shift in the Altona/Botany mentality to the western side of the continent, based on the fact that petroleum and condensate exceed greater than 50 per cent of the nation's production now in Western Australia, and that gas, a significant feedstock for your industry, is about 50 per cent and it is going to grow rapidly because of the reserves that are there.

We are talking about production. I am not talking about reserves when we go west because the reserves far outweigh those in the east. Is there in fact a mental change that needs to happen in your industry in order to face what I believe is the reality of a shift in the petrochemical industry to the western side of the continent?

**Mr Bryce**—No.

**Mr McAllen**—No.

**Senator LIGHTFOOT**—You said that in unison, so I have to accept that.

**Mr McAllen**—There is no mindset that east is better than west. It is pure economics. You have got two choices: you can bring your feedstock to the market and have your plants where the market is and have lesser distribution costs in servicing the market or you can make your product and ship it to the market. It is a question of economics. If the economics are such that it is more viable to have the plants in the west and bring the products out by sea, air, rail—

**Senator LIGHTFOOT**—But the steaming time is less from the west side of the continent to the market than it is from the east or the southern part.

**Mr Bryce**—Yes, but there are a couple of things that have happened. The chemical industry was established on the east coast of Australia because that is where the population base was; and, secondly, and probably very important, was the question of tariffs.

**Senator LIGHTFOOT**—And feedstocks.

**Mr Bryce**—And feedstocks at that stage. Of course, the mining industry was not as big in the west as we know it now. But now that our tariffs are down to a maximum of five per cent, and we talked at length yesterday about being globally competitive, the thing Bruce just said is that we get totally down to economics and costs.

**Senator LIGHTFOOT**—Where does that put you geographically?

**Mr Bryce**—We have got the situation where the Western Australian government has been extremely active in trying to unleash those reserves up there and have been largely successful in doing that, so what we have in that part of the world is comparatively cheap feedstock and a reasonable supply of it. But not only that; we are on the doorstep of what was, until a few months ago, the fastest growing economies in the world. So cheap feedstock, proximity to markets and reduction in tariffs caused that.

To answer your question, there will always be a domestic market in Australia and we can ship out of the east as well as we can out of the west. I think for the foreseeable future we are going to have large populations obviously in this part of the country.

Another advantage of developing the west from a government point of view is that it does help decentralise the population. With plans that are in tow, as I said before, once you get a few of these things going it will grow. But there will always be a demand over here. We have got Bass Strait which has got not unlimited reserves but very large reserves.

**Senator LIGHTFOOT**—They are on the rundown now.

**Mr Bryce**—There is probably still a lot more out there to be found. We have got stuff around the southern coast of Victoria.

**Senator LIGHTFOOT**—It may be but I am just saying that the reserves of Bass Strait are on the decline. I am not suggesting that at \$45 a barrel for oil those reserves would not increase. They quite obviously will.

**Mr McAllen**—You do not know how many plug holes BHP-Exxon have got in the ground out there.

**Senator SANDY MACDONALD**—Or in the Gulf of Mexico.

**Mr Bryce**—I think there is a considerable amount of gas out there that has yet to be discovered or has been discovered and has been capped. I think if there was a will, that could be brought here.

In relation to Western Australia, if the economics work, we want to put in these new world scale plants. I have to say that DRD have been very, very active in attracting industry, and that is important. They have had their trade missions and all the rest of it, and they are very, very active and they are very efficient. Certainly in the foreseeable future some of these large investments could go to the west but there are other large investments. There is still \$2 billion, \$3 billion or \$4 billion sitting around the eastern coast that could take off.

**Senator LIGHTFOOT**—I understand there is \$6 billion altogether of petrochemical investments in Australia, of which I think four are in the west.

**Mr McAllen**—Four are in the west.

**Senator LIGHTFOOT**—Yes, a significant amount of those are in the west.

**Mr Bryce**—As I said yesterday, that \$6 billion was a very, very cautious figure. In fact, it is probably closer to \$10 billion. There is still a tremendous amount of scope here on the east. We are really talking about federal government incentives here, and obviously the state government has got incentives, but the really big ones that will decide if there are plants that are going to happen here in Australia are federally related. Of course, that gets back to the infrastructure that we were talking about yesterday as well.

Western Australia is certainly in a very good seat at the moment and there is not anybody within a bull's roar of what the west is offering at the moment.

**Senator LIGHTFOOT**—I just want to make one more comment. Of the 1 million tonne capacity of caustic soda that the Pilbara project or the PPP will generate, Western Australia will take over half of that, which is a significant amount, it is over half the nation's consumption of it in Western Australia. So we will be looking for exports, too. We hope there are no tariffs between Western Australia and the east with respect to that.

**Mr Bryce**—I hope so, too. There is a non-tariff barrier existing there, of course; they are called ships.

**Senator LIGHTFOOT**—And what is called the Nullarbor Plain.

**Mr Bryce**—Yes, but certainly shipping would be used.

**Senator LIGHTFOOT**—As cabotage makes it a bit difficult?

**Mr Bryce**—Yes. If we had to bring stuff back to the west across the Nullarbor, that would be great, because the freight rates coming east are—

**Senator LIGHTFOOT**—About one-third of the fuel cost, basically.

**Mr McAllen**—Yes. The chief executive that was here in Australia recently and left to work globally, went to Singapore and he had a \$2 billion cheque book to invest. The authorities there rowed him out into the middle of the bay and said, 'That is where your plant is,' and he said, 'That is water,' and they said, 'Well, then, that hill there will be

knocked off and the land will be provided and that is where your plant will go.' That is the sort of encouragement that you get in some of these places if you want to invest.

Leaving aside history, we get to the area of industry policy. I guess this industry has never been comforted or thought to have been worth while by officialdom. In our view, there has been no industry policy. This current climate of discussion about industry policy, what is it? Is it picking winners? Is it making industry feel welcome? What exactly is it? It is very hard to define.

**Senator LIGHTFOOT**—I can tell you what it is, Mr McAllen. It is very, very valued right across Australia.

**Mr McAllen**—Well, we want to see more of it.

**Senator LIGHTFOOT**—Right. Come and talk to us again.

**Mr McAllen**—We know the state governments have always been quite manufacturing oriented but federal government has never been, in our view, manufacturing oriented. There has been no strong industry policy directed at encouraging manufacturing. So we hope we are seeing a sea change here and that will be to the benefit of our industry because what we are talking about here with major petrochemical investment is not picking winners but just getting the settings right to ensure that a valuable sector of Australia's manufacturing has a future.

**Senator LIGHTFOOT**—I think the generic figures are that from gas that is produced from the ground, to put that into LPG there is three times the value. If it goes into chemicals there is seven times the value.

**Mr McAllen**—Yes.

**Senator LIGHTFOOT**—That is what we are after. We are after value addition which will bring with it employment and, we hope, job security.

**Mr McAllen**—We hope, too.

**Mr Bryce**—I think the issue with jobs is an important one because, as you know, apart from the construction phase the actual employment level at a petrochemical operation is not huge but, by having these world scale plants here, that will improve costs and, hopefully, reduce prices to end users. Of course, we have the plastics processes in this country and those companies, as I said yesterday, range from two or three people right through to hundreds. They are quite heavy employers and, of course, as I also said, one industry feeds to another one.

**Senator LIGHTFOOT**—That is right.

**Mr Bryce**—So the employment repercussions for our industry—there is about 10,000 people employed in the basic chemicals industry, the heavy petrochemical industry—our

organisation represents over 100,000, so a lot of that 90,000-odd are in those smaller companies that do employ more people.

**Mr McAllen**—We do have one emerging problem, and this is probably not directly related to the APEC topic, but with the desire of the Asian countries to correct their books, we see a very strong likelihood of a lot of products coming from Asia in the first half of this year and being dumped on the Australian market.

Why the chemical industry is so sensitive to the dumping issue is because our markets are small and a small amount of dumping can cause a lot of damage in Australia. We know also that our trading partners, the EC, the US, Canada, et cetera, have very efficient dumping mechanisms which I think will be fully armed to look at the fairness or unfairness of trade in a dumping context that may occur as these economies start to export for good currency, principally the US dollar.

We say it is very vital in the next year, this year coming, to ensure that Australia has got its act together in terms of having an efficient and effective anti-dumping system. I think that is a very important issue and one that needs to be addressed. I am aware that it is being addressed by the coalition government and the industry is taking every opportunity to tell you about the urgency of this problem.

**CHAIR**—Thank you.

**Mr Bryce**—Could I just add one comment?

**CHAIR**—I was going to say that I know my two colleagues on my left here have another commitment to go to.

**Mr Bryce**—Okay, I will be very quick. We had a quick question that came out of the cabinet meeting the other day on price suppression; what imports come into Australia? Answer: not many. What is happening is that cheap prices are being quoted in the marketplace from Korea, for example, and that has an impact on driving our locally produced prices down. So you have to be careful. It is not just volume. It is this price suppression aspect which is very important.

**Mr McAllen**—If we are going to grow this industry with North West Shelf and open markets, et cetera, we have to have something to grow it from. We do not want to have a flat earth when this Asian crisis is all over.

**Senator LIGHTFOOT**—And it will be all over. There is no question about that.

**Mr McAllen**—I think it will be all over.

**Senator LIGHTFOOT**—It is not the death of the tiger economies.

**Mr McAllen**—I know from talking to our American colleagues, they are saying, ‘You are not going to send your dumped products into our markets. You fix your own problems.’

**Senator LIGHTFOOT**—We do not want them here.

**Mr McAllen**—Right. You fix your own problems. You do not export your problems.

**Senator LIGHTFOOT**—And we do not want them here either.

**CHAIR**—Thank you very much, Mr Bryce and Mr McAllen, for coming once again, particularly at such short notice to return to us today. We do appreciate it and I am sure the evidence has been appreciated by all the senators on the committee. Thank you very much. We now stand adjourned until 1.45 pm.

**Proceedings suspended from 12.42 p.m. to 1.56 p.m.**

**ELEK, Dr Andrew, 240 Tinderbox Road, Tinderbox, Tasmania 7054**

**CHAIR**—I welcome Dr Andrew Elek to this hearing. For the *Hansard* record, would you please state the capacity in which you appear today.

**Dr Elek**—I run a private consultancy, a very small one, working on international economic cooperation issues and it is in that capacity that I appear.

**CHAIR**—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. At the end of the session this afternoon could you wait a few moments and speak with the *Hansard* reporter, so that we can ensure all the information is correct and understood for the purpose of the record. I now invite you to make an opening statement and then we will proceed to questions.

**Dr Elek**—Thank you, Mr Chairman, and thank you for the opportunity of being permitted to put my views before you. I have prepared some notes for the presentation but I will be just running over some of the highlights and leaving them with you.

I was lucky enough to be involved in APEC before it had a name, so it goes back quite a while. It was about 10 years ago that we really started to focus on the possibility of launching this initiative, and we went public on it in January 1989 with a speech by Prime Minister Hawke, after which we travelled all around the region, in a sense seeking permission from the rest of the participants to invite them to Canberra to get the process moving.

We had a pretty clear view of what we were trying to do, and I think it is fairly well evidenced by what is happening around us today. Over the last 20 years, maybe even 30 years, we have seen a tremendous change in East Asia, a tremendous dynamism and very clear evidence that it was linked to the opening up of East Asian economies to the rest of the world, facing up to and competing with the rest of the world, trading their way out of poverty. Their success at this has been enormously important to us; as we can see, if they have a setback, we have a setback.

Our basic objective was in some senses a conservative one. There was a very good economic trend for Australia in the region. We could not be sure that it would go that way forever and we needed to start closer communications to preserve the preconditions for that. But, like all small economies, we needed a rules based international system with some disciplines on the way people carry out international commerce, rather than engage in beggar thy neighbour policies.

Leading up to the Second World War, we saw exactly those kinds of policies: competitive devaluations, splitting up the world into preferential trading blocs, which could not sensibly make room for new emerging economic powers like Germany and Japan contributing to the problems which caused the Second World War.

After that bitter experience, we had the Bretton Woods Institution set up in the 1940s. Its primary importance was to the world trading organisation, or its precursor the GATT, so instead of preferential trading blocs warring with each other, trade would be conducted on a

non-discriminatory basis, treating all trading partners equally on commercial rather than political grounds.

The IMF was set up to stabilise the international monetary system. This worked unprecedentedly well. There has never been a period in history of such rapid growth led by an even more rapid expansion of trade and recently an even more rapid expansion of international investment. But it is not without its problems, as has been quite obvious this year.

For a start, the GATT principles were non-discrimination, transparency in national treatment, and dealing strictly only with trading goods, whereas now trading services and international investment are looming larger but the GATT so far has very little to say about them.

The International Monetary Fund has done a reasonable job over 50 years but the world economy is so much bigger now and its resources are so much smaller in relation to international capital markets and formally they are not able to do the job the way they were meant to, as we have seen in the last few months.

So both the WTO and the IMF and international institutions are meeting new challenges and we have a big stake in that but, being a very small country, we cannot do it by ourselves. We need to form an alliance of similar interests. Essentially the East Asian economies share our interests and they also share our interests in re-engaging the United States in a multilateral attitude, rather than having a tendency to do it alone because they are the only superpower left right now.

This intention of getting together to share with each other a common interest has been discussed for quite a long time. Even in the 1930s Sir John Crawford had begun to write about the need for a better framework for discussion of the future of the Pacific basin. APEC has evolved essentially over 30 years. It is really based on two institutions: the Pacific Economic Cooperation Council, PECC, that formally started 10 years ago but informally some time before that. It was very useful in spelling out the shared economic interests of the region, in particular the very strong shared interests in an open, non-discriminatory system.

Without a non-discriminatory system there is no way the East Asian economies could have traded their way out of poverty because the protectionist economies would have picked them off one by one, and we still see that happening in the textiles sector. The textiles sector has been essentially exempted from GATT rules, but every time a new producer comes up they hit their ceiling and from then on there are quotas, and the next one comes along and they hit their ceiling. So this sequence of transformation of very poor countries to middle income countries could not have happened without that non-discriminatory rules based system, so the main game for us is to preserve it.

**Senator SANDY MACDONALD**—Could you explain that for us a little further? I was looking through your submission and I see that you say one of the great differences between the EU and APEC is that APEC trade liberalisation is non-discriminatory. What is the concept of that?

**Dr Elek**—Traditionally—and this is what was happening in the 19th century and up to the Second World War—people would have preferential trading systems, like the Commonwealth preferences and the French preferential system, and the Americans had a preferential system in the Western hemisphere, where they would trade on different terms with different people. They may have free trade amongst themselves but there would be strong limits on trade with the rest of the world, whereas APEC has rejected that approach, for several reasons, which I propose to go into.

**Senator SANDY MACDONALD**—Thank you.

**Dr Elek**—The other important predecessor of APEC was ASEAN. ASEAN showed that, although it had very diverse nations, they can in fact get together in a voluntary way and start to develop cohesive views. It is quite surprising how effective ASEAN has become in the international agenda setting of the Asia-Pacific. Despite its current relatively small size, they are really very much setting the agenda on what forms of cooperation will and will not work.

**Senator LIGHTFOOT**—In spite of the currency crisis?

**Dr Elek**—Right now it is a damage control year, but basically over the last almost 30 years now they have developed the ability to talk to each other and form a common view and through that, by injecting a shared view, they can be much more influential than they could be on their own. In a way, APEC is trying to replicate that on a larger scale but we have to cope with even more diversity.

What these 30 years of discussions exploring the way to try and launch something like APEC has shown is that the basic principles that you need to make things work in this region are basically what have come to be termed openness, equality and evolution: openness in the sense that you do not try to take sides against the rest of the world and keep the institutions open to further participation, that is to try to draw more in rather than lock them out; equality in the sense of mutual respect and mutual benefit, that you do things which will benefit all the participants and you do respect the diversity; and evolution is self-explanatory. You do not try to build the institution before you know what you are going to do but start small and let it evolve. As cohesion builds and trust builds, you can take more and more things onto the agenda.

For example, if in 1989 Mr Woolcott and I had gone into Indonesia and said, ‘Well, in five years time you will be having the Bogor agreement for free and open trade in the Asia Pacific,’ we would have been politely shepherded back on to the next plane, probably in straitjackets. That was just an impossible kind of ambition to even mutter about in 1989. But by 1994 it was quite a plausible objective, although still 25 years away. It was no longer a frightening prospect because people understood that APEC is not just a trading arrangement but they could help each other cope with the changes and all that implied.

It is a radically different model from the European Union, and the table at the back of my submission tries to explain it. Preferentialist against open regionalism is just one of the differences.

Perhaps more fundamentally, APEC is designed to deal with diversity, whereas Europe does not have to deal with diversity and is finding it impossible to cope with it. It is 10 years now since the Iron Curtain dissolved and they are just beginning to think about how they might in 10 years time admit the small East European economies into the organisation. That will take quite radical restructuring of the way it was set up, whereas APEC was conceived at the outset to understand it is a diverse region which is going to stay diverse for a long time and we have to live and cope with that, and flexibility is a hallmark.

APEC has proven itself in the sense it has been able to grow from 12 economies to 21 in the short time it has been there and the 21 are able to agree by consensus to go from free and open trade in less than 20 years now and they have begun to do it. Fair enough, they have done some of the easy things first, but that is how we all start a long hurdle race; we do not jump the highest hurdles first. We stack them up in ascending order, preparing the ground, learning by doing and getting the experience that in fact APEC can work.

I was remarking privately just a few minutes ago that APEC has always been an institution where every year they say, 'This is the crunch year, if it does not get its act together this year, forget it.' But each year people look back and are amazed at how far it has actually come. The reforms to which APEC governments have already committed themselves are of considerable benefit to Australia already and, as we get on to the rest of the sectors, the benefits will be that much greater.

But we do face quite a number of challenges which I have outlined in these notes. For example, is APEC ever going to be able to tackle the really difficult issues? How can it really help the international trading system? Can it cope with diversity? How will it relate to Europe? And how does it go beyond just narrow issues of trade and investment?

You cannot build a community of interest just simply by talking about trade and investment. You need to start talking about all sorts of other things that nations can cooperate on—sensible things like communication about harmonising customs procedures, getting better visa procedures to make business travel easier and exchanging information about policy experience. Many of the things that are done by the OECD in Europe can be done in Asia but have to be done in a different, less bureaucratic style.

In the short term there is no question that the 1997-98 financial crisis looms very, very large and it will be hard to focus on any of these longer-term issues until there is a feeling that the worst is over. Can APEC governments help? I think they can and they should. It is an opportunity to demonstrate how, having developed better communications over 10 years, they can act in a more coordinated way. Late last year that helped to put the early packages together much more quickly than otherwise would have happened. It was actually taken for granted that Australia would play its role, along with most other APEC participants, when any one economy got into serious short-term difficulties.

But we are not out of the woods yet, as is quite obvious. We have a responsibility, as APEC does account for more than half the world's economy, so it should be able to do something. It has the opportunity because collectively we control the IMF so, if the IMF is not performing the way it should, then thoughtfully we can make sure that it takes a more coherent view than it has been able to take so far.

Essentially the IMF has been designed to focus on one country at a time and it has just not coped well with a series of crises one after the other as they infect each other. It has not been able to deal with the situation in a comprehensive way yet and will need to do a lot more through the year. APEC governments, not in a way to say we do not need discipline but we need a different kind of program, can be influential in putting that together, and I believe it is quite important that they do so in a serious way.

APEC just cannot be credible unless, when it has a very big crisis on its hands, it is able to get involved, having been there now for almost 10 years. Unless they bring the situation of the financial crisis more under control, this is not the year to be talking about radical new trade initiatives. Damage control was invented for a year like this and we have to understand that what we should be focusing on is maintaining the momentum, rather than expecting huge new breakthroughs this year.

APEC is voluntary cooperation. It means that APEC does not make decisions; APEC governments make decisions if they feel it is in their interests to do so. I believe that it must continue to implement trade liberalisation. The evidence of the last 30 years is abundantly clear that it works and, although it causes short term pain which you have to cope with and adjust to, economies which have opened up to the rest of the world, say, in East Asia, are immensely better off than those in Central Asia or South-East Asia. That is clear to all governments. They are not going to suddenly go back into protectionism, but it is not a year in which they want to give more short-term shocks to their economy and we need to understand that.

So we can expect further progress. But what happens when you get the really hard sectors, like rice in Japan, textiles in the United States, or motor cars in Australia? Is voluntary cooperation ever going to cope with that? The answer to that is 'probably not'. Perceptions will change, because rice farmers in Japan are already on average more than 60 years old and on average by 2020 they will be more than 70 years old, so they will not be quite as influential.

But I still reasonably believe that each country will have some really hard nuts to crack and they will not be able to do it through voluntary cooperation. There will need to be some negotiations.

We have time to think through that and we need to start thinking about it now. Who should negotiate, where should they negotiate and when should they negotiate? It does not follow that you can suddenly jump in and turn everything upside down but just because voluntary cooperation works very well for 10 years, it may not work in 15 years. Let it work when it does work and think ahead to what you will do then.

The World Trade Organisation has been designed precisely to cope with these hard sectors. It has the advantages of drawing in all the countries of the world, not just the Asia-Pacific. I think to get a cultural liberalisation, Europe will need to play its part and that is best done under WTO negotiation. There is no need to turn the APEC structure upside down. We can get on doing the many things like trade facilitation and investment facilitation on a voluntary basis because it makes sense to do it and leave these negotiating issues to the forum which is actually designed to do it. I can elaborate on that later if you like.

We need to engage the attention of the rest of the world and to do that APEC needs to start liberalising, and the record is not bad so far. The individual action programs are ambitious if they are fully implemented.

The Information Technology Agreement in 1996 was a very good precedent. Once APEC governments had committed themselves to free trade in information technology products, the rest of the world did follow along and early voluntary sector liberalisation, which should start next year, will be a very big incentive for Europe to follow suit and, if they are intelligent, I believe they will. We should not assume that they do not understand the long-term benefits of liberalisation themselves—they do. But we both need help from each other later on to tackle the hardest ones. The best way to do it is to build momentum on some of the easier ones first.

A very important priority, therefore, in 1998 for APEC is to make early sectoral voluntary liberalisation work. It has worked now in one sector and we are now trying to make it work in nine more sectors. I am not sure that all nine will come through but, if some of them come through, I think we should be well pleased and then we will be looking for the rest of the world to respond.

Then the question arises of whether transforming APEC from a voluntary open regionalism to a trading bloc could help the move in this direction. I strongly believe that the answer is no and I would be very happy to discuss that as much as you want during the question time. We need to remember the decision is not really ours to make alone. We need to understand how other people view this and what their interests are. I would welcome the opportunity to go through that in more detail.

The rest of the notes go through that APEC does a lot more than just trade liberalisation. We are going to be involved in many complicated things to facilitate trade. Having a common system for visa issue and visa recognition to speed up travel is technically not that easy to do. You need to do a fair bit of preparation, set up shared software, train people and set up common systems—and all this means that some groups will be moving ahead of others.

As APEC starts to gather momentum, I believe the participants will become increasingly aware that this is why flexibility has the huge advantage which Europe does not have; that some people can set examples for others. We also need to be very careful that the examples they set do not become divisive, so an arrangement among a subgroup does not cut across the interests of the rest, but thinks ahead of how they can be smoothly involved once they see the benefits of becoming involved.

We also need these principles for relating to the rest of the world. We now have Russia in APEC and Russia's trade with Europe is much larger than Russia's trade with the rest of APEC, so we are going to need to think through some kind of guiding principles so that Russia does not by default, or without really thinking it through, enter into more relationships with Europe which actually discriminate against the rest of its APEC partners, which is the way Europe usually enters into trading arrangements. We will need to think about how the free trade arrangements with the Americas is going to work, where some are outside

APEC and some are inside APEC, and how that can be reconciled with the longer-term cohesion of APEC.

I believe that, whereas APEC has over nine years been very successful in elaborating its guiding principles and thinking through the means of cooperation as the objectives have become clearer and more has been taken on, so the principles have been strengthened and they are in fact taken very seriously. Whilst it is a voluntary and a principled organisation, let us have a mode of operating that is well understood and well respected, and that is going to need to evolve further. I go through that in my submission but I do not propose to run through all that in my opening statement. I have circulated a paper which sets it out at some length.

If I may, I would like to touch briefly on economic and technological cooperation. I do not believe we are going to have a strong sense of community and be ready to face the really hard issues opening out to the rest of the world and liberalisation if all we talk about is trade liberalisation. We need to get together in a lot of very practical ways—cultural exchanges, sharing experiences, sharing databases, and just getting to know each other.

In some ways the OECD performs this function in Europe and it is a large part of the APEC agenda to cooperate in many practical ways. For example, we know that the region is going to need a huge amount of infrastructure—power stations, ports, airports, sanitation. The capital for this is well recognised now and is mostly going to come from the private sector. There has been some good experience of dealing with the private sector and some pretty poor experience of dealing with the private sector, from both points of view, but APEC provides a very good opportunity to share what kinds of contract work, in terms of guaranteeing enough security but not giving the private investors a licence just to print money by having monopoly services. These issues have been thought through by many economies around the region now, and by sharing their experiences we can make things happen much faster. There are many other examples of sharing trading experience and sharing expertise which can be fostered in a very non-divisive way, thereby building the trust to tackle the really hard political nuts as 2020 approaches.

I have been working on that over the last couple of years. The Foundation for Development Cooperation has circulated a book that I have edited and I have submitted that to the inquiry. We are now continuing that work and I recently participated in a meeting in Malaysia where we were looking at how to give a better and clearer effect to this aspect of APEC which has tended to be somewhat neglected up until now. I can make available the report of that meeting to the committee next week. I have a draft here but I will make available the proper copy next week.

Just to conclude, with Malaysia in the chair in 1998, I think they will have a very strong interest in pursuing the economic and technological cooperation agenda. They will be interested in pursuing the commitments to early voluntary sector liberalisation, but I do not think we will want to be saddled with huge new initiatives, as against making sure it gets implemented.

They will want to think through how APEC can go beyond trade and investment on to cooperation, infrastructure, macroeconomic policies, problem solving, shared training

programs and student exchange programs. All of this will be of interest to Malaysia as a developing country and it is of interest to us to help them do that. This year, when early voluntary sector liberalisation is important, having promised to do it, it is very important that at least some of the nine sectors have complete programs in them.

Finally, there is one side issue of China and the WTO. I think it is a running sore in APEC that China and now Russia are not part of the WTO. In China's case, it is a member of APEC. The United States is effectively blocking their entry and I would hope that your committee will see its way to make a strong recommendation that Australia should state unequivocally that the time has come for China to enter the WTO, based on its huge sweeping reforms over 20 years. Obviously there is more to be done, but all of us have further things to do.

The time has come to stop hiding behind the United States, having little tactical opportunistic negotiations, but to take a more strategic view of it and say, 'The time is up, if APEC is going to start taking leadership in global negotiations it has got to be cohesive' and we cannot be cohesive if one of them is being blocked from a system which it needs and where we need it to be. I am happy to elaborate on that also. Sorry, I have spoken for quite a long time, but I am at your disposal.

**CHAIR**—Before I pass to my colleagues, thank you very much. That has been an excellent presentation for the committee. As you are one of the people who was there at the formative stages, could you give us for the record some idea of how the initial stages were approached? You said that if you had walked into Indonesia and said, 'Look, we are going to go down this path in terms of trade liberalisation,' you would have been out on the next plane in a straitjacket. Obviously APEC has come a long way since.

What was the initial vision, albeit maybe even a semi-private vision, of how this would unfold, what it would do and how it would set about its achievements? I think that is germane to how people will see this organisation operating into the future.

**Dr Elek**—I think that is quite important and I think one problem for any bureaucracy is that institutional memory can be quite short because people come and go and swap to different jobs and ministers change portfolios and move on to different things and it can tend to lose sight of why it has emerged the way it has. So I am glad you asked me to expand on that.

I would strongly recommend that you raise these issues also with Professor Peter Drysdale, who was probably more than anyone else in Australia instrumental in making all this possible by working very purposively at this since the 1960s, preparing the ground first among the academics and some senior bureaucrats and later on involving the bureaucrats a little more formally in the PECC. The trust that was built up through that was what made it possible to go the next stage in a more structured way involving governments at the highest levels. That just could not have been attempted without his efforts.

In 1980 when the PECC was formed, I think they would have been quite happy to go to the APEC stage of bringing ministers together regularly. But the region really just was not

ready, and it took about eight or nine years for all of us to understand what was intended and what could be done and what should not be done.

This key concept of mutual respect is something which is taken very seriously in APEC. It is a region in which we have to be conscious that some of the small economies now will be the huge ones later. Indonesia will, on fairly modest projections of their productivity, be a huge economy in 30 years time. China, again based on very modest assumptions of their productivity, will be by far the world's biggest economy. Therefore, you need to have a situation where you pay serious respect to the views of those currently not so strong in order to build a cohesive structure for the future.

It was quite important that we understood the importance of that and the strong desire for East Asia not to take sides in international economics as we went through these things in 1989. Japan is adamant that it does not want to take sides in trans-Pacific debates between East Asia and the United States and certainly does not want to be, if you like, the Asia card for the United States in its dealings with Europe. It is just too big for that, it needs a global economy.

Similarly, China and Indonesia know full well the size they expect to attain, and the adjustment we will have to make to that over time cannot be accommodated within even the APEC region, you need a global economic system. So APEC was always seen as a coalition for protecting the global system, not as some kind of fallback to it. We cannot afford a fallback. The fallback does not work. The region is too big to cope in isolation.

One thing that was very clear as we went around in a listening mode with Dick Woolcott in 1989 to 14 of the proposed 15 countries—we could not go to Taiwan as officials—it was stressed to us that it had to be based on a voluntary process of cooperation and that this region is too diverse to have a system imposed on it which requires people to enter into local obligations as a right of membership. There were a lot of common interests. Therefore we should be intelligent enough to find a way of acting on them without having to spend 10 years drafting a treaty before we even begin.

The second thing which came up in country after country was that people said to us time and time again, 'We want this to be as we have been discussing in the PECC for the last 10 years. We want it to be cooperation without taking sides, without trying to form some sort of discrimination against the rest of the world.' Quite a few people put it in the very simple words, 'If your hidden agenda is a preferential trading bloc, forget it. We are just not on board.'

We had to make it categorically clear that it was certainly not the intention. It does not mean that the issue should not be revisited from time to time. That is a more common way of economic cooperation and we need to rehearse over and over again why it will not work in the region.

As we went around East Asia in 1989 the big trade problem was the United States, not Europe. Country after country was being hit by section 301 threats of unilateral trade retaliation and they were certainly not interested in any arrangement which would suggest that they should weaken their ties with Europe in order to take sides with those who were

beating on their door even faster. They understood that the links with the United States were quantitatively stronger, therefore it made sense to have them in the group in order to, in a sense, educate them about what Asia was all about, but not in a way which in any way threatened their relationship with Europe.

I think the recent initiative by Asia, particularly South-East Asia, to launch the ASEM process, the Europe-Asia meetings sequence, is again just reaffirming that strategically they are not taking sides for APEC against Europe, and they need not.

The structure of APEC does not require anyone to take sides. It means that you pursue some issues much more intensely in the region. You cannot harmonise your standards for toys easily with the rest of the world all at once, so it makes sense to start with the group you trade with most intensively, but do it in a way that can later expand rather than divide you off.

On many things on which we have much closer trade links, we are going to cooperate faster among ourselves than globally, and that is what Europe has done in many respects with its trade facilitation. But ASEM starts to think of how to bring it together and it will not be easy to bring it together unless ASEM itself proceeds on the basis of open regionalism.

It would be an unholy mess if South-East Asia, and East Asia now, started arrangements with Europe which discriminated against us and North America. That is not their intention, but it is not that easy to do. It is not easy to have an arrangement for, say, common visa recognition which does not in a sense encourage people to travel more amongst yourselves than the rest. You need to think ahead how to make sure it can widen smoothly and easily, hence the principles to which I refer.

Just to reiterate, I think it was a very delicate exercise and APEC was, frankly, fairly reluctant. I think that, five years down the track, it is probably fair enough to put on record some of the things they said. They were worried about the United States. They would have been just as happy to start without them, not to exclude them but to sort ourselves out before we brought them in; but politically, with Japan not wanting to take sides, that was impossible.

They had a constant fear that some time later, four or five years, the US would finally realise APEC was there and would want to put its own stamp on it, which was likely to be a very different style of cooperation, and they were frankly worried about where Australia would sit in that situation.

In 1993-94 we did not perform all that well in that respect. We very much swung across to the American line until 1996, so it was a fairly tense time. Australia cannot afford to be inconsistent. We are such a small player in these games that it is only by having a clear headed view of what our real interests are, rather than responding to pressures, that we are going to have any credibility at all.

We were able to be influential in launching APEC because Australia and Japan, through Sir John Crawford and Saburo Okita, had launched PECC 10 years before that. They had

been intellectual leaders through the Australian National University. They knew where we were coming from and we were non-threatening. We were not asking them to do things which were against their interests or were divisive.

I think that is the only way we can have any real influence. If we are not going to make people do what is in their interests, we had better understand what their interests are. Fortunately, many of them are shared, so it is not as if we are going to do ourselves damage by walking with the rest.

**CHAIR**—But for us, because we are not part of AFTA, we are not part of any other organisation such as NAFTA, and obviously we do not sit with the EU, really it is something that we need to be in and to be a force within. Having said that, I would like your comment on the role that the Australian government and its leaders have played in both the formation and the development of APEC, and in the future what role the Australian government and government leaders and so on should play in APEC. Should it be a significant role or should they be stepping back and allowing business to take over the role? Where should we sit in that scenario?

**Dr Elek**—I think APEC is a very important coalition, through which we can project our interests much more effectively than we could ever hope to by ourselves, or in combination with New Zealand, for that matter. We have so many shared interests with East Asia, it is important to have this forum in which we can do that, initially to the United States and then, once we got them on side with what we have achieved, we can really be quite powerful in international forums.

It is potentially going to be vitally needed to protect an international system. Europe is going to be very self-preoccupied for the foreseeable future. It does not know how to cope with East Europe, let alone North Africa, and it is going to have a great many short-term problems coping with the common currency. It is just not in a position to, nor does it have an interest in, taking the lead on multilateral issues. It needs to be the rest of the world that does that, and we can only do it effectively by having the United States playing a leading role. But they need to come back to what they were interested in after the Second World War: a global system rather than one that is fragmented into very little blocs.

APEC is a very important vehicle for us to achieve that. We need smaller caucuses. We need to talk to East Asia separately—not secretly but separately—to understand our common interests with them as comprehensively as we can, not necessarily joining the EAEC, I do not think that option is relevant, but in practice by caucusing informally with them and to understand their point of view and to realise how much we share it.

The Australian government was effective in setting up APEC. I think a tremendous amount of credit should go to then Senator Gareth Evans at the outset, who was the initial chair of APEC. I think he did a really brilliant and sensitive job of displaying diplomacy, as did Dick Woolcott, just to be able to take on board not so much resistance but reservations and valid questions about the setup of it, and by proving that we were willing and able to respond to it. We were able to listen to 12 other potential participants but still put together in the chairman's summary of 1989 a coherent framework, which two years later became the

Seoul APEC statement, which is still the APEC charter. It is very much taken from the 1989 summary, which distilled fairly separate agendas to begin with.

I think our ability to do that was impressive and I think we can keep doing that, not just pushing our own barrows and getting preoccupied with narrow Australian interests, but to be in a sense helping to be the regional spokesman, if you like, and articulating some of these shared views. Because we do have a comparative advantage: our political system is much more able to take risks than the Asian ones. We can float kites with much less risk of personal downfall than a senior bureaucrat can in almost any other country in Asia that I can think of. So we can try to put these things together and see if they work and take some risks for other people and we can serve that purpose very well.

The dichotomy between business and government, I do not frankly see that as a problem. I think it has always been welcoming to have intelligent business inputs. They are not all that easy to obtain. Business always knows what it wants governments not to do and what it wants them to do for them, but seldom in a comprehensive way, as against being fairly focused on their particular company interests, and that is exactly what they are paid for.

The Pacific Basin Economic Council, of which Sir Russell Madigan was the founder, has now evolved into the ABAC, the APEC Business Advisory Council. It is proving quite effective, but you find behind the scenes they rush around and seek views from various other experts on what they should say, because business does not tend naturally to think in these international global strategic terms. So I do not think it is a matter of letting them run it, because they would not want to do that, but the door is open for them to give their advice.

For example, in 1997 they recommended the partnership for equitable growth, where if APEC comes up with a scholarship scheme or a traineeship scheme, business is prepared to put up some money for it, and they would want APEC governments to chip in a bit to show their commitment, but they are ready to put their money where their mouth is. As we stressed in our FTC submission, it is very important for APEC to catch that ball. It is not often business offers to give money for projects identified by bureaucrats, but they have undertaken to do so, so it is time to make that work in 1998.

**Senator SANDY MACDONALD**—Dr Elek, you said that APEC operates on a unilateral country by country undertaking to trade liberalisation and you said that it works well now but in 15 years time, as we get close to the expiration of the 25 years of the Bogor declaration, it might not. That is an interesting concept.

I also note, when you said that the hard-nosed negotiations take place subject to the WTO agreements and undertakings, you mentioned that both Russia and China were not members of the WTO. The first question is: are all the other members of APEC also members of the WTO and when do you think the People's Republic of China will become a member of the WTO?

**Dr Elek**—If I could take the last question first, the three countries who are not members first are China, now Russia and also Taiwan. There is no real expectation that Taiwan would be able to join without China's Realpolitik in that situation. The problem can be solved, and China is not at all averse to Taiwan joining as an economic entity, as against the fact that

you can dodge the sovereignty issue in the WTO. But it is very reluctant, and no-one is contemplating admitting Taiwan before China, so they would have expected to join together.

My personal view is that it should have happened three or four years ago; that China, like many other places, has lots of difficulties in operating in China but it is not on its own in that respect. In many ways I would say it is well ahead of many African and Asian countries in having a very deep commitment to the international trading system, having had a remarkably sweeping set of reforms, incomplete as they might be, as is the case for all of us. I think they have demonstrated the commitment and on that basis they deserve to be allowed in as a developing country, and that right is being denied to them.

The rules have been changed, the goalposts keep being shifted by the United States. When it is allowed in depends ultimately on the United States, but I believe the time has come for us and for Europe to stop saying, 'In principle they should join but of course it has to be under the right conditions,' which is a code for saying, 'When the United States thinks it is willing to move.' We should truly make our stand quite clear on that.

**Senator SANDY MACDONALD**—You said—I cannot remember what terminology you used—that of the 10 sectors one trade sector has already achieved the Bogor declaration. In other words, there is obviously no tariff involved in that area. What area is that?

**Dr Elek**—Information technology. I am not 100 per cent sure that it is free trade already but the commitment has been made and it is moving towards it on an agreed time schedule.

**Senator SANDY MACDONALD**—What is the European Community's perception of APEC, if any? Are they interested in its development? Are they concerned about it? Are they keen to be participants in its development or do they have no opinion whatsoever about it?

**Dr Elek**—They have been intensely interested right from the start. It is the first international grouping of any real significance where they are not at the table, which itself has made them sit up and take notice that they may not be so much at the centre of the world as they thought they were.

They have difficulty coming to terms with APEC because it is so radically different from the way they organise things. They find it difficult to believe that countries can cooperate without legal commitments to do so. This will take time to understand.

I think the ASEM is an excellent initiative by Asia. I would envisage that not evolving into anything like APEC. There is no intention of anything like that. It is just not on the agenda, but it can evolve easily into, for example, forums where they start to harmonise some European standards with Asian standards in a more pragmatic, sensible way.

For example, if APEC sets up what looks now to be a very efficient and very good customs harmonisation service, Europe will want to join. They have got some very efficient ways of harmonising certain things which we can join, but they realise that it can only work if it is voluntary. Asia is not going to enter into legal EU type commitments to do so; it will do it because it makes sense to do it.

APEC really rests on the premise that most things you do in international economic cooperation are in your self-interest to do. Therefore why not have the intelligence to encourage each other to do it voluntarily, rather than pretend it is bad for you.

There are a few sectors where the short-term politics is just so difficult that it outweighs the understood economic long-term links, and that can only be done in a negotiating situation where you know that it is economically good for you but politically it is bad for you, therefore you can only do it if others do it. But there is no need to pretend that everything else is bad for you and you have to be locked in to do it legally. What you really want to do is to have the lines of communication and logistics opened up.

The dominant view and what emerged in the Osaka agenda is that APEC should get on with all those things it can do on a voluntary basis and have flexibility—and obviously flexibility is the code for leaving the hardest until last, and that is a natural thing to do. But APEC has never promised that the hard sectors have to be opened up fully through an APEC negotiation. We can find a better alternative.

It is as if you are in a pub and getting along very well, but a couple of people look like they are going to start a fight. You say, 'Well, if that is the way you are going to behave, settle that one outside while the rest of us get on with our conversations.'

So when we get down to the really hard nuts it may make sense, rather than turning APEC into an adversarial negotiating body, to keep it as a voluntary body but, where it does not prove adequate for those old issues, deal with them in the format which was designed to deal with them, and which is also designed naturally to draw Europe in at the same time.

I cannot imagine America ever liberalising textiles or agriculture comprehensively unless Europe does. The option of doing it within APEC first is not realistic because then they would have to face the East Asian competition all by themselves, and they are not going to do that.

**Senator SANDY MACDONALD**—You are saying that APEC is a serious discussion group for grown-ups: if they want to have a row, go outside. Do you think that Australia has a legitimate expectation to be a member of the ASEM talks?

**Dr Elek**—The short answer is yes, but not having been taken on board at the start, and I think we have ourselves to blame for that—it is the price you pay for calling people names; if you call someone a recalcitrant, they are not going to forgive you for a long time—

**Senator SANDY MACDONALD**—Of course, some of his Asian neighbours might have called him a lot worse.

**Dr Elek**—Yes, there is no question of that.

**Senator SANDY MACDONALD**—I do not know what the song is; I do not think he likes anybody very much.

**Dr Elek**—He is quite unpopular. Everybody thinks they deserve each other, basically.

**Senator SANDY MACDONALD**—Is Japan a member of the ASEM?

**Dr Elek**—Yes. But not having got in on the ground floor, I think it is now counterproductive for us to be constantly grovelling and begging to be allowed in. I think we now have to rebuild our credentials to be seen as a natural member who it would be an asset to have in those discussions.

I think our credentials are not all that strong. In a lot of things that APEC has come up against since its establishment there is a constant tension with the United States wanting to recast it in a more formal adversarial mode that it understands a lot better, and all too often we just dipped our lids to that, without sticking to our original correct view that it is not the way this group is ever going to work. We tried to have it a bit both ways.

So often when the crunch has come and the US has wanted to turn it into a trading bloc, we have a cabinet submission which says, 'Perhaps it would not be so bad after all,' although we know full well that it cannot happen and cannot be done. We just dip our lid, which does not help our credentials. There is a bit of a joke going around Asia: 'We will let them in but first we will have to see which side they want to sit on.'

We do not easily fit, unless we have a very consistent view and can demonstrate that in complex issues we can see our way through and understand that on most of these issues our longer term interests are very much the same as East Asia. I think our standing on that was better five years ago than it is right now, but I think it is quite important to stop grovelling and just re-establish our credentials.

We are free to make our inputs, Asia is very willing to listen to what we have to say. We are not going to sit at that particular table in the room at the same time, but we can make our views effectively felt in other ways.

**Senator SANDY MACDONALD**—I would like a general comment from you on the economic crisis in Asia. Do you think it has bottomed and, if it has not bottomed, when do you think it will and what is your perception of the impact that it might have on our growth figures?

**Dr Elek**—I will not hazard much of a comment on the last one. Many other people are much more qualified than I am to put a number on it. My tendency is to put a bigger number on it than I have seen forecast. I think it is several percentage points rather than half a point, but this is not my strong suit these days; I am not working in that area.

I do not think it has bottomed yet. In one sense it may have. I think the real panic speculation on the currencies may have peaked; I certainly hope it has. At the rate at which they seemed to be settling, everybody breathed a sigh of relief when the rupiah was at 8,000 rather than 15,000, but at 8,000 a lot of good, sound private companies are still going to go bust, and that is a process which can drag on for maybe two or three years before there is any strong steady recovery back to anything like the previous rate of growth. I am quite worried that the recipe of asking them to impose more austerity on themselves is just not making sense. There is already a clear shortage of demand in those economies.

This is a good chance for new investments to go ahead. Instead of deferring the public infrastructure projects, like they are being pressured to do, it is a good time to launch them because not much else is moving, so you are not going to have inflationary pressures if you do it. But all this can only be put together if people have some confidence. That cannot happen until the overseas banks who lent to them realise that they are going to have to share quite a bit of the pain. They cannot expect all the pressure to be borne in these small South-East Asian economies one by one.

If we collectively do not lean on our own banking systems to be sensible and not try to get blood out of a stone for the next two years, or until the currencies do recover, then we are doing ourselves harm. Those debts cannot be serviced at anything like the current rates and unless it is clear that they do not have to be and they will have breathing space, the rates will not come back up, so you will tend to have a vicious circle.

I believe that APEC governments should be putting their heads together to work out a way to do that, to have a comprehensive rescheduling. It has happened now in Korea and it is being forced on us in other places. Rather than waiting for a chaotic rescheduling, we should be ahead of the game and saying that APEC is big enough as a collective set of governments to be able to get that right if they focus on it.

Already we missed the boat in 1997 at Vancouver. I do not think anybody needs to be blamed for that, it was just a bit too early in the piece for anybody to know what to do about it, but in 1998 the seeds for a comprehensive reaction by Japan, the United States and Australia—we have mostly done our bit—have to be seen and visibly seen by the rest of APEC to make it a credible community, as against just the group that discusses narrow trade issues.

**CHAIR**—How much are the Asian nations looking to Australia for leadership in this area, or in all areas within APEC? Do they see us as having a pre-eminent role?

**Dr Elek**—I think we have slipped a bit since 10 years ago. There is quite a disappointing article today in the *Australian* by Greg Sheridan, who has just talked to a senior Singaporean minister, who was saying that we are just bystanders, we are not getting our act together properly. I think that is a bit unfair, but that is the perception they have and we have to live with that.

**CHAIR**—I was not trying to look at personalities or governments; I am looking now in a more generic sense. Do they see us as having a pre-eminent role to countervail the influence of the United States?

**Dr Elek**—They do expect that of us and we need to rebuild our credibility in doing so. Too often, as I say, we have just dipped our lid to US views, just to try to be nice to everyone, instead of being coherent about it; and we are seen as being able to play that role and expected to.

**CHAIR**—Whilst we may well believe that APEC has assumed a momentum of its own, is there a need for us as a nation to continue to drive the agenda, so that we just do not allow this organisation to rely solely on the momentum that it has gathered itself?

**Dr Elek**—I think that is exactly right. It does have to continue to evolve and once it gets into complicated areas like trade facilitation, all sorts of interesting issues will arise. As I say, its principles will need to be strengthened. We have come to be seen as a source of articulating new principles and being prepared to put them on the table in an impartial sort of way; that is in a sense why I put a lot of weight on this in the recommendations.

We cannot just sit back and watch, otherwise we will be ignored. We are too small to just sit and watch, we need to be proactive and try to think about where APEC is going to be in four or five years time. We are not going to be very influential in any one particular year, from one year to the next, so our comparative advantage is really trying to think through the broad nature of the process, to work out what kind of shaped principles it will need in four or five years to cope with the kinds of issues it will be dealing with at that time.

I think right now there is an opportunity for Australia to show a bit more positivity than it has, but let me qualify that to be as positive as it can be on broadening APEC beyond just trade investment into economic and technical cooperation; not to misconstrue it as some kind of old-fashioned aid, people asking us for money. It is not that kind of cooperation; it is more everybody contributing what information, expertise and technology they have, rather than passing money around.

So there is a new model that has been thought through by it. The Manila declaration in 1996 spells it out, but not much is happening with it and that is why we are having these meetings with Malaysia at the moment. For a couple of years there was a bit of a sense from Australia that we do not want foreign aid mixed up with this. That is true enough, but there are more intelligent ways of having cooperation, more in an OECD style, and we should be at the front in that rather than dragging our feet, whereas North America certainly is dragging its feet.

One more point where we need to see our interests very clearly is in the style of the organisation. The fact that it is voluntary and consensus based is of value to us, although it means that sometimes we can become impatient with it. If it was transformed into a rules based voting system, our vote would be a very small one indeed, whereas, while it is consensus based and we do have a good idea, we have something important to put on the agenda, we can do so very effectively. That would be largely swamped once it became a formal organisation because the three or four giants would make all the decisions and set all of the agenda.

**Senator LIGHTFOOT**—Dr Elek, given the demonstrable instability of the won and the baht and the ringgit and the rupiah, particularly those currencies, I just wonder what part—and I do not want to regress here in economic terms—the Bretton Woods gold standard would have played; in other words, if we went back on to some kind of gold standard? There is not much support for that, but I want an answer from you if we can.

I believe that this is only a pause in those economies. They have tasted the good life in an economic sense. Most of those countries I have mentioned—Thailand, South Korea, Malaysia and Indonesia—have had massive growth, they have doubled their economies in the past decade, although they are only relatively small. In fact, in aggregate, they do not

equal that of Australia, or perhaps with South Korea it might. Indonesia, with 200 million people, has an economy which is only about one-tenth that of Australia, and less so today.

It seems to me that in order to give some confidence of stability, those economies will need to be backed by some asset other than what their central banks have in terms of nebulous foreign currencies. I say nebulous because some of the currencies that, say, Malaysia held have not weathered the storm very well. As a consequence, their currency has been devalued because of the other assets they have had in their central banks.

I wonder if there is any part that a revised Bretton Woods system could take that would give some stability, such as the fixing of the price of gold and a necessary part of an economy being backed by a certain amount of gold, in a new, healthy, vigorous but, above all, stable South-East and East Asian economy?

**Dr Elek**—I think the experience of the last year has shaken quite a lot of people's assumptions about floating currencies and has revived the fear we had pre-war of competitive devaluations; if one country devalues massively, it becomes much more competitive. If somebody tries to out-devalue them, trying to beggar thy neighbour, it will just take you down the spiral that you saw in the 1930s. The IMF was designed to avoid that.

**Senator LIGHTFOOT**—Hence the Bretton Woods system in the 1930s.

**Dr Elek**—I think the Bretton Woods system needs fairly constant overhaul, particularly in this respect. The IMF position is not deep enough to support floating currencies once they come under strong attack. I would not be surprised if people move away from freely floating currencies, once they stabilise. It does not mean they are going to have rigid currencies.

Frankly, I do not believe people will go back to the gold standard or that it would be appropriate to go back to any one commodity. It is no longer a viable index of productive capacity or wealth, even in the current world.

**Senator LIGHTFOOT**—But has not the retention of US dollars by most central banks been in fact a de facto standard?

**Dr Elek**—As you know, the US went off the gold standard in a rather dramatic way in 1971.

**Senator LIGHTFOOT**—1972.

**Dr Elek**—As you say, the US, despite its big debt, is still the standard currency which people are happy to hold in large volumes. In practice, economies will be running exchange rates trying to be as stable as possible against the euro, which will emerge next year, and the US dollar. There will not be much room for doing otherwise. Realistically you cannot run a good economy now unless you have a fairly stable exchange rate.

You cannot stop massive capital flight altogether, therefore you cannot run your economy badly out of kilter. So there will be pressure on governments to manage their economies in a way that they can be stable against the dollar but not let that be tested by the market from

day to day. So in a sense they will be very highly managed floats and perhaps even managed rates.

**Senator LIGHTFOOT**—The problem as I see it is that it is tested by the market on a day-to-day basis. There is unquestionably a high speculative element about currencies that rise and fall, particularly mediocre currencies like Australia's, in terms of aggregate; it does not aggregate much compared to those of the European countries, Japan or the United States. What is to stop speculators seesawing the currencies? They have only got to make less than one percentage point and they could make millions or sometimes billions of dollars a day.

**Dr Elek**—The cost of speculating has been far too low compared to the benefits, as we have seen, and I think that will not be tolerated. I do not think that simply taxing it is going to work; I do not see how you could enforce that.

I think people will create a situation where they make it clear that they will defend their currencies, they just will not change, so that they cannot buy and sell massive amounts on a short-term scale, and you can impose certain capital controls to restrict that. But effectively currencies will become very stable against each other over time; otherwise people just will not use them.

**Senator LIGHTFOOT**—Would it be fair to say that if the currencies I mentioned that have been subject to such crises at the moment were backed in part by gold under a Bretton Woods type system, that they would not have fallen to the degree they have; witness Indonesia falling 80 per cent of its value at one stage?

**Dr Elek**—I think the fundamental answer is that the demand and supply of those currencies has to be roughly equal—not over any particular day or any particular month but over two or three years. People have to see that the economy produces as much as it consumes; otherwise it cannot stabilise at any level, no matter what you have notionally attached yourself to.

The fact that people know what it will be worth in three months time, unless something very drastic happens, will stop short-term speculation, but then you have to conduct your macroeconomic policies to make it credible in the longer run.

Hong Kong has succeeded remarkably in that. It has accepted the discipline of an absolute fixed link to the dollar, it has had to make some rather short-term drastic adjustments in interest rates to maintain that, but it now has a long-term track record in doing so and it will stay with that. Europe has gone for the ultimate solution of propping their own currencies in order to lock themselves into each other.

**Senator LIGHTFOOT**—How do you stop the free-fall of currencies like Indonesia's? Indonesia unquestionably has been undervalued and overreacted, even though it was having serious problems. Would you not agree there was an overreaction to it?

**Dr Elek**—A huge overreaction. At 8,000 it is still hugely out of kilter. Maybe 3,000 or 4,000 might start to be reasonable, but at 8,000, which it has come back up to, it is irrationally unvalued.

**Senator LIGHTFOOT**—How do you stop that?

**Dr Elek**—China has been able to prevent it by not being a freely floating rate.

**Senator LIGHTFOOT**—That is right; it has a fixed exchange rate.

**Dr Elek**—That has its own risks but you can get your economy out of kilter for too long and get into a situation which is not credible, and no matter how fixed you say it is, you are going to have to give way some time.

**Senator LIGHTFOOT**—How do you prevent that overreaction, so that it does not happen again?

**Dr Elek**—My hunch is that Malaysia, Indonesia or Thailand will go to not necessarily a Hong Kong-like system but a China-like system, where current account transactions are completely free and short-term capital exchange is made quite difficult.

**Senator LIGHTFOOT**—So no Bretton Woods type system?

**Dr Elek**—It is a new Bretton Woods style. You are not going to go back to the gold standard.

**Senator LIGHTFOOT**—But something akin to that?

**Dr Elek**—I think we are going to go back to having to give the IMF a new strategy and a new mandate to be thinking these things through in the longer term, realising the countries are very interdependent. You cannot just shut down one country after another, you have to have a cohesive strategy in which everyone plays their part. But it is not going to be seen as a gold standard; it will be a de facto US dollar-euro standard, the two together. Any country that is serious about long-term development will have to run an exchange rate pretty stable against both those. So it will be a de facto major currency standard.

**Senator LIGHTFOOT**—What about the George Soros of this world—what part do they play in the destabilisation of currencies, particularly one as small as Indonesia's?

**Dr Elek**—I do not know about personalities, but certainly speculators have been hugely destabilising in the last few months. Ideally we could find ways not to let it happen again.

**Senator LIGHTFOOT**—Could I just quickly shift on, because time is running out. On another subject, how does our CER relationship with New Zealand fit with APEC? In other words, are we doing a juggling act here or is New Zealand seen—I do not suppose there are any New Zealanders here—as the seventh state of Australia for the purpose of APEC, or is it detrimental to us? Are they seen as being too favourable?

**Dr Elek**—CER is a fairly clean subregional arrangement; you have complete free trade with New Zealand, and we have undertaken at a fairly serious political level to drop trade barriers against the rest of the world by 2010. So the fact we have freer trade with New

Zealand than the rest of APEC is not a big hang-up, provided we meet our 2010 commitments; that is a very short-term thing.

There is a lot more to things like the CER and ASEAN than just the trade barriers. For example, the fact that we have harmonised competition policy with New Zealand makes it enormously easier to trade with New Zealand and it makes it enormously easier to deal with problems like anti-dumping because we do not need to worry about things like that. There are a myriad of ways of doing business with New Zealand and other places which can be extended to the rest of APEC if we organise it in a way that we welcome other people into it. I think we are doing as much as we can but I think we can do it a bit more systematically than we have been doing.

NAFTA similarly: in some ways we have discrimination in favour of Mexico against East Asia, but if they both deliver on their pledge to have free trade by 2010, we can live with that, that is a temporary thing. What is more important is all the common regulations or common harmonised systems they might bring in as part of the NAFTA arrangements, not border barriers, just harmonised domestic arrangements. If they are done in a way that the rest of APEC is free to join, that is crucially important and so far that has not been thought through.

**Senator LIGHTFOOT**—Very briefly, Dr Elek, does our membership of APEC limit us in an economically—I am talking long term—undesirable way with respect to locking us in ad infinitum to the detriment of trading with the other two major blocs, NAFTA and the EU?

**Dr Elek**—Not at all, Senator. I think it could have if it had gone the way of traditional trading arrangements where we take sides and decide that we are going to leave trade barriers up against South Asia and Europe and drop them only within the group. Then we are cutting the benefits of trade liberalisation by still limiting our choice, and we are making enemies needlessly.

The way APEC is structured does not require Australia or any other economy to make those needless choices but essentially just accelerates a global movement in that direction without taking sides, and that is fundamentally important to East Asia; they will not be interested in any game other than that.

**Senator LIGHTFOOT**—My very last question: you said there would be several percentage points rather than a part of a percentage point drop in our economy. There is a 3.5 per cent mooted growth for 1997-98, from memory; that would just about wipe out that growth. Is that what you are saying?

**Dr Elek**—No, let me clarify that. In terms of total growth forgone—

**Senator LIGHTFOOT**—We will still have a positive growth?

**Dr Elek**—Yes.

**Senator LIGHTFOOT**—I am very pleased and I am sure my colleagues are very pleased to hear that, too. I am glad I clarified that because it was rather ambiguous and I

thought you meant that we were going to have negative growth. I do thank you for your contribution; it has been most interesting.

**CHAIR**—In respect of the size of APEC, you said initially that it started out at 12 and we know it has now gone to 21. The strength of APEC in its early days was the fact that it did have a limited membership and consensus was able to be achieved more easily with a smaller number of economies.

You have emphasised here today the voluntary basis on which APEC operates. One of the fears that has been expressed is that, as the size of APEC grows, the ability to retain the voluntary, consensus nature of the organisation is made that much harder. What is your comment there?

**Dr Elek**—Frankly, I do not share that line of thinking. Twelve was already very diverse, so it was never going to be able to have the rigid locked step organisation of the European Union imposed, even on those 12.

From the very beginning we had to learn to think about accommodating movement in different directions at different speeds. Some people would be in front of others and if you insisted on everyone completing each step, let us say for business visa arrangements, then nothing would happen, even with 12, because we would be waiting on the least interested. Twelve was not a credible number because China was not there, so Australia in fact led the charge to help China get in and then handed over that task to Korea, and I was personally involved in that.

China needed to be in and, once China was in, you had a radically different economy from anyone else in the region already, so we had to start a system which would not require simultaneous movement on all fronts. You do not expect to have consensus among 21, even to have something simple like a business visa arrangement. As we have seen, three countries have started, now two more countries are coming aboard and the others will come later. In that case it is quite easy to do. In some other cases it will not be quite so easy to manage, so you have to make a virtue out of necessity.

Managing Asia is really about managing and respecting diversity. We expect people to move at different speeds, whether it is a group like ASEAN or more ad hoc groups, like the business visa arrangement. But we have to try and make sure as best we can—again we cannot compel them—that we have sensible guiding policies, which people do tend to abide by in APEC, to make those arrangements among a few in a way which causes no new damage to anyone else, no new discrimination, and they are encouraged and welcome to join it as soon as possible and plan it in that way.

In that way I think we can manage a very large amount of diversity because we do not require everybody to create everything at the same time. That will not work unless we do take care of how small groups act vis-a-vis the rest. That is why Europe has actually thrown out their geometry; they do not believe they can manage it. We have to manage it, there is no choice. I think we can manage it but it does require clarification of the principles we have to date.

**CHAIR**—Thank you.

**Dr Elek**—Perhaps one more word. It is very important not to design an institution or structure which cannot smoothly draw in India, for example, as soon as it has made a clear, credible commitment to outward looking economic development. It should be able to be drawn in smoothly, which is impossible in the European kind of organisation but will be possible in APEC and probably will happen in the not too distant future.

**CHAIR**—I am glad you mentioned India, because that was going to be my next question. India is a large economy that is excluded and, if one goes on the leaders' statements last year, where they in effect took a decision to put a moratorium on membership for the next 10 years, where does that leave India and our relationship with India?

**Dr Elek**—Part of the reason I am doing this work with my Asian friends about these basic principles is to make that a more coherent process. Russia was let in essentially on a political whim. Okay, it is in and that is an opportunity as well as a problem, but we have to think about how they in turn relate to Europe.

APEC must accept the reality that we are going to move ahead on particular initiatives at different speeds. I am talking not so much about trade liberalisation necessarily but these practical arrangements, such as having the same wall sockets for your modems and your plugs; we should not have to wait for Brunei to join if the rest of us want to go ahead.

But if the system is designed according to these principles, if India wants to join in that particular scheme then it is free to do so, whether or not it is part of APEC. If they start to join these practical initiatives, they demonstrate their credibility as a constructive partner, and that is when you ask them in. I would have preferred that to happen with Russia, but that is water under the bridge.

If you have a system where you accept the different speeds but allow non-members to join particular arrangements, just the same as actual current participants, then potential participants can self-select by joining. So the actual real participants set the agenda, they decide what arrangements will go forward, but others are free to join particular subarrangements sponsored by APEC and to prove their credibility by doing so.

**CHAIR**—On the issue of the secretariat of APEC, I understand that is situated in Singapore but it is of itself relatively small.

**Dr Elek**—Yes.

**CHAIR**—Is that a good thing or should we have a fairly centralised structure based around a large secretariat to make APEC a more viable organisation?

**Dr Elek**—My view is it would be highly undesirable to make it a large central organisation. It does not fit with the character of APEC of having rotating leadership where everybody feels responsibility for it. A large secretariat would not draw the best talent in the region, it would be expensive and the best people would still be in their home base. Working group officials I think have proved to be quite an effective, low cost way of bringing people

together, and you do get the best officials on the job, rather than having the people who actually have been shoved sideways, so they cannot do any damage, being shoved into a secretariat. That has not worked well.

Again, to hark back to history, that was one of the things I should have referred to at the time when we set it up. Although we wanted to do many of the things that the OECD does, we did not want to set up a central secretariat which costs billions of dollars and inevitably starts arguments about who provides the president, who provides the deputy president, and country quotas and all that bureaucracy comes into it. It is best to avoid that, and as the current decentralised structure I think is working remarkably well I would let it run.

**CHAIR**—I have a few more questions that I need to ask. To what extent does APEC believe that the sensitive issues will be dealt with in other forums?

**Dr Elek**—I think I have brought that out in various ways in some of the earlier discussion. I think it is quite important to continue to expect that APEC country economies will not dodge the hardest issues forever, but it is not necessary to expect that to be done within an APEC negotiation.

APEC needs to create a situation where a WTO round becomes the natural evolution of picking off all the easy sectors, and then saying, 'Let us have a final round in around 2010 where we all try to clean up the remaining bits together,' rather than expecting APEC to be leading on the most painful ones. But APEC should not see itself as the answer to everybody's prayers; it will need to work with and rely on other institutions and work in a sensible partnership with them. That is part of a comparative advantage.

**CHAIR**—In evidence to this inquiry Alan Oxley was critical of the rushed way that APEC devised its trade liberalisation goals and strategy. He argued that experience has shown that APEC's time frame to achieve trade liberalisation is quite unrealistic. Do you agree that planning was rushed and, if so, why?

**Dr Elek**—Planning was a bit rushed. I think that the 2020 goals have proven to be very, very useful because it means everything is firmly on the agenda. Previously we still had the problem of, 'Yes, trade liberalisation is a good thing, but let's not talk about that because nobody wants to touch that.' By having this comprehensive target, it has made it important for everybody to be prepared to talk about everything being potentially liberalised sooner or later.

The 2020 target is not a legally binding one, which is why it was accepted. I do not think we have to worry about whether every last bit is met on the very last day, as long as we maintain a steady momentum towards it and position ourselves for a global round at around about that time.

I think Alan misunderstands the nature of trade negotiation. He is completely used to it being treated as a cost you incur only if somebody else incurs it. No country will do it unless it sees that it serves its own self-interest and, once it does so, you do not need the compulsion. That will apply to almost every sector, and the 'almost' ones will have to go to

the WTO. But if you think of it in terms of negotiating every single sector between now and 2020 in the GATT style, you could not do it and nobody is envisaging that.

You need, as I think Senator Macdonald said, the more adult approach: stop pretending that what is good for you is bad for you and work on intelligent ways of orchestrating it so that you can point and say, 'Everyone else is doing it, so we would be stupid not to be doing it,' rather than negotiating what you do not have to negotiate and wasting time on that.

It would be a big mistake to turn APEC into an adversarial negotiating forum. If you need to have negotiations, do it elsewhere.

**CHAIR**—He said also that there is a need to develop a broader consensus about the strategy of trade liberalisation among APEC economies and that there is a need for substantial discussion and research about the modalities for successful liberalisation in APEC. Do you agree with him?

**Dr Elek**—This is going to be revisited all the time. APEC is a fairly unique institution; it is always going to be challenged by people who are more comfortable with the more structured preferential arrangements. But it is completely unrealistic. The underlying question is should APEC become a trading bloc. I know his views and he is quite wrong. It cannot be done.

To do GATT illegally would be fundamentally stupid; it would be destroying the very thing we are trying to strengthen, so nobody is even dreaming of it. To do it in a GATT consistent way is not easy. GATT is a very detailed, legally binding agreement on all sectors to discriminate against the rest of the world. East Asia has made it very clear it has never been interested in it and it is not interested in it. Now we have Russia in, the whole thing is a nonsense. Given that the bulk of its trading is with Europe, it is just impossible to start to conceive of APEC becoming a trading bloc in that article 24 sense. It is just not a live option. It is rather futile to be beating it to death.

The one country that keeps hankering after it is the United States, because it understands reciprocity and no free riders and all that, but there is no way, in any scenario that I can think of, that it can happen between now and 2020. The US cannot even get a mandate to negotiate with Chile, so to imagine Congress giving the United States President a mandate to negotiate absolutely free trade with China, Indonesia and Russia, in preference to Europe, is just politically loose and undisciplined thinking. It is not in our interests, and, if you continue to harp on that, we just keep losing credibility in East Asia, which happened when we did start to play around with that option.

**CHAIR**—There are two other issues that I would like you to comment on. One is the issue of open regionalism, which obviously the Americans do not feel very comfortable with. Would you like to comment on that for the purposes of the record, please, because we did have a private discussion about that prior to the meeting.

**Dr Elek**—It is a fairly complicated one because open regionalism until now has been used in relation to the existing GATT principles which apply to trade in goods. The fundamental GATT principle is MFN, most favoured nation treatment, and that is your

former trading bloc. In that sense, open regionalism is fairly simply defined: it is not a trading bloc; if you liberalise, it is open for everyone.

It is going to become more complicated when we get into issues like trade facilitation where there are no fundamental GATT disciplines on how you do it. MFN is not an easy concept to apply, so the concept itself needs to be fleshed out. I think the key to it will be to introduce no new discrimination.

You are not going to create a perfect world from a messy world overnight, but open regionalism fundamentally will be defined more and more clearly to say: do not introduce new discrimination when none so far exists. So when you have an MFN principle, do not derogate from it; where you do not have it, work towards it in a one directional fashion. You cannot expect to achieve it overnight. We cannot insist everybody has the same plugs all at the same time, but make sure we let people know what size the plugs are and if they are smart they will come in. Open regionalism is about not simply trading bloc or not trading bloc but thinking ahead to having global arrangements as against exclusive local arrangements.

**CHAIR**—That will make it difficult for the United States in the future, will it not?

**Dr Elek**—Yes, I agree. Let me try and answer that question, again in a longer-term strategic way. The US Congress is not going to give the President a mandate for unilateral trade liberalisation because that is not the way they do things. They will accept if they are reciprocated. We have to live with that but it is not hard to live with.

The United States is a remarkably open economy, except for us—we just happen to face all the things that they are protective about. In fact it is pretty open, and most of the things most of us in Asia have to get from 20 to zero, they are already at zero or so close to zero that it does not matter. There are a few very sensitive sectors where they will do it only if Europe does—I do not have much doubt about that—but they do not have to do it until later in the stage.

Right now, as long as they fulfil their GATT obligations and end the textile obligations in time, they will have taken a lot of the political pain. So they need to do their bit later. It is up to each stage to move first, and people are happy with that.

Secondly, it gets rid of this idea—sooner or later it is going to become abundantly clear and all the graphs are showing it already—that US protection is steady and not declining, real wealth is coming down. They may be open but they are not the most open or the most opening. This sort of holier than thou thing will begin to lose credibility and they will be able to talk in a more clear-headed way.

When I say America will not move unless Europe moves on these really hard ones, that may be true but it is not expedient to think, ‘Let APEC do it first and then have leverage against Europe,’ because you cannot do it ahead of Europe. It would mean that, instead of Europe and North America absorbing textiles from Asia, it would only be America, and that is just not conceivable. It is tactically not smart.

These people who think, 'Why not have a bit of leverage,' are just not thinking through the political logic of getting the agreement and what impact it would actually have. Politically it is harder to sell it to the United States to move ahead and then have leverage. We have to be resigned to do it in the GATT round where everybody moves all at once. We may not get it all done completely by 2020 but I think we will get remarkably close to it.

**CHAIR**—The second last issue that I need to cover briefly is the need to broaden the agenda of APEC to include a broad social agenda which includes issues such as human rights, environmental issues, labour issues and so on, which has been raised before us, and thereby expanding the level of consultation that would take place within the likes of Australia as well. Because it is now seen by some of those groups that as the agenda seems to be broadening in APEC, so it is impacting on different areas. What is your comment?

**Dr Elek**—I think it chose to be economic cooperation, rather than cooperation full stop, for the reason that the areas of perceived common interest are already pretty clear in economic terms but not so clear on things like human rights or social welfare systems. There is not the same commonality as here, therefore it makes sense to start in those areas where there is a common understanding.

I can envisage an intelligent discussion in APEC getting onto, for example, labour issues. It is pretty clear to countries that if they exploit child labour and prisoner labour, it costs them because of all the antagonism and retaliation it causes, so they do need to address it and they are willing to think it through in an intelligent consultative sort of way, provided there is mutual respect there.

Let us not simply assume that American labour rights are the best labour rights or Australian ones are the only ones. People are certainly willing to talk urgently about safety standards for labour, for example. It is clear that has got to come. You start off with those and then later on you get on to other aspects of organisation and, once you establish some sort of trust, these will come in more easily.

Again, we are hamstrung by United States attitudes. The fact that they are so heavy-handed on these issues means that Australia would be very wise to keep clear of it and let that debate go on between the Malaysians and the Indonesians and the Americans.

**CHAIR**—When will the time be right to talk about those issues? For example, ACFOA appeared before us and spoke about the NGOs and, whilst they are supportive of APEC's broad thrust, their counterparts in other parts of the world are invariably vehemently opposed to the whole process of APEC because of the social consequences back in their own nations. How does one judge when is a good time to move?

This must have been a problem on other issues such as that very first liberalisation step, which you said you could not have taken in Indonesia, but you must have known when the time was right to say, 'This is when Bogor can come into play, this is the appropriate time.' How does one judge the time and how does one digest the issues such that they no longer become fringe issues but issues that have a pertinence and a relevance to the various groups?

**Dr Elek**—Looking back, it was not ever as well planned as it might look with hindsight; you just try it and see what happens.

This process of the PECC, the Pacific Economic Cooperation Council, is quite important. It is a forum in which you can test the waters quite effectively to see what kind of reactions you are getting and how capable it is of being discussed. It is a forum where, even when I was in government, I could go along to a PECC meeting and speak in my private capacity, as someone who was informed by what current government thinking is but not bound to take the government line at that meeting. I could say, 'Look, we agree, but do not do that yet,' and others would say the same, but how do we prepare the ground?

This process, which is called second track diplomacy in APEC, continues to be quite important because it is a fairly risk free venue in which to float these things. At the trade policy forum of the PECC we are doing precisely that. For example, on aviation, which is a very hard one to crack yet, very detailed discussions are going on in PECC, because we know that a much more intelligent international aviation system has to come, spelling out the nuts and bolts of it, and at least when it is politically ready we will have the framework there. Similarly with the investment agreement which was designed in the PECC, because that enabled it to have a draft to work from which did not come from any particular country. In fact what they agreed on was remarkably similar to that.

This gives me the opportunity to put on the record that I think the PECC has been of enormous value as a precursor to APEC and it continues to be hugely important in answering the question that you put; sensing which way is sensible and productive to push. It deserves more support than it has currently; it is very badly underfunded at the moment. It is a very efficient way of getting people to give their time. People do it for nothing, except their costs; essentially you are not out of pocket; you just get your fares paid and that is all. So I would recommend that you think about taking a look at the PECC. This is something you could discuss with Peter Drysdale in detail if you wish, and perhaps give it a bit of a tick and help revive its fortunes.

**CHAIR**—The last issue that I want to raise is the issue of modelling, which I raised with you privately, and I just want to get this on the record. We had evidence before the committee that said in respect of NAFTA, for example, there were models produced and the outcomes were nowhere near or bore no correlation to the original models, and so generated quite adverse reactions where people were affected.

It seems to me that if the populous at large are to be brought along by the APEC agenda, then one would need reasonable models to be in place so that people can have a picture painted for them as to what the expected outcome will be; not that it will be precise, but it is not much use saying there will be thousands of jobs created if, when you raise the question as to where those jobs will be created, the answer is: we do not know, but we know they will be created; we do not know whether there is going to be a net employment gain or a net loss; we do not know what sectors will become absolutely redundant and so on.

Of course, this assists government in its planning of what transitional arrangements it needs to make for those who will be adversely affected. Is there effective modelling around? If not, why not, and should there be effective modelling, given that it will change over time?

**Dr Elek**—Models are getting more sophisticated but they are still nowhere near these complex realities. It is hard enough to model one economy, let alone international reactions. One significant result which seems to come out fairly consistently is most of these changes that happen, the changing sectoral mix phenomena, let us say in Australia, would be much the same without APEC liberalisation. A lot of these things, such as technological change and trade, add a remarkably small layer on top of that, so models do show that APEC is not going to be the be-all and end-all. If you want to save a sector, then not liberalising it will not do it by itself. So there are these structural changes going on within the economy.

I think models will always be a bit shaky, especially on short-term, very detailed micro results of what happens in any one particular factory, especially when you get down to a particular region. I think by far the best way to advocate the continuation of the opening to the outside world will continue to be for quite a long time, perhaps for ever, not simply by trying to predict what is going to happen but by looking at it with the experience of history.

East Asia and Australia and New Zealand have become remarkably more open in the last 20 years and we are doing better for it. If you look at the detailed Australian export figures for last year, it is remarkable how much Australia's export base has diversified since we took the fairly decisive step to say that we are going to get out of systematic protection, although still have reasonable bits here and there. The message has got through to Australian producers that if they want to make big bucks they have to go international, and Australia has responded.

**Senator LIGHTFOOT**—I think we were pushed rather than stepped. You said we stepped out of it.

**Dr Elek**—Yes, but I think the reason that people like me and others were confident in pushing it is that there is so much evidence now from the experience of the last 30 years around the world that countries that have been the least protected and the most willing to face competition have done the best.

Hong Kong and Singapore stand out like beacons; they are too small to fit into their own waters, they are expanding all over into the region because they are so successful. The ones who that sought to have strategic industry protection—South Asia, Russia, Central European blocs—have done remarkably poorly. So the track record is quite strongly there.

There is no question that people are not doing the same things they were 30 years ago, nor will they be in 30 years time. The fastest growth of employment is most strongly correlated with the fastest reductions in raw protection.

**CHAIR**—Are there any models that we can look at?

**Dr Elek**—There are several around. I think the Salter model, which might have changed its name to the one the Industry Commission designed, is worth investigating for what it has to say about these questions. Probably the most advanced model that I know of, which tries to model international economics not just by looking at trade but also by capital flows for the first time, is a model designed by Professor Warwick McKibbin at the Australian National University. You could ask him to present an overview of what he is doing. I saw

some of his presentations last year and I think it is worth paying attention to that one. I can give you a contact number for him later.

**CHAIR**—I think that just about winds it up. Dr Elek, I think this has been a very valuable session that we have had this afternoon. I must thank you in particular for the documentation you have presented to us, because it is a very simple analysis of something which a number of people make out is a complex issue. I do thank you for your time and we now stand adjourned until tomorrow in Adelaide.

**Committee adjourned at 3.35 p.m.**