

**INQUIRY BY THE JOINT STANDING COMMITTEE ON
TREATIES INTO THE AUSTRALIA – UNITED STATES FREE
TRADE AGREEMENT: STATEMENT BY ALCOA**

23 April 2004

Introduction

Thank you for providing me the opportunity to appear before the Committee today.

Alcoa World Alumina Australia is pleased to participate in the Committee's Inquiry on a matter of such importance for Australian businesses.

We have also provided a written submission to the Committee.

Alcoa is a leading Australian producer and exporter

Alcoa is the world's leading producer of aluminium and alumina. We operate in over 40 countries and employ 120,000 people worldwide.

Alcoa's annual revenue is over US \$21 billion. We serve a global market that grew by 7 per cent last year, with aluminium consumption in China alone growing by 20 per cent.

Alcoa has a strong base in both the United States and Australia.

Alcoa has been investing in Australia since 1963 and we have driven the development of Australia's aluminium industry.

We are a predominantly regional producer and employer.

We operate two bauxite mines at Huntly and Willowdale in Western Australia, three alumina refineries at Pinjarra, Kwinana and Wagerup in Western Australia, and two aluminium smelters at Portland and Point Henry in Victoria.

We also operate two aluminium rolling mills at Point Henry in Victoria and Yennora in New South Wales – the only aluminium rolling mills in Australia

Alcoa is one of Australia's leading exporters with exports of almost \$4 billion each year.

We export aluminium and alumina to the world's fastest growing economies including Asia and China. Australia's alumina exports have been crucial to the growth and development of the global aluminium industry.

Alcoa produces almost 8 million tonnes of alumina a year and supplies 15 per cent of total world demand.

This month Alcoa has commenced construction on a \$440 million 600,000 tonne upgrade of our Pinjarra alumina refinery, which will increase export earnings by an expected \$160 million annually.

Alcoa's aluminium production in Australia is 530,000 tonnes per annum. Over 80 per cent of the aluminium ingot is exported, primarily to markets in Asia.

We also produce 100 per cent of Australia's domestic beverage can sheet. 45 per cent of our can sheet production is exported, mainly to Asia.

Worldwide, Alcoa operates in over 38 countries and has a strong base in both Australia and the United States.

Alcoa is a leading player in regional growth and development

Alcoa's investment in Australia has provided employment, infrastructure and opportunities supporting the growth of regional communities.

We are one of Australia's leading regional employers. We provide more than 6000 jobs and support an additional 20,000 indirect jobs.

We support stronger and more sustainable communities by supporting local businesses and jobs, and by providing \$4 million a year in community sponsorships.

For example, Alcoa has supported Landcare with \$20 million over 20 years.

Our partnership with Greening Australia has resulted in the planting of over 10 million trees, the establishment of 700 Alcoa Landcare sites and the rehabilitation of thousands of hectares of degraded land.

This partnership was recognised in 2003 by a Prime Minister's Award for Excellence in Community Business Partnerships.

Alcoa is a major contributor to research and development in Australia. Alcoa's global refining research group invests is based in Western Australia with an expenditure of around \$20 million each year.

Alcoa is also a major research sponsor and partner of government agencies and research institutions.

The Australia – United States FTA will deliver long-term benefits

Given Alcoa's strong base in Australia and the United States, and our experience as a leading Australian regional producer and exporter, Alcoa supports the Australia – United States Free Trade Agreement.

Alcoa has been a founder member of the AAFTAC business group in the United States and the AUSTA business group in Australia supporting an FTA.

We believe that the Agreement will underpin Australia's future prosperity by promoting greater economic integration and investment between Australia and the United States.

It will also strengthen the long-standing friendship between the two countries.

The Agreement's outcomes on investment will provide long-term benefits for Australian and US businesses.

The United States is Australia's most important investment partner and largest source of investment.

Companies investing in Australia include General Motors and Ford. Alcoa has produced Australia's aluminium for 40 years.

Key outcomes on investment include:

- the establishment of an institutional government framework to manage the trade and investment relationship between the two countries;
- national treatment protection for Australian and US investors; and
- raising the threshold level of investment screening to facilitate investment to Australia.

This will deliver real benefits for Australian and US businesses investing in both countries.

The Agreement will also support the long-term harmonisation of regulatory, investment and business systems. This will make it easier for companies to do business between the two countries.

Government-to-government framework

The establishment of a government-to-government framework to manage the economic and investment relationship between the two countries is important for smoothing the long term relationship and for working through issues (this is a general point and not one from Alcoa).

The various forums and mechanisms established under the agreement and its auspices will be able to continue the work of streamlining the bilateral business environment.

Unlike defence and security ties – where Australia and the US share a very close relationship – the institutional arrangements to manage the economic relationship have been lagging.

On many occasions, issues have arisen for which there was no high-level government forum and no dispute resolution mechanisms within which they might be solved.

The FTA will establish such a framework. From a business perspective, this should help resolve commercial disputes between the two countries.

Labor and Environment

I have spoken publicly elsewhere about issues relating to labour and environment that might be considered in the context of ongoing administration of the FTA.

These are potential issues for Australia given our constitutional structure.

In Australia, labour and environment laws operate predominantly at the State and Territory level.

Given that the FTA appears to apply also to States and Territories, the concerns of State and Territory governments on the nature of their obligations under the FTA will need to be carefully managed.

This creates additional challenges of coordination within Australia's Federal framework of government.

It seems that it would take a particularly egregious situation – involving a repeated and flagrant abuse of labour or environmental law - before a party would take the matter to the FTA dispute settlement processes.

But on a broader front, I consider we need to be wary of circumstances and considerations that would stimulate resort to these provisions.

We have to expect that there will come times when governments come under pressures from sectional interests to resort to the provisions.

There is the potential for NGOs to use the FTA as a platform for pursuing issues in the environment arena or pursuing particular companies.

On labour, there could be the temptation to raise claims by businesses experiencing competitive pressures from imports from the other economy.

In either case, with the public airing of such claims, businesses and the government would need to manage this and apply resources to demonstrate that there was no legitimate basis for the claims.

We've seen on the multilateral front how much public campaigns have the potential to damage corporate reputation.

My point in raising this is not to be alarmist, but to demonstrate that this is an additional layer of complexity that will need to be managed sensibly by governments and business.

Looking to the future

I would like to conclude my presentation with a plea for the future.

Notwithstanding the significant outcomes on investment under the FTA, there are many areas where the business environment could continue to be improved to make it easier for business to flow between Australia and the US.

Work and visa requirements are a practical day to day impediment for business persons moving and working in Australia and the US.

Improving this would be of significant benefit to all companies with operations in both countries.

Australia's high corporate and personal income taxes have a major impact on Australia's competitiveness as a place to work or invest in.

Australia taxes expatriates working in Australia for income earned overseas such as from renting the family home in the US, or from owning shares held in the US.

Current Fringe Benefit Tax rules discourage intra-company transfers to Australia.

Companies that cover the differential between Australian and US tax on behalf for expat employees are levied with an additional FBT.

All of these are significant direct or indirect barriers to investment and Australia's ongoing integration with the United States market.

Addressing them offers a further agenda for opportunities presented by the FTA. These should be the next priority for both government and business once the Agreement is in place.

In conclusion, Alcoa welcomes the Australia – United States Free Trade Agreement as a significant outcome for Australian business.

The Agreement will result in long-term benefits as companies, such as Alcoa, with a strong base in both Australia and the United States, are able to serve expanding global markets.

It will contribute to further liberalisation, including on the regional and multilateral front.

It will also underpin long-term prosperity by supporting Australia's integration with the world's most dynamic and important economy.