
The Parliament of the Commonwealth of Australia

Australia's free trade agreements with Singapore, Thailand and the United States

Progress to date and lessons for the future

House of Representatives
Joint Standing Committee on Foreign Affairs, Defence and Trade

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Foreword

The Trade Sub-Committee convened a half-day hearing to review the progress of Australia's free trade agreements (FTAs) with Singapore, Thailand and the United States. Such a review is timely because, although these agreements have been in force for a short time – the Singapore agreement since July 2003 and the other two since January 2005 – Australia has embarked on negotiations on several other free trade agreements. The committee hoped the inquiry would identify issues arising from the current agreements that could assist with negotiating and implementing future FTAs.

In an attempt to identify issues common to the three FTAs, the morning's sessions were broken into themes: negotiations and consultations; the impact on trade and on business and industry; and lessons learned. Discussion was wide-ranging and a number of themes emerged, which are outlined in the report.

The main message to emerge from the hearing is that it is too early to assess the impact of the agreements with Singapore, Thailand and the United States. The effects of some changes under each FTA could take five to ten years to become apparent. During the hearing it also became clear that assessing the impact of FTAs is not straightforward. Australia's trade performance, especially when measured by increases in imports and decreases in exports, can be explained by factors unrelated to the FTAs. These include exchange rate variations and one-off or temporary events, such as a cancelled wheat shipment.

Despite the difficulty of assessing the FTAs the roundtable participants, consisting of government, business and industry, unions and trade experts, were largely satisfied with the conduct of negotiations and the performance of the FTAs to date. They also identified early benefits of the agreements, in particular increased interest from Australian exporters in doing business with Singapore, Thailand the United States. Although the timeframe might be longer than some had expected, participants were generally confident that the agreements will result in tangible benefits for Australian business, industry and consumers.

One of the reasons for this confidence was that the FTAs were viewed as living rather than fixed agreements, by virtue of provisions that enable aspects of each agreement to be reviewed and improved upon over time. This point was made several times during the hearing and the need to ensure such provisions exist in future FTAs was felt to be one of the most important lessons of the agreements with Singapore, Thailand and the United States.

The committee would like to thank the Department of Foreign Affairs and Trade and the participants who contributed their time and expertise at the roundtable. The roundtable format led to a constructive dialogue which the committee hopes to replicate in future reviews of Australia's FTAs. The committee would also like to thank the secretariat of the Trade Sub-Committee for their assistance with the hearing and preparation of this report.

The Hon Bruce Baird MP
Chair

Trade Sub-Committee

Membership of the Committee – 41st Parliament


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Deputy Chair	Hon G J Edwards, MP	
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	Senator A Eggleston	Hon G D Prosser, MP
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	Mr B W Haase, MP	Mr B H Wakelin, MP
	Mr M J Hatton, MP	Mr K W Wilkie, MP
	Hon D F Jull, MP	



Terms of reference

Pursuant to paragraph 1 (b) of its resolution of appointment, the Joint Standing Committee on Foreign Affairs, Defence and Trade is empowered to consider and report on the annual reports of government agencies, in accordance with a schedule presented by the Speaker of the House of Representatives.

On 15 June 2005 the Trade Sub-Committee resolved to examine the 2003-2004 annual report of the Department of Foreign Affairs and Trade, focusing specifically on Australia's free trade agreements.



List of abbreviations

SAFTA	Singapore-Australia Free Trade Agreement
ASEAN	Association of South East Asian Nations
TAFTA	Thailand-Australia Free Trade Agreement
AUSFTA	Australia-United States Free Trade Agreement
DFAT	Department of Foreign Affairs and Trade
FTA	Free trade agreement
JSCOT	Joint Standing Committee on Treaties
ROOs	Rules of origin
TCF	Textile, Clothing and Footwear industry
RIS	Regulation Impact Statement



List of recommendations

2 Themes and Issues

Recommendation 1

That, where possible, trade figures identify the items that fall within the scope of an FTA.



Program

**PUBLIC ROUNDTABLE HEARING
REVIEW OF AUSTRALIA'S FREE TRADE AGREEMENTS
FRIDAY 19 AUGUST 2005
9:00 am to 12:00 pm
Committee Room 1R4**

- 09:00 am** **Chair's Opening Statement**
- 09:05 am** **SESSION 1**
Negotiations and Consultations - what went well, what didn't?
- 9:30 am** **SESSION 2**
FTAs in Operation - the impact on trade and on business and industry
- 10:30 am** **Morning tea**
- 10.45am** **SESSION 3**
Lessons for the future
- 12pm** **ADJOURNMENT**



List of participants

Name	Position and organisation
Mr Hamish McCormick	Executive Director, Government and Corporate Services, Austrade
Mr Garth Taylor,	Acting Manager, International Liaison Unit, Americas, Austrade
Mr Pat Stortz	Manager, South East Asia, South Asia and the Pacific, Austrade
Mr Andrew Stoler	Institute for International Business, Economics and Law, University of Adelaide
Ms Freya Marsden	Director Policy, Business Council of Australia
Dr Brent Davis	Australian Chamber of Commerce and Industry
Ms Shelley Scott	Australian Chamber of Commerce and Industry
Mr John Arndell	Director, Valuation and Origin Section, Australian Customs Service

Mr Scott Mitchell	Policy Manager, Trade, National Farmers' Federation
Mr Ric Wells	First Assistant Secretary, China FTA taskforce, DFAT
Mr Graeme Lade	Director, Malaysia, Brunei and Singapore Section, DFAT
Ms Jeannie Henderson	Director, United States and Canada Section, DFAT
Mr Paul Grigson	First Assistant Secretary, South and South East Asia Division, DFAT
Ms Virginia Greville	Assistant Secretary, Trade Commitments Branch, DFAT
Mr Damien Miller	Executive officer (TAFTA and Thailand), South and South East Asia Division, DFAT
Mr Brendan Pearson	Director, Public Affairs, Minerals Council of Australia
Ms Alison Tate	International Officer, ACTU

Background to the inquiry

- 1.1 On 15 June 2005 the Joint Standing Committee on Foreign Affairs, Defence and Trade (JSCFADT) resolved that the Trade Sub-Committee (the committee) would examine the operation of the free trade agreements with Singapore, Thailand and the United States, with particular reference to:
- business experience of the free trade agreements, in particular participation in negotiations and support from Australian agencies in-country;
 - government and business perspectives on what works well and what could be improved in the operation of the agreements; and
 - issues to consider for future free trade agreements.
- 1.2 Apart from the considerable value for the committee of obtaining current information on each of the free trade agreements, the inquiry was intended to assist the committee in its ongoing consideration of different aspects of Australia's current and future free trade agreements.¹

Conduct of the inquiry

- 1.3 The inquiry was conducted in the form of a half-day roundtable, held on 19 August 2005. Participants were invited, and included representatives from government, business and industry, trade unions and universities. Proceedings were open to the public.

¹ The text of the agreements, and information on agreements under consideration, can be found on DFAT's Free Trade Agreements website: www.fta.gov.au.

- 1.4 The committee believed the roundtable format would allow it to hear a range of views and would facilitate discussion amongst participants. The committee was pleased with the outcome and intends to hold annual roundtables on the free trade agreements.
- 1.5 The roundtable was held between 9am and 12pm and was structured as follows:
- Session 1: Negotiations and Consultations – what went well, what didn't?
 - Session 2: FTAs in Operation – the impact on trade and on business and industry
 - Session 3: Lessons for the future.
- 1.6 The roundtable was constructed around thematic topics, rather than around individual agreements, because the committee was interested in drawing out issues common to the three FTAs. A number of issues emerged and they are discussed in the next chapter.
- 1.7 The transcript of proceedings is available on the committee's website.²

² www.aph.gov.au/house/committee/jfadt.

Themes and issues

'Too soon to tell'

- 2.1 The overall theme of the roundtable was that it is too early to assess the performance of Australia's free trade agreements. This applied even to the Singapore-Australia Free Trade Agreement, or SAFTA, despite it being in operation since 2003.
- 2.2 All participants agreed that the positive and negative effects of the free trade agreements will take many years to fully materialise. DFAT said 'we would want to look at it over a five- or 10-year period, not over one or two years.'¹

False expectations

- 2.3 Another issue associated with reviewing the FTAs emerged in the opening session, 'Negotiations and consultations: what worked, what didn't?'. Participants commented that unrealistic expectations are created during the negotiation phase, which can mean actual outcomes look poor in comparison.
- 2.4 Economic modelling, which suggested that Australian exporters and consumers would see large and almost immediate benefits, was used for the three FTAs to 'sell' the idea of the agreements to business and the public, according to some participants.
- 2.5 For example, the Minerals Council of Australia argued that:

When people see a big number like \$24 billion – or an even larger number in the case of the United States [FTA] – it is treated

1 DFAT, *Transcript*, p 20.

sceptically by the public and by opposition groups. The assumptions are generally complete free trade. ... It also creates a mistaken impression for groups within Australia who are interested in lowering barriers in the target country... who all of a sudden see this big headline number and an assertion that the benefits from this agreement in this sector are going to be this figure... The assumption is that complete free trade will be achieved by a certain date. It just never happens like that.²

- 2.6 On the other hand, others made the point that economic modelling is essential during the negotiating process, and that high expectations could aid the negotiations. Austrade suggested that heightened expectations in the home country can help to put pressure on the negotiating partner to deliver certain outcomes.

As negotiators of agreements you can have something that some people say is more realistic, but you are actually negotiating something with another country and you want them to be under pressure to address a whole range of issues. There is a balance to be had in there about domestic expectations but also about the expectations in your negotiating partner's country.³

- 2.7 The committee accepts the points made on both sides. It agrees broadly with the following view articulated by DFAT:

What the headline figure of a \$24billion increase in GDP in 2015 gave to people was a very rough outline of the sorts of benefits that might flow from an agreement... I think it was an entirely appropriate, proper and responsible thing for the government to do, even though personally I have big problems with the actual modelling itself. But that is another question – that is for the econometricians to answer.⁴

- 2.8 On the consultations themselves, participants were satisfied with their level of engagement in the process. This did not mean they were entirely satisfied with the agreement itself – the general view was 'it would have been good if we had done better in some areas' – but participants accepted that 'there is always politics involved and the reality of economics'.⁵

- 2.9 There was some concern that consultations with state and local government were inadequate. The issue was raised in the context of the
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2 Minerals Council of Australia, *Transcript*, pp 4-5.

3 Austrade, *Transcript*, p. 46.

4 DFAT, *Transcript*, p 44.

5 Business Council of Australia, *Transcript*, p 46.

Joint Standing Committee on Treaties (JSCOT) report on AUSFTA, which reported:

a common complaint from State and Territory Governments that consultation did not occur during the final weeks of negotiations... and that discussion between the local and State level governments was prevented by requests from DFAT that all information provided by the Commonwealth Government be kept confidential.⁶

2.10 DFAT responded that these levels of government were involved in consultations through JSCOT and other mechanisms and DFAT was 'not aware of any particular criticisms that the states made about their lack of consultation.'⁷

2.11 Without hearing from state and local governments directly, the committee is not in a position to assess whether consultation at these levels was adequate. It wishes to emphasise, though, that the close relationships between business and industry and state and local governments, means it is important to ensure that these levels of government are involved in consultations where appropriate.

Difficulties of assessing the impact of FTAs

2.12 During the second session, 'The impact of FTAs on trade and business and industry', the committee heard that assessing the effects of free trade agreements is made difficult by trade figures which do not indicate which items fall within or outside FTAs. For example, Australia's trade balance with Singapore was negatively affected between 2003 and 2004 by a drop in Australia's petroleum exports, an item not affected by SAFTA.⁸

2.13 The corollary is that trade figures might be positively affected by non-FTA items. This might be an indirect result of an FTA – what Austrade referred to as the 'head-turning effect' – where an FTA might alert exporters to a market even if the FTA offers no direct benefits in terms of lower tariffs. As Austrade explained:

there are some issues about how you identify and associate something with the FTA. There are some broader benefits. The benefits that people often focus on are tariff reductions, which are pretty clear. For ones involving head-turning effects, it is

6 JSCOT, *Report 61: The Australia-United States Free Trade Agreement*, p 40.

7 DFAT, *Transcript*, p 10.

8 Austrade, *Transcript*, p 21.

sometimes more difficult to be able to say, 'This is because of the FTA.'⁹

- 2.14 Despite these difficulties, the committee felt that ongoing assessment of the impact of FTAs would be helped if trade figures for countries with which Australia has an FTA could provide some indication of the exports and imports that fall within the agreement and those that do not.

Recommendation 1

That, where possible, trade figures identify the items that fall within the scope of an FTA.

Winners and losers

- 2.15 As well as using trade figures, the impact of FTAs can be assessed in terms of winners and losers from business and industry. The committee heard that interest of Australian exporters in the FTA markets was growing, which points to potential 'winners' across a range of industries.

- 2.16 The committee did not hear much, however, about who are the potential 'losers' as a result of the FTAs. Anecdotal evidence was given by the Business Council of Australia about problems encountered as a result of changes to government procurement. New tendering standards have seen some Australian businesses fail in their bids for government contracts, because they did not comply with the new standards.

... our members are aware of government procurement and how they might take advantage of it in the US but, on the other side, are not aware of what changes they might have to make to their own procedures to make sure that they comply in the future.¹⁰

- 2.17 The ACTU also raised the issue of losers, but its concern extended to losers in potential FTA partner countries, especially in China and ASEAN countries, as a result of poor labour rights. The ACTU argued that a labour clause should be included in future FTAs to ensure that these agreements do not result in the exploitation of already vulnerable sections of the population in those countries.

Particularly in ASEAN we will all be aware of Burma – Myanmar – as a member of ASEAN. Issues of freedom of association, the right to organise and the right to strike and, in the

9 Austrade, *Transcript*, p 20.

10 Business Council of Australia, *Transcript*, p 26.

case of Burma specifically, the issue of forced labour are going to be important issues for us to come to terms with around issues of rules of origin.¹¹

- 2.18 The committee acknowledges DFAT's point that it is not the job of any single agency, including DFAT, to actively seek out those who might be suffering as a result of the FTA.

From DFAT's point of view, we are not in the business of going out and asking people whether they are suffering. People sometimes write to us and tell us that they feel there is some competitive disadvantage.¹²

- 2.19 The committee therefore urges those affected to make their concerns known to the relevant government agencies.

Living agreements

- 2.20 In the final session of the roundtable, 'Lessons learned', the notion of FTAs as 'living agreements' was introduced. Mr Andrew Stoler, from the Institute for International Business, Economics and Law, explained the concept:

[T]hese are not static agreements, it is not what you see is what you get and that is it. In all cases these agreements have a living agreement element to them where they can be improved over time... they are going to be very important aspects of the agreements.¹³

- 2.21 Mr Stoler gave the following examples:

[T]here is a provision in the agreement with Singapore having to do with recognition of certain Australian law schools as places where Singaporeans can get law degrees. That is not a perfectly operating provision but it is one which we can go back to and talk to the Singaporeans about and expand over time. It is the same with the quarantine provisions in the US agreement.¹⁴

- 2.22 The notion of living agreements also applies to Australia's approach to negotiating FTAs. All participants commented that they are learning

11 ACTU, *Transcript*, p 42.

12 DFAT, *Transcript*, p 19.

13 Mr Andrew Stoler, *Transcript*, p 4.

14 Mr Andrew Stoler, *Transcript*, p 42.

through each FTA what they can do better. Certainly this was the view of business and industry. The Business Council of Australia said:

I think it is true to say that we are both learning – DFAT are still learning and business is definitely still learning – when it comes to free trade agreements... business needs to learn how to step up to the block and provide better information to DFAT in order to get better outcomes overall.¹⁵

The National Farmers' Federation agreed:

I also think we have learnt a lot and that, going forward, we will get better at working with government in identifying both our offensive and defensive interests so that we can be much clearer in articulating arguments for why we want what we want and why it is important that we get what we want.¹⁶

15 Business Council of Australia, *Transcript*, p 6.

16 National Farmers' Federation, *Transcript*, p 41.

Outcomes

- 2.23 The roundtable was stimulating and worthwhile. Given the 'living' nature of these and any future FTAs Australia will sign, the committee believes it should hold another roundtable review in 2006.
- 2.24 The main outcomes of the hearing were:
- It is too soon to make objective judgements about the lasting impact of the three FTAs.
 - This is partly because they are 'living agreements' and will evolve, possibly improving, over time.
 - Future agreements should be improvements on the current FTAs partly as a result of business, industry, unions and other stakeholders becoming better at feeding information to DFAT before and during negotiations.
 - Assessing the performance of the FTAs would be assisted if trade figures indicated which items fall under the scope of a FTA.
 - Despite not making as many gains as they wished, Australian business, industry and unions were largely satisfied with the extent of consultation, their involvement in the negotiations and the outcomes overall.

Senator Alan Ferguson

Chair

7 November 2005

