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# Official Committee Hansard

JOINT STANDING COMMITTEE ON TREATIES

**Reference: Australia-United States Free Trade Agreement**

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## JOINT COMMITTEE ON TREATIES

Thursday, 22 April 2004

**Members:** Dr Southcott (*Chair*), Mr Wilkie (*Deputy Chair*), Senators Bartlett, Kirk, Marshall, Mason, Santoro, Stephens and Tchen and Mr Adams, Mr Bartlett, Mr Ciobo, Mr Martyn Evans, Mr Hunt, Mr King and Mr Bruce Scott

**Senators and members in attendance:** Senators Marshall, Stephens and Tchen and Dr Southcott and Mr Wilkie

### **Terms of reference for the inquiry:**

To inquire into and report on:

- (a) matters arising from treaties and related National Interest Analyses and proposed treaty actions presented or deemed to be presented to the Parliament;
- (b) any question relating to a treaty or other international instrument whether or not negotiated to completion, referred to the committee by:
  - (i) either House of Parliament; or
  - (ii) a Minister
- (c) such other matters as may be referred to the committee by the Minister for Foreign Affairs and on such conditions as the Minister may prescribe.

**WITNESSES**

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**Committee met at 9.16 a.m.****STRACHAN, Mr Stephen Francis, Chief Executive, Winemakers Federation of Australia**

**CHAIR**—I declare open this meeting of the Joint Standing Committee on Treaties. This is the fourth public hearing of the review by the Joint Standing Committee on Treaties of the proposed Australia-United States free trade agreement. The inquiry was referred by the Minister for Trade, the Hon. Mark Vaile, MP, on 9 March. The inquiry was advertised on the committee's web site on 10 March and advertised in the *Australian* on 17 March. The committee wrote to some 200 organisations, advising them of the inquiry and inviting submissions on issues of concern to them. Following usual practice, the committee also wrote to all state and territory premiers, chief ministers and presiding officers of the parliaments, as well as to a list of people who have expressed an interest in being kept up to date with the committee's activities via an email bulletin. To date, over 140 submissions have been received. While the committee asked that submissions be supplied before Tuesday, 13 April so that members have an opportunity to receive comments prior to commencing the public hearings schedule, many extensions have been requested, and the committee expects that more submissions will be received in the coming days and weeks. So far, the majority of submissions have been authorised for publication and should be available from the committee's web site.

The committee has a program of public hearings, beginning this week with hearings in Sydney, Melbourne, Hobart, Adelaide and Perth. In the week beginning 3 May, the committee will travel to Cairns and Brisbane. It will return to Sydney on 6 May and hold a further public hearing in Canberra on 14 May. More hearings may be announced as the inquiry progresses and more submissions are received. I would like to welcome those in attendance today. The committee is pleased that you are able to participate in this inquiry. I understand that some witnesses today have not yet lodged submissions but intend to do so before speaking to the committee. Would you indicate to the secretariat where you propose to provide a submission before commencing your opening remarks.

To commence the day's proceedings, I welcome Mr Stephen Strachan of the Winemakers Federation of Australia. On behalf of the committee, I thank you for appearing to give evidence today. The secretariat will forward a copy of the proof transcript of evidence to you as soon as it becomes available. Although the committee does not require you to give evidence under oath, I should advise you that the hearings are legal proceedings of the parliament and warrant the same respect as proceedings of the House and the Senate. The giving of false or misleading evidence is a serious matter and may be regarded as a contempt of parliament. Before we begin, Mr Strachan has indicated that he wishes to table a presentation on the Winemakers Federation of Australia. I now require a motion to accept this as an exhibit to the inquiry.

**Mr WILKIE**—I so move.

**Senator TCHEN**—I second the motion.

**CHAIR**—There being no opposition, that is so resolved. Do you wish to make some introductory remarks before we proceed to questions?

**Mr Strachan**—Chair, with your indulgence, I would like to go through the presentation that I have just handed out. That will probably take about 10 or 15 minutes.

**CHAIR**—That is okay.

**Mr Strachan**—First up, we have prepared a submission, and I hope that you have a copy of that. These notes are from a presentation that I gave at a conference recently that I thought would give some greater depth and breadth to the issues that we are talking about today, which, from our industry's perspective, go somewhat beyond the free trade agreement. In that sense, it is worthwhile for us to talk about the broader issues and the context of the free trade agreement within that. I would also like to point out that Tony Battaglione, our trade and regulatory affairs director, would normally have been here. He has had to attend to a personal issue, so if there are any questions of a technical nature that I cannot answer I will have to take them on notice.

I would like to take a few minutes to talk about the Winemakers Federation. We are the industry's peak national body. We collect levies from members, and we are a voluntary body. We have representation from small, medium and large companies. We also have representation from all state wine industry associations. Across that spectrum, we represent 90 to 95 per cent of the Australian wine industry.

The growth in Australian wine exports has been quite dramatic since the mid-1990s, increasing in value from about \$400 million in 1995-96 to about \$2½ billion in the last financial year. Compared to some of the other agricultural industries, the wine industry is fairly rapidly becoming one of the more significant rural industries in Australia. Even more telling in terms of the importance of exports to our industry is the fact that a number of our competitors—for example, France and Italy—tend to export significantly less than 50 per cent of their production. The United States exports a little over 10 per cent, so export opportunities for them, whilst significant, might not be put in the paramount category.

Exports are really where all the growth for the wine industry in Australia comes from, and we will talk a little bit about the US market being the major driver for that growth. We export about 40 per cent of what we produce. There is a lag between production and sales, so looking at sales, which is really the more appropriate measure, about 55 per cent of the wine we sell is now sold offshore. I anticipate that that figure will be in the order of 65 to 70 per cent some time in the next 10 years. Whilst the domestic market is growing it is pretty flat. All the growth opportunity for us is offshore.

I will give you a quick summary of our major markets. The US is now our largest market with sales of \$870 million annually. The UK is our second largest market—although it has declined in the last 12-month period—and there is a lot of daylight between those two markets and our next major markets. The US market for the Australian wine industry grew last year by just under 20 per cent.

In terms of industry dynamics one of the challenges we faced as an industry during the negotiation of the free trade agreement was getting support from our competitors in the United States. You might ask why we would anticipate getting support in any event, and I will talk about that in a second. The framework in which the wine industry operated during these negotiations was one of significant international oversupply of wine and very strong pressure on winery



margins, not only in Australia but in the United States as well. Australia is a very highly visible exporter to the US. We are the second largest exporter—or their second largest import—in that market. There is no question that for a lot of the wineries, particularly the small and medium wineries, we are seen as a threat. So, given the position the Australian wine industry held in the market, getting outcomes with the free trade agreement was always going to be a tough ask. We were seen as a threat, so it was always going to be tough.

However, that paradigm is changing. It is relevant to look at that in the context of where we as an industry move in future with this free trade agreement and other agreements that we are looking at. There are some very strong transnational links between the Australian industry and the US industry. As you are probably aware, Foster's owns the Beringer Blass company. Beringer was a US company and therefore there are very strong links between Foster's and Beringer. The Hardy Wine Company is owned by Constellation Brands. McGuigan Simeon and Gallo have joint venture relationships. McWilliams Wines has a joint venture relationship with Gallo, and Southcorp and Mondavi have joint venture relationships. So a number of wine companies in Australia, particularly the larger companies, have very strong relationships with the US industry. Because of that relationship, it is becoming increasingly evident—from the US perspective also—that there a lot of benefits in looking at a trade deal with the Australian industry.

In terms of the rationale for closer relationships with the United States, obviously the US represents a major export opportunity for our industry, and that is leveraged by that business-to-business imperative. From the Australian industry's perspective, closer relationships, for us, mean improved access obviously, lower cost—and I will talk about that in a second—and, very importantly, risk management; so reduced risk of disputes over trade related issues. We are following a range of initiatives to achieve that objective. The first, and one that we have been working on for some years now, is what we call the World Wine Trade Group. That is a collection of countries at the government level, including Australia, the US, Chile, Argentina, New Zealand, Canada and South Africa. We have been able to reach a mutual recognition agreement on oenological practices, which essentially means that we will recognise all those countries' oenological practices, winemaking practices, for the sale of their wine into our country; and, in return, they recognise ours in theirs.

Given that we all have slightly different winemaking practices, that is a very important outcome for our industry, because it does take away the threat of trade disputes on the issues of whether or not, for example, you include oak chips in the manufacture of wine and those sorts of issues. Also on the agenda between those countries we are trying to come to an agreement on labelling issues. I will talk about that in a second. In terms of other initiatives, obviously there are bilateral discussions, industry to industry, and that is certainly at the Australia-US level. The Australia-US free trade agreement—and, of course, the Doha Round—is on our agenda.

Going to the free trade agreement: what did we aim for as an industry? The first two or three issues come down to labelling. To put this into perspective, the Australian wine industry at the moment has to prepare labels for a range of different markets in Europe, in the US and in Australia. Every different label that you have to prepare for those markets (a) adds cost to your industry and (b) becomes a logistical difficulty in running your business. That also applies in terms of having to have different levels and qualities of wine and so forth in the product and so having to run different batches. It is a big issue for our industry, while most people focus on

tariffs as the No. 1 issue for us. Where are the differences? Firstly, the United States require 100 per cent varietal declaration for multivariety blends. With that declaration, the percentage of each variety has to be declared. In Australia we require 85 per cent variety declaration, so you could have a cabernet at, say, 90 per cent, with 10 per cent being some other red variety in the product, and you would not need to declare the other variety. We were seeking to have the US accept our blending conditions and, therefore, labelling of those blending conditions in their market. Likewise, with multiregional blends the US does not allow geographic—

**CHAIR**—Mr Strachan, can I interrupt you for a second. Do you have a copy of your submission, because we have not received it?

**Mr Strachan**—Haven't you?

**CHAIR**—No.

**Mr Strachan**—My apologies.

**CHAIR**—Do you have a copy with you?

**Mr Strachan**—I do have a copy with me.

**CHAIR**—Would it be possible for us to get some photocopies, and then we can authorise it here.

**Mr Strachan**—The only problem is that I have written all over it. I can send you one through.

**CHAIR**—Okay. We will go without the submission, in that case.

**Senator MARSHALL**—We want the one with the notes!

**Mr Strachan**—I do not mind; there is nothing incriminating in there! I thought it had been sent through. My apologies. In terms of multiregional blends, you would be aware that one of the Australian industry's great strengths is blending. We see that as something that we would protect very fiercely. It is something that enables us to meet the quality requirements that consumers demand. Because of that, we have got relatively flexible internal requirements on multiregional blending. The US, however do not. They do not allow multiregional GI blending unless they are contiguous. So a situation like the blend between Coonawarra and McLaren Vale, for example, would not be allowed in terms of labelling. You would only be allowed to do it if it were Eden Valley and the Barossa Valley, for example, because they are contiguous. We allow multiple GI blending in Australia. That is a very significant issue for our industry.

The next point is vintage declaration. The US requires 95 per cent of a vintage for it to be declared that vintage. In Australia we require 85 per cent. Once again, it is a difference. It means that we have to run different blends for different batches for the different markets. The fourth point is really an internal Australian issue: mandatory information in a single field of vision. In Australia we are required to put '750ml'—the contents—on the front label, and no other market that we export to requires that. Internally, we have been seeking to have that put in the same field of vision as all the other mandatory information, which is on the back label in Australia. In most

other countries it is also on the back label. We were hoping that we might be able to get some leverage over that issue in the US free trade agreement. We were not successful with that.

The next point is that we were looking at having Australia declared a geographic indication. This is a relatively small issue. At the moment we have a GI of south-east Australia, which allows us to blend wine from just about anywhere in Australia, except Western Australia. I guess that is barrier for the Western Australian producers because, if we want to blend wine with the Western Australian wine, we have to call it south-east Australia-Western Australia. It sounds trivial but it is important and it is something that we would like to line up. We are trying to implement a single GI for the whole of Australia, so that wineries can blend on that basis.

**Mr WILKIE**—You would not want to dilute the quality of Western Australian wine, though, by mixing it with the stuff from over here, would you?

**Mr Strachan**—Your tongue was firmly in your cheek then, was it? As you would know, there are also some significant oversupply problems in Western Australia. It is potentially one way for the Western Australian producers to get access to some of the high-volume blends that go offshore and get their wine into those products as well. The issue of tariffs tends to receive most attention. We were obviously looking for zero tariffs immediately, as was everyone who was interested in this agreement. South Africa has zero tariffs and Chile has an agreement where tariffs phase out by the year 2015.

That is what we were after. What did we get? The first point on tariffs is that they decrease to zero over 11 years. We estimate that to be worth about \$25 million a year for our industry. To put it in perspective, the tariff on table wine is about 1½ per cent, which represents the vast majority of our wine at the moment, so it is not massive. I think it is a fair statement to say that the US market is not a market that is corrupt for the Australian wine industry. We enjoy relatively good access there. There were probably not going to be any silver bullets and certainly not in relation to tariffs. The tariff on sparkling wine is about four per cent and for bulk wine it is about five per cent. So having those tariffs come off is certainly worthwhile.

We also have zero tariffs on inputs from the US. American oak, for example, goes down to zero. Stainless steel, if it is imported, and some water based products—sprinklers and so forth—also go down to zero. So that is a benefit from the input side of the industry. In terms of labelling and blending issues, we did not get an outcome and that was disappointing. That is the area where we were probably most keen to get an outcome. Nonetheless, out of the free trade agreement we have a springboard for those objectives to be addressed. Chapter 8—the standards and technical regulation—recommends the establishment of working groups. Within those working groups we will have the capacity, on a yearly basis, to come back to the issue of labelling and blending. I can advise that we certainly intend to do that.

A couple of issues that we did not run too hard on but were outcomes of the agreement and which we are supportive of are, first, the ability to cancel GIs. GIs are geographic descriptions of regions of Australia. You would be familiar with the Coonawarra case. In Australia we cannot cancel or change the boundaries of a GI under our current legislation. Under the free trade agreement that legislation will be required to be changed to enable that, and we support that as an industry. There is also an issue in Australia about pre-existing trademarks and the potential coexistence between trademarks and geographic indications. An example is Great Western,

where there is a significant trademark owned by the company that owns the Great Western brand but there is also a region that has been known as Great Western for some years. At the moment you cannot have the creation of a GI with the existence of that trademark, but under the changes with the free trade agreement that would be possible provided the trademark owner agreed to it. Once again that would require a change to the legislation but it would provide somewhat more flexibility from the industry's perspective.

In terms of the conclusions from the free trade agreement, we, along with everyone else, I am sure, did not get exactly what we wanted. I am sure that other negotiating positions possibly constrained the wine outcome, and that is understandable. I would make the point that the market for wine is relatively accessible and that for some of the other products seeking to export to the US that is not the case, so it is more understandable that the outcomes for the wine industry were not as significant. In our view, the future changes in terms of the relationships with the US and the issues that I have spoken about will come from within, and that is very much about a stronger relationship between Australian companies and US companies and I guess working with the US companies to convince them that is in their interest as well to free up the trading environment.

In terms of our position on the free trade agreement, our industry is better off for it so we give it unequivocal support. It provides a platform for engagement on a standards and technical regulations working group, for example. It does not bear any significant relationship to the issues we are talking about in the World Wine Trade Group but there are still those relationships in place and we will continue to have bilateral discussions industry to industry.

**CHAIR**—Thank you very much for that opening presentation. Firstly, could you give us an idea of what sort of tariffs apply? You mentioned 1½ per cent for table wine, but what sort of tariffs do your members face on other wine lines?

**Mr Strachan**—The tariff on table wine below 14 per cent, which is most of the table wine, is about 6.3c a litre, which is about 1½ per cent. If you look at sparkling wine, it is 19.8c a litre, so it is about triple the table wine level. That is getting up there in terms of being relatively significant. Bulk wine is about 14c a litre and obviously the average unit value for bulk wine is a lot lower as well, so that is a relatively high level. Table wine is where all the action is. The tariff is not prohibitive but it will make a difference to the industry. In terms of these other categories, it is certainly worth while having tariffs come down. We estimate, based on the size of the potential industry in 2015, that it is probably going to be worth about \$25 million a year to the industry. Whether or not that goes into the pockets of the industry or to the consumers in the US it is hard to say, but either way it makes us more profitable or our product more competitive.

**CHAIR**—The NIA mentioned some amendments to the Australian Wine and Brandy Corporation Act 1980 which should be required to firstly make provision for the cancellation of a registered geographical indication and also to make provision to allow a trademark owner to oppose an application for a geographical indication. Do you have any comments on those amendments that will be required?

**Mr Strachan**—As I said, we support them because we do not have the capacity in the legislation to change a GI at the moment. That was probably an oversight when the legislation was written. This gives us the ability to get back in and change it without having to go through

the lengthy time periods that otherwise would be required. In terms of the trademark issue, it gives us flexibility. At the end of the day the trademark owner still has the right to protect their trademark, but if there is the capacity for the trademark owner to agree to coexistence between the trademark and the GI then that is an improvement from the situation we have now. In my view and in the industry's view, that is an important improvement. The industry has shown in the past that it is prepared to negotiate internally on those sorts of issues and it should not be taken for granted that trademark owners would necessarily reject that sort of opportunity.

**Senator MARSHALL**—Who actually makes the decision on changing the GIs?

**Mr Strachan**—It is made by a committee of the Wine and Brandy Corporation called the Geographical Indications Committee. There is a whole set of criteria, which I do not have in front of me. They are an independent committee, so, as a peak industry body, we have no authority over their decision.

**Senator MARSHALL**—But you indicated that we need legislative change to be able to change them.

**Mr Strachan**—Yes. What is happening now is that they are defining the GIs. They are working through Australia and defining the boundaries for all regions in Australia. There are a number of regions that still have not been defined, and their job is therefore to define them. In theory, once they have finished that, their job will be finished. However, if we have the capacity to go back and change GIs, then obviously we will still have a need for them in the future.

**Senator MARSHALL**—I still have not drawn the link between the legislative change that is required and who is then going to make the decision.

**Mr Strachan**—Coonawarra is the example we always refer to when we refer to GIs: those boundaries have been set and they cannot change.

**Senator MARSHALL**—There is plenty of case law around that.

**Mr Strachan**—Just a little bit! What this would do is enable the industry, under the legislation, to go back in and change that region. But the Winemakers Federation would not be able to do it. It would still have to be the independent committee that made that final decision.

**Senator MARSHALL**—So the legislative changes will simply allow this independent group to determine those matters into the future?

**Mr Strachan**—Yes. The merits of the case would still have to be presented to that committee.

**Mr WILKIE**—Stephen, you were obviously doing very well in negotiations with the US prior to the free trade agreement, and the market access has been increased over the years, which has been great for the industry. Tariffs are important and you have managed to achieve something in that respect. With some of the other issues, like labelling, would you have been able to achieve those sorts of results just through ongoing negotiations, do you think?

**Mr Strachan**—That is a good question. We do have a process for those ongoing negotiations, and quite possibly we would have been able to—and quite possibly we still will be able to. Our big challenge is to convince the US that it is in their interest to do it. Naturally enough, if you are sitting in the United States you are not going to see it as being in your interest to do it, unless you have got a relationship with an Australian wine company. That paradigm shift that I spoke about before is becoming stronger and stronger. It will come down to a domestic political issue in the US industry, between the companies that do have interests in Australia and those that do not. In the free trade agreement negotiations, there was not evidence of enough political will to make that change. Down the track, there may well be.

**Mr WILKIE**—I am interested in that because clearly throughout the agreement we saw the establishment of working groups where they could not come to a resolution, and in some cases it is clear that those working groups were there just to have a bit of a chitchat and not actually achieve anything. I was just curious to see whether the process you had for the wine industry was something that was likely to achieve an outcome.

**Mr Strachan**—The new World Wine Trade Group has reached an agreement on oenological practices, and in my opinion and the industry's opinion that is a very significant outcome because it does take away the potential threat of dispute on the basis of oenological practices, which, in the case of the European Union, for example, is always on the cards. Given the difficulties we went through with Howe leather, for example—and that was actually the catalyst for us to get very serious about some of these issues—we saw that agreement on oenological practices as being a major benefit to the industry. The weakness now is in the labelling and blending. There is certainly a will around the table to do it. Given the number of countries that are involved, their will waxes and wanes from time to time. Our will is pretty strong, I can tell you.

**Senator STEPHENS**—You were saying that in the US it depended upon those companies that had a relationship with an Australian operation. What percentage of the US market has that kind of relationship with Australia?

**Mr Strachan**—Gallo is the largest wine company in the world. Its production is greater than that of the whole of Australia. Beringer is in the top five in the US. Constellation is also in the US top five. We are in with the big companies, which is not surprising; they are the ones that are going to have offshore interests. I could not tell you the percentage but it would be significant. It would be, I suspect, over 50 per cent.

**Senator STEPHENS**—I suppose the naive question of the day is: what is in this for the US wine industry?

**Mr Strachan**—In the US free trade agreement or in the discussions we are talking about?

**Senator STEPHENS**—No, the free trade agreement. What are the benefits to the US of this?

**Mr Strachan**—Really, it comes down to those who have an alignment with Australian companies and where the benefits are. They also get zero tariffs into Australia. I do not know whether you have recently been into a bottle shop but I have never seen US wine in Australian bottle shops. It is not a major market for them. There are very few benefits; it is only where they

have relationships with Australian companies—our exports into their markets that would benefit those companies.

**Mr WILKIE**—Is that because their wine is not of good quality or is it a price issue?

**Mr Strachan**—The Australian market is very parochial. It is 95 per cent held by the Australian wine industry. But it is also fair to say that the US does not have an export culture. It has not needed to; its domestic market is the second largest market in the world and it has a very strong focus on its domestic market. If it did have an export focus which it was increasing, it would primarily be on other large markets like the UK, Germany and Japan, for example. The Australian market is not large enough for it and it is too parochial, so it is probably not a big option for it.

**Senator STEPHENS**—Are research and development and intellectual property around viticulture and the wine industry a major consideration for your organisation?

**Mr Strachan**—Our position on IP is that if you can possibly keep it and capture it, you ought to, but to be perfectly honest our objective as an industry is more about rapid dissemination of research. From time to time there is a trade-off between rapid dissemination and capturing the IP. In just about all circumstances we would vote for rapid dissemination. Our view as an industry, given that the R&D that we are talking about is done in Australia, is that we would have a much better chance of capturing the benefits of that in Australia than our competitors would offshore. There are differences of opinion in the industry on that issue but it is one of those areas where you know how much researchers talk, and that is a negative but it is also a positive, because there is that collegiate approach to doing research. There are differences of opinion within the industry but that is very firmly the view of the Winemakers Federation.

**Senator MARSHALL**—I am interested in the labelling issue because the labelling of manufactured goods and food is held up as an example of non-tariff or quota barriers to trade. Often people who insist on strong labelling are accused of doing so with trade restrictive or market access objectives. In this case, wine, it appears that the US is very strict—in fact you cannot get any stricter—in requiring 100 per cent declaration. Why were we unable to move forward on that when the US takes the view on food labelling, for instance, that everybody else is too strict and we should not have the same transparency that we have in wine?

**Mr Strachan**—You would have to ask the negotiators. Our position is clear. To look at it from their perspective, they could argue that we could change our labelling laws, but we are not prepared to do that. They have set theirs for reasons that are known to them.

**Senator MARSHALL**—Did they fight very hard to stop any movement or did we not fight hard enough?

**Mr Strachan**—In the last days they certainly fought very hard to stop any movement—no question. And we fought as hard as we possibly could but, at the end of the day, wine was relatively—I would not say minor but it was not one of the major issues that were in front of the negotiators at the time.

**Senator MARSHALL**—You actually say in your submission that other negotiating positions possibly constrained the wine outcome.

**Mr Strachan**—Yes, absolutely, and that is always the case in any negotiation.

**Senator MARSHALL**—Do you think you have been traded off for other things?

**Mr Strachan**—I think that every industry with expectations that went into this got traded off. It is the nature of the game. So the answer is yes, but we understand that it happens.

**Senator MARSHALL**—Regarding the tariff decrease to zero over 11 years, are you disappointed with that outcome?

**Mr Strachan**—Yes, we are. We wanted it to go down to zero straight away. Eleven years is a long time. The problem that we faced—and we knew all along—was that under the agreement with Chile the minute we got a better deal on tariffs than Chile they had to match it for Chile. If we had had it phased down to zero immediately, they would have had to do that for Chile as well. That was always a constraint against us, and I think at the backs of our minds we always knew that it was probably going to be fairly similar to the Chile deal.

**CHAIR**—Can I ask you about that: the Chile deal was concluded prior to ours; was the Chile deal written in a way that the United States had to offer MFN treatment to Chile? How was that done? That was a sort of stand-alone bilateral agreement that was already concluded.

**Mr Strachan**—I cannot tell you if it was written as most favoured nation treatment but I do know—and I can follow up on this for you—that had we negotiated a better deal it would have automatically gone to Chile.

**Senator MARSHALL**—In what year is that \$25 million per annum figure that you have put on the benefit?

**Mr Strachan**—That is 2015. That relies on export growth to the US—I should make that clear.

**Senator MARSHALL**—So it relies on the tariff reduction to zero over 11 years and projected export growth?

**Mr Strachan**—Absolutely.

**Senator MARSHALL**—Do you have some documentation on how that figure is arrived at?

**Mr Strachan**—I do. I do not have it with me but I can follow up on that.

**Senator MARSHALL**—If you could, thank you.

**CHAIR**—But to clarify, that \$25 million would be tariff revenue that would not be applying in 2015?



**Mr Strachan**—Yes.

**CHAIR**—That is all?

**Mr Strachan**—Yes.

**Senator MARSHALL**—That is not what you said. We should clarify that. I thought you said that \$25 million figure was the application of zero tariffs in 11 years time, including projected growth over that period.

**Mr Strachan**—Yes, that is what I did say.

**CHAIR**—I think we need to clarify this point.

**Senator MARSHALL**—We do.

**CHAIR**—What I think Mr Strachan is saying is that it is based on higher volumes in 2015 than we have now, but the \$25 million figure only applies to the tariff that would otherwise apply on that higher volume growth and the value of that tariff—

**Mr Strachan**—Coming down from 1½ per cent to zero on that higher volume of export figure.

**CHAIR**—So it will be a loss of revenue to the US government of that \$25 million?

**Mr Strachan**—Yes.

**CHAIR**—There being no further questions, I thank you very much for your evidence today.

**Mr Strachan**—Thank you, and apologies for that submission. I have not been in the office and I thought it had been sent through. I will make sure it gets through to you today.

**CHAIR**—Thank you, we appreciate that.

[9.59 a.m.]

**STOLER, Mr Andrew Lynn, (Private capacity)**

**CHAIR**—Welcome. On behalf of the committee, I thank you for appearing to give evidence today. Do you have anything to add to the capacity in which you are appearing?

**Mr Stoler**—Although I am an adjunct professor at the university, I am not a doctor. I am the Executive Director of the Institute for International Business, Economics and Law at the University of Adelaide, but I am appearing today in my personal capacity so my comments should not be taken to represent the views of the University of Adelaide, the members of my board of governors or associate experts that work with my institute.

**CHAIR**—Although the committee does not require you to give evidence under oath, I advise you that the hearings are legal proceedings of the parliament and warrant the same respect as proceedings of the House and the Senate. The giving of false or misleading evidence is a serious matter and may be regarded as a contempt of parliament. Do you wish to make some introductory remarks before we proceed to questions?

**Mr Stoler**—I would like to summarise some of the views that I have already submitted to the committee in a written submission. Let me say first how much I appreciate the opportunity to give this evidence before the committee today. Prior to my current job, I had a fairly long career in international trade policy, both as the Deputy Director-General of the World Trade Organisation and for a number of years with the Office of the US Trade Representative in Washington and Geneva. At one time in the early 1980s I also had responsibility for bilateral trade between Australia and the United States, so it is a situation that has unfolded over the years that has been quite interesting to me.

I personally would recommend approval of this free trade agreement by the parliament of Australia. I believe that the proposed FTA promises many benefits for both Australia and the United States and that, at the same time, there are very few readily identifiable areas where the agreement could be said to worsen the situation of economic actors in either country relative to the position they would be in without the FTA. I plan to focus on three points in my introductory comments today: firstly, the opportunities that I see through the FTA's planned ongoing institutional arrangements; secondly, the relationship of this FTA with the world trading system of the WTO; and, thirdly, the limitations of current approaches to economic modelling of agreements like this FTA.

A good deal has already been said about the important gains to trade expected as a result of the agreement's elimination of tariffs, opening of government procurement markets and relaxation of restrictions such as those maintained on investment. What is often ignored in the analysis is the fact that this is going to be a living agreement, with many institutional arrangements that will make it possible for both Australians and Americans to pursue a whole range of future liberalisation opportunities as well as problem solving.

**CHAIR**—Mr Stoler, before you proceed I should point out that we have your submission and it has already been authorised for publication, so it is part of the evidence before the committee. Generally, we find that it works better to have an interaction with questions and answers, so my suggestion would be that you should just provide a synopsis of the three points that you have identified in your submission, plus anything further that you wish to add, and then we will go to questions.

**Mr Stoler**—That is fine. I will make it dramatically shorter. The synopsis of the three points is as follows. The first is that a key virtue of this agreement and other agreements like it is the fact that there will be an institutional mechanism that will allow for the development of further measures to broaden and deepen the relationship—for example, in mutual recognition of professional services. I believe your committee heard some comments in Melbourne the other day about problems of professional services providers. This agreement gives us a way to get at some of those issues in the future. The area of technical standards and regulations affecting trade in products is another one which will be a very important area where this agreement can change the situation in the future. I am personally familiar, for example, with the operation of a mutual recognition agreement that exists between the United States and the European Community for medical devices that has made a tremendous amount of trade possible that would have been very difficult to conduct otherwise.

The second point I would like to make has to do with the relationship of this agreement to the WTO. You have probably heard people characterise this agreement as something other than a free trade agreement because sugar was left out of liberalisation by the United States and perhaps there are some services restrictions that are still maintained by both sides. My point is that this agreement more than satisfies the standard under the current WTO rules about qualifying as an acceptable and approvable free trade agreement. The current requirement in the WTO basically calls for substantially all the trade to be liberalised as a result of the agreement. I believe that there is no question that this agreement meets that standard and would be approved if it were submitted to the WTO for consideration.

I also want to make the point that it is ludicrous to maintain that Australia and the United States have somehow lost interest in the WTO round as a result of their participation in this FTA negotiation. Anyone who follows the WTO negotiations, which I do rather closely, can tell you that Australia and the United States have from the beginning been in the forefront of that effort and they continue to be in the forefront of that effort. There is no evidence as far as I am concerned that either side is going to neglect that as a result of the FTA, one main reason being that both sides appreciate that you cannot possibly negotiate the most difficult agricultural trade barriers in a bilateral arrangement like this. That was made clear by the fact that this agreement did not touch domestic subsidies or export competition. That can only be done in the WTO.

My next to last point—and I will be very brief—is that I know of at least four economic studies of this agreement that have already been undertaken, both here and in the United States. They have come up with four different results. All of the results are worth very little because this agreement is what the Productivity Commission would call a third wave agreement. It is only in a very minor way related to tariff elimination. It is much more importantly focused on regulatory measures affecting trade in services and on investment questions and on government procurement. All of these are the types of things that current economic modelling tools cannot get at. So the economists who suggest that they can tell you what this agreement will be worth

over time are not being totally honest with you. I do not believe that there is anybody today who can do that. My feeling is that if Australia wants to assess the value of this agreement it would be better to wait until we have had a couple of years of experience and then, on the basis of real facts, ask the Productivity Commission or some similar group to look at the agreement and tell us whether or not it was a good deal.

The last point I would make is that as a former trade negotiator I am familiar with the fact that there is a very big difference between negotiating market opening opportunities and actually taking advantage of those opportunities. I wrote a short note to the *Australian Financial Review* some weeks ago in which I stated that I think what Australia should be focusing on is ways of being proactive in preparing the Australian business community to take advantage of the opportunities under this agreement, because there are many opportunities but we have to work to take advantage of them.

**CHAIR**—Thank you very much for that and for your evidence. We have now had over 20 years of a bilateral free trade agreement with New Zealand—the closer economic relations trade agreement. Are you able to comment on what the experience has been there in terms of addressing the regulatory issues and so on over a 21-year period?

**Mr Stoler**—I am not an expert on the CER between Australia and New Zealand but I cannot have lived here for a year and a half without picking up some background information on it and my observation would be that this is clearly an agreement that has led to a very close economic integration and business facilitation between the two countries. The Australia-New Zealand agreement goes beyond what is in the US free trade agreement in the sense that certain types of measures, like antidumping measures, are not to be used in the Australia-New Zealand context. That is not part of the features of the competition policy aspect of the US agreement.

My other observation is that most commentators would suggest that the principal beneficiary of the CER with New Zealand was New Zealand. The smaller economy got the benefit of its closer relationship with the larger economy. By extension, if you apply that to the Australia-US agreement you might conclude that Australia stands to gain more from this agreement than the US.

**CHAIR**—I found your submission very interesting. You are saying that it is quite possible that we are going to see some real improvements in financial services and professional services in the future.

**Mr Stoler**—For example, I have suggested to the vice-chancellor of my university here in Adelaide that it would be a good idea for the law school to start talking to some of the state bar associations in the United States about what sort of education could be delivered here in Australia that would make it possible to practise law in the United States with a minimum of additional training that might be required locally. I think we have the potential to attract a lot of overseas students. As you know, many of the universities here depend on that for additional income.

**CHAIR**—In my own electorate Flinders University has a lot of students from the United States who do their undergraduate courses here with a plan to return to the United States.

**Mr Stoler**—It is a very attractive proposition if you are familiar with the difference in rates that you have to pay.

**Senator MARSHALL**—I am tempted to take you up on the issue of education costs, given what you have just said. Does this open us up to exploitation of an education system which is substantially government funded in the Australian circumstance?

**Mr Stoler**—My understanding is that any student who came here from the United States would not qualify for HECS and other types of subsidies that are provided by the Australian government. In fact, in the services schedule the Australians have always been very careful, in both the WTO and this agreement, to make sure that none of that would apply to foreign students coming from the US. So the US students would be presumably paying full fare for whatever courses they took. This would help to offset the local universities' costs in other areas as well.

**Senator MARSHALL**—That is assuming that there is no cost subsidisation already happening within our university system. One would assume that if there were complete cost recovery it would be comparable to the US.

**Mr Stoler**—I do not know. In the United States there is a very wide degree of variations in universities. My own daughter may or may not be going to university there soon, and I can tell you that the annual cost for a pre-law degree ranges from around \$US15,000 to \$US40,000 depending on where you go.

**Senator MARSHALL**—I suppose that is something for us to look forward to. I want to pick up on a couple of issues. There has been a bit of a debate over whether it is a free trade agreement or not. It is not something that I personally get hung up about. I think the definition is actually wrong and that is what causes the confusion. It probably qualifies under the terms of the WTO, as you outlined, but as to what is generally understood in the community, it is not a free trade agreement in that sense, even though it might meet the technical requirements. I note that you refer to it right throughout your submission as a preferential trade agreement. I am not sure what question I am asking, but maybe you could elaborate a bit more for the committee on the difference between a preferential trade agreement and a free trade agreement as is commonly understood.

**Mr Stoler**—It is possible that the agreement between Australia and New Zealand is a free trade agreement. Apart from that, I do not know of any other agreement anywhere in the world today that would satisfy a definition of a free trade agreement that requires everything to be liberalised across the board. For example, if you look at NAFTA, which is between the United States, Canada and Mexico, there are many areas, particularly in the agricultural sector, where it was not possible to liberalise everything. Dairy is an example in the Canadian context. There are some sugar issues with Mexico. The European Community has never negotiated a free trade agreement with any of its trading partners that adequately covers trade in agricultural products. That leaves a major sector outside the coverage of the agreement. The same is true of many of the agreements that have been negotiated by Mexico. I am quite sure that the Mexico-Japan free trade agreement that was recently negotiated probably leaves most agriculture out as well. I guess my point would be that, unless I am missing something somewhere along the line, I am not aware of any agreement today on a bilateral basis that is a totally free trade agreement, if that is the definition that we need to apply to it.

**Senator MARSHALL**—Regarding economic modelling, you mentioned that you are aware of four studies and some of the US results. What were the US results?

**Mr Stoler**—One of the US studies was done by a professor at the University of Utah. I cannot remember his name right now but I did include it in a paper that I wrote earlier, and I could provide it if you are interested. He did a modelling exercise which ignored the non-tariff aspects of the agreement and it was still able to produce a slight positive benefit for Australia and the United States as a result of the improvement in the two countries' terms of trade as a result of this agreement. I think his research found a very small benefit of about 0.2 per cent of GDP.

The US International Trade Commission also did a report in the United States and it was similar to the one that was done by the professor at the University of Utah. They looked at 60 different combinations of agreements between the United States and other countries. In the case of possible agreements between the US and Australia and New Zealand, they found very small beneficial effects for both countries. Of course, here in Australia you have both the CIE study and the ACIL study, which had widely different results. I do not know whether the new CIE study has come out—I have not seen it—but, again, I suspect that it will be hampered in its ability to address the non-tariff issues.

**Senator MARSHALL**—And the fourth study?

**Mr Stoler**—The four studies are the ACIL study, the CIE study, the USITC study and the University of Utah study.

**Senator MARSHALL**—We would be happy to get those that we do not have and look at them. I want to talk to you a little bit about you saying that we should wait for five to 10 years and then work out whether it is a good deal or not. For industries that are looking to grow with exports to the US—whether they grew as much as they thought they would and whether they got access as good as they would have liked—that is well and good, but the potential downside, particularly in the manufacturing sector, directly means jobs potentially being lost. The US trade representative believes that, in the first year of the operation of this agreement, there will be increased imports from the US of \$US2 billion into our manufacturing sector. That potentially equates to a lot of jobs in Australia, if it displaces Australian manufacturing as opposed to displacing other imports.

People who are auto parts workers in Adelaide or Melbourne say to me, 'I want to know whether this impacts upon my livelihood. If it does, what is going to become of me and my family? What are the opportunities for me out of this agreement?' Don't you think that it is important to do economic modelling studies on where the job impacts might be—what industries they are in and what regions they are in—to look at a balance and determine whether or not this is in Australia's national interest?

**Mr Stoler**—Yes, I think it is important. There are probably sectors for which you could do a sectoral analysis that might show you, for example, what the effect of the reduced tariffs on auto parts would be. My point is that it is impossible or next to impossible to do this for Australia as a whole, or even for South Australia, because you have many other very important factors in this agreement that cannot be modelled using the same tools that can be used to look at the effect of reducing the tariffs on auto parts. For example, how can we now tell what are going to be the

increased numbers of American students who are going to come to Australian universities as a result of the provisions we were talking about a minute ago or whether or not tourism is going to increase dramatically in one direction or the other in the services sector? The change in the investment related restrictions maintained here by the Foreign Investment Review Board may lead to substantially increased American investment in Australia, which could produce substantial amounts of employment, but I do not know how we can model that ahead of time using the tools that we have.

**Senator MARSHALL**—It was interesting, though, that when the government first announced that they wanted to enter into these negotiations with the US they actually relied on the economic modelling and touted a figure of \$4 billion—or \$10 billion as I think it got to at one stage—and then, depending on where the dollar went, it changed again. They very clearly used that as justification in the first place for making the approach to the United States. Are you saying that that was a flawed or wrong strategy to base the negotiations on?

**Mr Stoler**—It is not for me to judge whether the government did the right thing or not in terms of selling this agreement.

**Senator MARSHALL**—It was not about selling it; it was about using those studies as the launch pad to initiate the discussions.

**Mr Stoler**—I would have taken those studies with a grain of salt. I happen to think the CIE study is pretty good. But, if you look at the tables and how some of the numbers run and what their modelling shows, for example, to be the increase in sugar exports to the United States, it is well beyond anything that anybody who knew the politics of the sugar industry would ever have put in a report as justification for a trade agreement. Even if the liberalisation had taken place—which, in this proposed agreement, it has not—it would never have happened overnight in a way that would have permitted that much sugar to go to the United States market.

**Senator MARSHALL**—This is where we got into the argument we had earlier about whether it is free or ‘free’. It assumed free trade under the definition of ‘free trade in all sectors immediately’ as opposed to what we know as a free trade agreement that says that does not have to happen, so there was a lot of confusion there. We are certainly a long way away from that. I think that study said that sugar alone was going to account for 25 per cent of the benefit—and it is not there. There is another thing I would like you to elaborate on. You said that this is a living agreement which provides further opportunities, and you gave us some examples. One of the issues of much concern to the committee is the impact on the Pharmaceutical Benefits Scheme. Do you say that that element of the free trade agreement is a living document as well?

**Mr Stoler**—I believe it is. I did not mention that in my written submission, but my recollection of the content of the agreement is that there will be a committee that will take up issues that might arise out of the way in which the Pharmaceutical Benefits Scheme operates in the future and will perhaps consider problems that are brought to it from pharmaceutical manufacturers or health care companies. So I suppose you could include that as part of the ‘living’ part of the agreement.

**Senator TCHEN**—I noticed that you have characterised the Australia-US free trade agreement as a PTA, a preferential trade agreement. Do you think that if we had called it a PTA

from the beginning it would have removed some of the misconceptions about whether or not it is a free trade agreement?

**Mr Stoler**—That may have been a good idea. Trade is a funny area. We continue to use all sorts of terms that prejudice the discussion, even if they are used as terms of art. The term ‘free trade agreement’ is one, the fact that we continue to talk about making concessions is another, and the fact that all of us seem to persist in believing that exports are good and imports are bad is another fault in the whole discussion. But I agree that ‘free trade agreement’ can be a misleading term.

**Senator TCHEN**—Really it is professional or occupational jargon, isn’t it?

**Mr Stoler**—The jargon used here is that which is used by the WTO in the GATT.

**Senator TCHEN**—Thank you for your submission. It was very clear and concise. I want to go through some points on each of the issues you raised. With regard to opportunities through institutional arrangements in the free trade agreement—I am continuing to use that term—you say that one of the great advantages of the agreement is that potentially it encourages mutual recognition of educational and professional qualifications. We actually heard from a professional group—yesterday, I think—which raised that as an issue because, whereas in Australia the movement towards national recognition has been quite strong, particularly in recent years, it seems that a similar movement is not in evidence in the United States. Different states will quite often have different qualifications requirements, and American professionals face the same barriers when they go across state borders. How would our international mutual recognitions work in such a context? They would be fairly irrelevant, wouldn’t they?

**Mr Stoler**—One possibility is that groups here in Australia could work with groups in the United States that are seeking to get at some of these issues even as they affect interstate trade in the United States. I am aware of the fact, for example, that the legal services industry and lawyers in the United States have been trying to break down some of the barriers that exist between the states in the US on legal services and to provide for a national approach to that. It is possible that Australian groups could work with them in an overall context under this new professional services working group.

The other thing, which I alluded to before, is that I do not see any reason why this agreement would not allow Australian institutions to work with individual states as opposed to working with the entire country in the United States. I have been told that the Irish education system has an understanding with the state of Massachusetts in terms of training for certain categories of professional services providers so that they would qualify for recognition in Massachusetts. Perhaps Australia would want to pick a state like California, which is relatively close to Australia and is a large state, and use that as a testbed.

**Senator TCHEN**—Yes, that may be something that Australian institutions should be thinking about. Thank you for that. Quite a number of the witnesses and submissions that this committee has seen have presented the opinion that the Australia-US FTA should not be ratified because it actually goes contrary to WTO principles. But you make the very strong point that the WTO and PTAs, like the Australia-US free trade agreement, are actually complementary. I wonder whether



you can enlarge on that, because from my recollection a number of witnesses have said to us that this is bad because it limits Australia's ability to comply with its WTO obligations.

**Mr Stoler**—I do not believe that there is anything in this agreement that in any way limits Australia's ability to comply with its WTO obligations. As I mentioned before, certainly this agreement would qualify for approval under GATT article XXIV and GATS article V if it were judged for its consistency with the WTO rules. The agreement, of course, goes beyond WTO provisions in a number of areas. The services approach is what is called a top-down approach, as opposed to the WTO's bottom-up approach. That is a different approach to covering services. The fact that investment is a provision, together with the trade and labour provisions, the trade and environment provisions and the intellectual property rights provisions that go beyond the WTO TRIPS agreement mean that these are all what I would call WTO-plus provisions. They are extra to what the WTO requires, but they in no way limit what Australia or the US can do under the WTO.

**Senator TCHEN**—When you talk about WTO-plus provisions, do you mean that they are WTO-excluding agreements, or agreements that are prohibited by WTO?

**Mr Stoler**—No. I mean that they are agreements that are not yet covered by the WTO or not covered for all WTO members. For example, government procurement is an area where only about 30 or 40 WTO members currently have obligations with respect to each other, because it is an agreement which does not apply to all WTO members. The fact that Australia and the United States have decided to include government procurement means that they are including an area which they are not required to include by the WTO. That is what makes it WTO-plus.

**Senator TCHEN**—You spoke about the limitations of existing economic modelling. The committee heard from Mr Alan Oxley in Melbourne two days ago. He presented the same argument. At the same hearing, the ACTU and other witnesses as well raised that as an issue and said that lack of detailed economic modelling to support the free trade agreement is a weakness. In particular, one issue that was singled out was that the Productivity Commission was not asked to provide modelling backing for this agreement. However, I note that in your submission you refer to a May 2003 staff working paper from the Productivity Commission, which actually indicates that modelling like this would not be useful. I assume that, being a staff working paper, it may not be so widely known. Would you be able to give us some background on this paper?

**Mr Stoler**—That paper that I referred to does not actually address this particular agreement. It does not look at the Australia-US FTA, but it does look at other agreements that Australia and other countries have concluded with each other and it attempts to look at whether these agreements were trade creating or trade diverting. It then also tries to address the investment impact of these agreements. One of the conclusions the Productivity Commission came to in that staff working paper is that they seem to think there is evidence that these third wave agreements, as we are talking about in the case of the Australia-US FTA, actually have an investment-creating impact that might be more important than their trade-creating impact.

**Mr WILKIE**—I look at the FTA and think that it is certainly not a free trade agreement. If you look at it, you will see that it is probably a freer trade agreement than we have had, but it is certainly not a free trade agreement. We had a leading person in the business community put to us the other day that the driving future for Australia's economy will be in the IT industry, yet we

have heard people from the IT industry pointing out that they believe there are serious deficiencies in the way the agreement has been put, because of copyright and patent type standards that could apply to Australian industries which would benefit large American corporations, thus driving many of our smaller players out of the market. Where do you see IT going? How important is that for our economy in the future?

**Mr Stoler**—There was a very interesting study recently done for another institute in the United States—the Institute for International Economics—conducted by a woman called Catherine Mann, that I can provide you with a copy of. It looked at what the real impact had been on the world economy of the uptake of IT hardware, as well as ICT services, at cheaper prices through trade agreements than would have otherwise been the case. I cannot remember the exact number that she came to now, but it is a huge number in terms of how the world economy has benefited from this increased IT uptake. I think you will find that the general economic integration that we can expect to see fostered through the Australia-US agreement will lead to some IT and ICT spill-overs in the direction of Australia and also offer opportunities for Australians to take better advantage of this. Many people criticise the provision in the agreement that extends copyright by an extra 20 years over what is required by the TRIPs agreement—the so-called mickey mouse provision—but there are a lot of creative people here in Australia that will also be able to benefit from the fact that they get an extra 20 years protection in the US market. I personally think that there are reasons to be positive and optimistic about this. I will be happy to provide this Catherine Mann study, because it is very good study.

**CHAIR**—Thank you very much.

**Mr WILKIE**—That would be good, Mr Stoler. They were talking about intellectual property rights and the fact that, right now—and I cannot remember the particular terminology they used; I think it was open software—

**CHAIR**—You are referring to evidence from Cybersource. They were talking about Open Source—

**Mr WILKIE**—Yes, Open Source software whereby they can now use things online for free to help to develop other software. Their concern is that under this agreement, if we adopt the types of copyright and patent standards which would apply in the US, because many of those things may have patents applying to them, they could not use them without getting a licence. They could not afford to do that—it would be cost prohibitive—and many smaller companies in the IT sector would go out of business. They employ many thousands of people and turn over hundreds of millions of dollars.

**Mr Stoler**—If this agreement somehow limits companies' ability to use Open Source software, that is not something that I am aware of.

**Mr WILKIE**—But would it be of concern if it were the case?

**Mr Stoler**—If that were the case then I could see that it would be very limiting. As I have said, I have looked at the text of the agreement and if it has a provision like that I have missed it.

**CHAIR**—It is a moot point. They were concerned that we were adopting American patent systems. That is certainly not my understanding. We maintain the Australian intellectual property regime with those changes that you have mentioned, such as the 20-year extension. The deputy chair was referring to evidence from Cybersource that we received in Melbourne on Tuesday. It is a moot point.

**Mr WILKIE**—A number of companies are concerned about where we may be going in adopting some of those protections. It is something that has been raised and we need to consider it. I was interested in the impact that it may have. You have talked about modelling and how difficult it is—I can appreciate the difficulties—and about how the Productivity Commission should be engaged in a few years time to look at modelling. Given their experience in free trade agreements and trade agreements generally over the years, do you think that that body should have been asked to provide modelling that we could have used to assess the agreement?

**Mr Stoler**—The original CIE study that was done drew heavily on work that had been done by the Productivity Commission in the services sector. The one big difference between the CIE study and the ACIL study was that the CIE people at least attempted to look at the services sector and, in doing so, relied mostly on the Productivity Commission information. But in my discussions with Gary Banks at the Productivity Commission and with people at the US International Trade Commission in Washington who are asked to do similar studies, they are quick to admit that progress in research on how to do this is still rather limited. It is very difficult to assess it. For example, what was done by the Productivity Commission in the context of this agreement, which the CIE drew on, relies on some assumptions that are made of cost savings to Australian users of services resulting from expected increased competition in the Australian market from US services providers. So it is all very tenuous in the first place and to begin with you have to have some idea of how much more expensive services are to Australians than they are to Americans without that competition.

Banking services are an example. We all know that there is a limitation on the number of banks that operate full service facilities here. Is it the case, as the Productivity Commission suggested in its study, that Australians pay three or four per cent more for banking services as a result of that limitation? I do not know, but that is what the Productivity Commission suggested, and that was drawn on by the CIE. Professor Garnaut at the Australian National University is quick to point out that the limitation on the CIE study in this respect was the fact that nobody should ever have expected that there would be increased banking competition as a result of this agreement anyway, so it was all a moot point.

**Mr WILKIE**—Do you think that the Productivity Commission has the expertise, though? You mentioned that the CIE has drawn on the Productivity Commission's experience in coming up with its modelling. Do you think that the Productivity Commission would have been the best body to have done any study? Given the limitations regarding studies, which you have talked about, if you are going to have a model and look at a possible impact, given a few different scenarios, wouldn't you have thought that the Productivity Commission would be best suited to do that?

**Mr Stoler**—I can comment on this only from the standpoint of my US experience. In the United States the normal thing is for the administration to ask the US International Trade Commission to do these kinds of studies. The International Trade Commission is a body that is

very much like the Productivity Commission in that it is a semi-independent arm of the government that is not really subject to political control but is expected to do an honest job on these types of things.

**Mr WILKIE**—I will be straight with you. I am not trying to set you up here but I have actually come out very strongly saying that if there was any modelling it should have been done by the Productivity Commission. I am very critical that the government did not use them to do the current study after they had signed the agreement, particularly given that evidence we have had has suggested that, even though agriculture is severely affected by the agreement, the department of agriculture were not asked to do any modelling whatsoever about where their people may sit and in fact Treasury was not even asked to do any modelling. They have run off and signed it without getting the key players' advice on how it may affect the Australian economy or certain sections of it. I would have thought the Productivity Commission with their past experience would have been best suited to come up with something to give an indication of where we may be.

**Mr Stoler**—In my written submission I suggested it should be the Productivity Commission that looks at this in five or 10 years time if we have some experience.

**CHAIR**—In terms of the modelling, you have made the powerful point that essentially when you are looking at the gains from a preferential trade agreement principally you are looking at the gains from reductions of tariffs, and yet Australia and the United States are essentially low-tariff countries. Do you have any idea of what proportion of the likely gains are going to come on the services side from things like government procurement, intellectual property, financial services, professional services and so on?

**Mr Stoler**—No, I do not, and that is one of the problems. Government procurement is a good example where I think a lot is going to depend on how proactive the government and the private sector are here in Australia. It is a very complicated area in the United States. It is an area with huge opportunities: \$200-plus billion. But Australians have no experience today selling to the US government because they have been barred from this market because of Australia not being in the WTO agreement. That means that they are starting from scratch. I have talked to the Austrade people here and in other places and I suggested that it would be a good idea already to start putting together workshops for Australian businesses that may take advantage of these opportunities and explaining to them, with experts who are familiar with how to sell to the US government, what they need to do to get into that market.

**CHAIR**—How does Australia generally fare in the service side? Do you know whether we have a trade surplus or trade deficit in services?

**Mr Stoler**—With the United States or more generally?

**CHAIR**—More generally, and with the United States.

**Mr Stoler**—I think there is a deficit in services trade with the United States. I cannot remember the numbers right now but I think it is probably a couple of billion dollars deficit with the US. My impression is that Australia has a surplus in services trade with the world, in large part because of this very large volume of education services that are being provided. I was

looking at an OECD study the other day that demonstrates how powerful the uptake of Australian education services has been. Talking about the surplus or deficit again, my memory is imperfect on this but I think that for every Australian postsecondary student studying overseas there are 24 studying in Australia from overseas, which is a huge positive benefit to Australia in that sector.

**Senator TCHEN**—I know that you are an adjunct professor at the University of Adelaide but I understand that a large part of your experience is actually in the United States, so you are probably in the best position to answer this question. Quite a lot of submissions opposing Australia signing this free trade agreement have presented examples of contributions to the debate on whether this agreement is good for Australia or not and have pointed to contradictory or seemingly contradictory statements between Australian and United States officials, and Australian and United States politicians and commentators, on the benefits to Australia and the United States respectively. In fact, in some submissions I have seen, the whole case was built on almost verbatim quotations of United States commentators' assessment of the great benefits to the United States. From your experience, are there any grounds to suggest that United States commentators are more authoritative than Australian commentators in terms of trade?

**Mr Stoler**—I do not think there is any basis on which you can say that one side or the other is more authoritative. I made the point in my written submission that I have been told by people at the US International Trade Commission that, looking at this from the overall US national standpoint, it is very difficult or impossible to say that there is a positive effect for the United States because of the big discrepancy in the size of the economy, the fact that tariffs are not very important and so on. As I alluded to before, notwithstanding the fact that governments actually understand economics and international trade, they persist in making mercantilist statements that suggest that exports are good and imports are bad. In fact, any good economist will tell you that the whole point of trade is to import things at more reasonable prices and to use your exports to pay for it—that is where the real benefits from trade are. So Australia and the United States are obviously both going to have benefits on their importing and exporting sides—almost to the extent that, as Robert Zoellick says, the US is going to sell \$2 billion of additional auto parts in Australia, which is really a benefit to Australia, notwithstanding the job consequences that it might have, as you pointed out.

Another point is that, if you look at the automotive sector, it is not exactly clear what the impact of some of these reduced duties is going to be. For example, if Holden now obtains parts from the United States at cheaper prices as a result of this agreement, Holden may become more competitive in the Middle East market—where it sells a lot of cars—as a result of the flow-through effects of the FTA, which would not have been the case otherwise. So it is very difficult to look at it in the very restricted context of just the South Australian or the Australian market; it has other effects as well.

**Senator MARSHALL**—That is an interesting point. Holden did make a submission to us the other day. I do not to put words in their mouths, but what I took from it was that, if we become successful in an export market at significant volumes, it is then taken out of our hands to a large degree because companies like GM are globalised companies. Where manufacturing is conducted is a corporate, global decision, and not necessarily based on assessments such as: 'GMH are successful here, so we get to own it.' The proposition was put very clearly that, if we get much more successful at exporting Monaros to the US, the manufacturing of Monaros will

simply be taken back to the US. We can talk about economic theories and all things being equal in a perfect world—and some of those things might happen; we may benefit—but we do not factor in the globalised nature of companies that make decisions based on their global manufacturing plan. At the end of the day, it does not have much to do with how efficient or productive we might be in Australia, when our economy of scale is rather small.

**Mr Stoler**—But I would imagine that the scale of the Australian automotive industry relates to more than the Australian market. For example, to the extent that Holden cars are competitive in export markets—whether it is the Monaro in the US or some of the larger sized cars that are being sold in the Middle East and other places like that—Australia will be a lower cost operation as these parts are not burdened with the additional cost of the tariffs. Therefore, companies are perhaps looking at Australia as being more desirable to maintain as a production location as opposed to some others.

By the way, I think we also need to factor in here the fact that this agreement was done in the context of a situation where Australia recently negotiated a free trade agreement with Thailand. The large cylinder size engine cars are going to go to duty-free rather rapidly under that agreement—

**Senator MARSHALL**—They might. No-one has seen it yet.

**Mr Stoler**—At least, that is what I am told.

**Senator MARSHALL**—We will wait.

**Mr Stoler**—The producers of the same kinds of cars which are going to the Middle East markets will now enjoy an advantage in the Thai market as well.

**Senator MARSHALL**—Just on that point about reducing our own tariffs to make things cheaper, which then provides extra ability for our economy to export, why do we need a free trade agreement to do those things? We do not. If we actually thought that that was an appropriate step, why are we not just removing all tariffs and barriers to trade across the board in our own economy? Why is there a need to get into bilateral negotiations?

**Mr Stoler**—In fact, that has been Australia's experience over the past 20 years. Australia has undertaken much more liberalisation on its own initiative, particularly in tariffs in certain sectoral areas, as a result of recommendations from the Productivity Commission and others, than it has done as a result of negotiations under the WTO or in the US FTA.

**Senator MARSHALL**—Is it true to say that we are one of the most open markets that exists now?

**Mr Stoler**—It is true to say that now. Twenty years ago it was not true.

**Senator MARSHALL**—I agree.

**Mr Stoler**—It is also true to say that, because Australia is one of the most open markets now, Australia has avoided some of the economic difficulties that less open markets have experienced

in recent years. You have not had the recession here that occurred in the US and Europe. The OECD regularly holds Australia up as a model of macro-economic management for the types of policies that have been pursued here. So you could continue to do it totally unilaterally, but if you could get some benefit at the same time through a free trade agreement with the US, why not? I suppose that is the argument that I would make. Clearly new opportunities have opened to a range of Australia exporters as a result of this agreement, whether you talk about the tuna people or the government procurement types who might get into the market.

**Senator MARSHALL**—Thank you.

**Mr WILKIE**—Earlier you mentioned services increasing—professional people being able to go over and having their qualifications recognised. Is it not true at the moment, though, that we did not get professional qualification recognition; we only have a working group to look at trying to sort something out. Really we are going to be bogged down in a quagmire that is going to be very difficult to move forward from, particularly given that every state in the US has its own recognition system for qualifications. It has been put to us this week that, although we have some opportunities there to progress, in reality it is not much better than what we currently have. We do have real problems with visas. Some of our professionals are having to wait up to two years to get visas, and that is stifling that sort of trade. In fact, nothing has been achieved in the agreement that is going to allow professionals greater access, whereas US professionals coming here can trade in most states, if their qualification is recognised. They do not have the same sorts of visa restrictions that we have.

**Mr Stoler**—Part of this is a consequence of the fact that both Canberra and Washington decided to rush this agreement through. They did that because they were concerned about what might be the change in political leadership in both countries and because there was an election calendar in the US that dictated that the agreement needed to be finished in January or February or it would not make it through this year. I know Ralph Ives and the people on the US side who negotiated this agreement were not very happy about having to rush it through in the time frame that they were given. Probably if it had been up to the negotiators they would have had a time frame that was twice as long as for this particular agreement. But that was not the case. With that said, I think that what is left in terms of these ongoing working groups is certainly better than the situation we had without them. At least we have an opportunity to get at these problems and we know where to take the issues.

**Senator MARSHALL**—It was not only the amount of time that they had to negotiate; it was the timing of the negotiations too. Would it be fair to say that backing onto the US elections was the worst possible time to negotiate a free trade agreement with the United States and, regardless of whether people say this is a good or bad agreement, it probably could have been better if we did not have that pressure leading up to the US federal elections?

**Mr WILKIE**—And ours.

**Mr Stoler**—I assume it could have been, although you never know whether a change in administration in the US or a change in the congressional make-up would have favoured a better agreement or not. It is quite clear that this agreement, for example, is more popular in the United States with Republicans than it is with Democrats. The Republicans are more or less calling the shots now. If the Democrats were, it might have had to have been a different type of agreement.

**Senator MARSHALL**—But it was Democratic administrations that approached the Australian government on two previous occasions to negotiate a free trade agreement, which was rejected by Australia. The difference this time was that Australia approached a Republican administration. It is hard to make a conclusion about what would have been the outcome. However, regardless of that, the pressure that can be brought to bear by the lobby groups in the lead-up to an election in the United States has a far greater impact upon the decision makers than it might in the first year of an administration.

**Mr Stoler**—That is true, but it is also clear that, for a variety of reasons—Iraq is certainly one of them—Australia enjoys a certain position in the eyes of the American administration and the congress that has been affected by timing. That has probably created a more favourable environment than would have been the case if this were done at another time.

**Senator MARSHALL**—That raises an issue I would not mind hearing some views about. The linking of security relationships with trade relationships has been strongly criticised in some quarters as getting very confusing and sending mixed messages; it does not lead to secure and good outcomes in either of those areas once you mix those two things together. What is your view of that? Do you have any comments about that?

**Mr Stoler**—I do not think it is appropriate to link them, and I was not suggesting that they were being directly linked. But it is clear that there is a very friendly attitude toward Australia on the part of the congressional committees that form these pro-Australia coalitions and others that will make it easier for this agreement to go through than other free trade agreements that are now before the congress. For example, the recently negotiated Central American free trade agreement with the United States probably will not go to the congress for approval this year—and who knows whether that will eventually kill it?—whereas the Australian one is generally regarded as one that will go to the congress and probably be approved.

**Senator MARSHALL**—Is that what you are hearing from the States—that it will probably be approved?

**Mr Stoler**—Yes.

**Senator MARSHALL**—Are there people lobbying hard against it in the States?

**Mr Stoler**—The only ones who are lobbying against it are the labour unions. You have probably seen that the US has these private sector advisory committees that are charged with preparing reports to the congress on whether the private sector supports what is in the agreement. One of the advisory committees is the labour advisory committee, made up mainly of union officials. The union officials have strongly condemned this agreement and are fighting against it, but the labour movement in the United States has fought against every trade agreement in recent memory, so this is no exception. But you would probably find it interesting to read this report, because they have all sorts of criticisms of Australian labour law, which they believe will not be affected positively by this agreement. As I think USTR Zoellick puts it, it is maybe going a bit too far to suggest that that is the case.



**Senator MARSHALL**—Despite all of the rhetoric in the labour clause of the agreement, we have been advised that the only thing that it enforces is enforcement of our existing laws. In fact, apart from the rhetoric which is unenforceable, it is a meaningless clause, isn't it?

**Mr Stoler**—The provision for a relationship between trade and labour really grew out of the earlier US experience with Mexico, and it was instilled in US legislation as a requirement for all of these agreements. I do not think anybody had it in mind as necessarily applying in the case of Australia. It has to be in there because it is part of the US legislative requirements, but I do not think Australia was the target country at the time when that was drafted.

**Senator TCHEN**—This is a more general, philosophical type of question; I do not know whether you can give me a short answer or a long answer. One of the benefits of free trade agreements is that they will increase productivity and economic benefits for the partner countries. The whole argument about free trade internationally is that you increase economic growth and people will benefit from it. The argument against it concerns this apparent preoccupation by economists that growth is everything. There is a perception that whenever you get economists they talk about the benefits coming from growth. However, I wonder whether the fact that an increase in free trade, which implies a freedom of movement of goods and services across international borders, necessarily leads to overall production growth as a precondition to it—whether in fact it could actually balance out overproduction in one area with lack of supply in another area.

**Mr Stoler**—The World Bank has done a number of studies of different growth rates in countries around the world based on whether they have been liberal world traders or not. Mainly these studies concern developing countries—not developed countries like Australia. But generally the conclusion is that countries that are open to trade in goods and services have grown by two or three percentage points a year faster than those which have not. So the evidence all points in a direction of liberal trade stimulating growth. And, of course, in the developing world this economic growth generally leads to a reduction in poverty. Again, there are a lot of statistics about how many millions of people have been lifted out of poverty by economic growth through trade in the Asia-Pacific region. If you look at Australia's own situation and go back to what happened in this country when it was engaged in protectionist policies—if my memory serves me right—you will see that Australia was the richest country in the world in 1913 and had fallen to 13th place by 1980. It is now back to something like seventh place, but that is largely because of turning around the protectionist policies and opening up the market.

**Mr WILKIE**—I have just a comment, really. The comment was made earlier that part of the agreement was about the election timing in the US—I actually think it was part of the rushing of the agreement. I am rather sad that negotiations did not take longer. I think we could have got a better result had it not centred on that whole election framework. I think that our agreeing to it in the manner that we did and with the trade-offs that we made was largely because we were trying to do it for our own domestic election process. That is rather sad because I think we have sold the country down the river, in some ways. I am not asking you to agree or disagree; but I think it is a pity that we did not have more negotiations. I think we could have got a better agreement.

**CHAIR**—Did you want to comment on that?

**Mr Stoler**—I will make two comments. One is that my friend Ralph Ives, who was the chief US negotiator for this, came through Adelaide on his way to the October negotiating session in Canberra, and he met with a number of government and businesspeople here. We talked a lot about the pressure that the negotiators were under and how difficult it was going to be to negotiate a full agreement in the time that they were allotted. Ralph certainly would have liked to have had more time to do the agreement. I am sure that Steve Deady and DFAT would have liked more time as well, but they were not given the opportunity. My other observation, on a personal level, relates to your comment that you feel the country has been sold down the river. I have a hard time finding any areas where I think Australia has made any life-threatening concessions in this agreement.

**Mr WILKIE**—I am not saying they are life threatening, but I think we have made a lot of significant concessions and we might have been able to achieve a better result on them. When you look at the fact that there is such a lead-in time for the reduction of the tariffs, that they are saying that they are going to be only \$1 a beast better off over the entire life of the agreement and that there are a lot of other areas where there are long lead-in times, I think we could have achieved significant improvements. I am not talking about life or death, but I think we could have had some significant improvements had we negotiated more.

**CHAIR**—I would like to thank you very much for your attendance before the committee today. I require a motion from a member of the committee that we authorise submissions Nos 141 to 147 and 149 to 151 and also a submission that we have received from the South Australian government.

**Senator STEPHENS**—So moved.

**Senator TCHEN**—I second the motion.

**CHAIR**—There being no opposition, that is so resolved. Those submissions have been authorised. Thank you.

**Proceedings suspended from 11.06 a.m. to 11.17 a.m.**

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**SHEARMAN, Professor David John Crymble, Honorary Secretary, Doctors for the Environment Australia**

**CHAIR**—I welcome Professor David Shearman from Doctors for the Environment Australia. On behalf of the committee I would like to thank you for appearing to give evidence today. Although the committee does not require you to give evidence under oath, I should advise you that the hearings are legal proceedings of the parliament and warrant the same respect as proceedings of the House and the Senate. The giving of false or misleading evidence is a serious matter and may be regarded as a contempt of parliament. Do you wish to make some introductory remarks before we proceed to questions?

**Prof. Shearman**—It is very kind of you to invite me. I must say that it is good to see a former colleague here.

**CHAIR**—Thank you.

**Prof. Shearman**—I did not expect that.

**CHAIR**—I should point out to members of the committee that Professor Shearman is a former lecturer and boss of mine, so, although I know that I do not have to say it, committee members should show him due respect.

**Mr WILKIE**—We will get the goss from you later, Professor!

**Senator MARSHALL**—He obviously did not learn his lessons well enough!

**Prof. Shearman**—I am quite happy if you get your own back! I would just remind you that I am a medical specialist. You should perhaps ask why I am here today worrying about free trade agreements and neglecting my patients. I think my submission says that. I am not going to reiterate any of the points in the submission, but I would just like to make a few other points that I think might put my submission into perspective. The free trade agreement reminds me of one experienced but self-centred surgeon—and, of course, physicians like to make jokes about surgeons and vice-versa—who was very eminent and very good. He was delighted at the results of the operation on the patient's eye. He knew he was magnificent, and, indeed, he was—the result was perfect. Unfortunately, he had not noticed that the patient had died. What I am suggesting is that we always have to look at the whole and not the part. The part that we are looking at at the moment is a free trade agreement. That has wide implications.

Doctors for the Environment Australia wants committees like this to know that there are thousands—yes, thousands—of the most eminent scientists in the world who believe that we are only two generations away from severe environmental disturbance. These thousands of scientists are the majority of Nobel Prize winners, the scientists of the US Academy of Sciences and the royal colleges in the UK, and most of the government chief scientists—such as Sir David King, who has recently said that climate change offers more damage to us than terrorism. These are the people we want you to listen to.

What is the threat then to our health and wellbeing, and why are doctors worried about this? Our existence on this planet depends on all other living things. I am going to explain ecology to you for a minute. All these things are being destroyed by pollution, deforestation, desertification, land clearing, climate change and so on. I will give you some figures on this shortly. There is evidence of this from each country. You can measure it. It is something tangible. If you look at the government's own statistics, if you look at *Measuring Australia's progress 2002*, published by the Bureau of Statistics last year, you will find that almost every economic parameter that was measured was improving—hooray for the government!—but every environmental parameter that was looked at in this country was actually decreasing. It was getting worse. You can look at that and find it in every country.

Ecology is a difficult concept. It is best looked at in terms of a healthy human body. To have a healthy human body, we all know we have to have healthy parts of the body—brain, heart, lungs, immune system and so on—but the most important thing is the way they are integrated together to ensure that we work as a whole, that we can activate any part of our body and that it remains healthy. So the communication systems between all these parts of our body are vitally important. We can think of them as the blood vessels—the vessels that supply nutrition and oxygen to all the parts of the body—and the nervous system, which gives the messages. That arm is useless unless it has blood and it has an active nervous system.

What is ecology then? We have to think of ecology, of the earth, as a single living thing—and many distinguished scientists think in this way. It has all sorts of parts but it has communications and coordinating systems. Whether it is climate, seas, fresh waters or whatever, there is this coordination. I want you to think of ecology as the nerves and blood vessels of the earth. It is that sort of indispensable principal system. It is all those things that provide services for us—purification of water, provision of wood from forests; there are a thousand things and we could talk about them all day—that are ecological services, and we have to preserve those. We cannot function without them.

If you take any economic activity—we will come to free trade in a minute—it has potential effects on the world's ecology. We all know that. A free trade agreement will change part of the balance of systems in the world. As part of the assessment of the effect of that trade agreement, we need to look at the pluses and minuses of certain things. Governments have started to recognise this in terms of creating departments of sustainability, though in my view it is still window dressing. They are still like the decorative pictures on the wall of your lounge room. They are not doing what they need to do.

If we go 40 years hence and look at what we have to do, and we watch Mr Costello preparing his budget in 40 years time—that is if he is still waiting!—he will not be preparing it with advice from Treasury or from Access Economics; his proposals will be going to a bevy of sustainability scientists for their assessment before anything happens. If this has not happened, then I suspect that civilisation will not be as it is today; it will have changed significantly. Those are the thoughts behind the submission from Doctors for the Environment, and why they are worried about certain economic activities. My submission, and the submission coming from doctors, would be supported by all those thousands of eminent scientists around the world whom I have talked about. That is a measure of the concern.

I will now come to Doctors for the Environment and what we do in Australia and why we are appearing here. We exist to brief and educate on these issues because, at the end of the day, they are health and wellbeing issues. We have attracted many important leaders in the profession, because they recognise what we are doing. We have people on our committee such as Frank Fenner, who discovered the vaccine for smallpox; Fiona Stanley, who was the Australian of the Year last year; and Tony McMichael, who sits on the Intergovernmental Panel on Climate Change, a very important committee that I will tell you about later. This week we received a little note from Sir Gustav Nossal, saying he could join us. I do not think the committee will reject him! We are very grateful that people of such standing are joining us and helping to spread this message

I want to make two points about the future, because these issues are different to anything that the scientists and the politicians have encountered before. They have two fundamental differences that I think we need to appreciate. Firstly, none of us have any self interest in this for political, personal or any other reasons. That makes it a rather unique issue. You have to do something about it. It is not going to be an issue at the next election or the one after that. You and I will not be here to see whether it is successful, so it really requires a different psychological approach in that you and I are going to have to work as hard on this as we possibly can and yet we are never going to see the results of our success. That makes it difficult.

Secondly, we are looking at the most important environmental issue that we have ever encountered—that is, climate change. It is different to all other environmental issues simply because of the time lag. We cannot put this genie back in the bottle. The Chief Scientist, Dr Batterham, cannot suck carbon dioxide out of the air and get rid of it. We have already put into the atmosphere enough carbon dioxide to raise the temperature of Earth by between two and six degrees in the next 70 years. That is irrevocable; it is already there. We have raised the temperature by half a degree already. Swiss Re will tell you how many hundreds of billions of dollars it is costing, just as one single measure, and that this is just a part of the story.

That is already going to happen. What we are talking about now, in having action and in having a different approach to matters, is that we do not want this potential calamity—and it will be a calamity if it goes to six degrees—to become a total catastrophe. That is why we have to reduce emissions quickly. It is interesting that the people that take this seriously have been the young political leaders of the world. Mr Blair has indicated that the UK will do what is necessary and reduce by 60 per cent over so many years. That is a huge reduction in greenhouse emissions. There is a generational problem here in that younger leaders in countries like Denmark, the UK and so on are grasping this but many others are not.

The change in our policies has to be fundamental. I want to make two final points about the submission and about why we have to change the fundamentals. Doctors have had to get into this area because it is so important. They have had to burden themselves with learning economics and all sorts of things to find out the facts on these issues. In all governments and all oppositions everybody talks about the value of economic growth. The world runs, apparently, on economic growth. We require economic growth for jobs and this, that and the other. Everybody, I think, would like an economic growth of three per cent per year. Most governments would salivate at the thought of three per cent growth per year. But let us look at what that means. It means that the economy is three per cent greater this year than it was last year. In 23 years the economy has doubled in size. In 46 years it is four times the size. If we take every democratic

Western country and allow that to happen, in 46 or 47 years we are gone. We can do the sums. Any scientist can do the sums and show you that we are gone. So why are we carrying on in this way?

The free trade agreement, according to its proponents, is one part of this equation. Why are we carrying on in this way when the proponent of the system that we all adhere to and that we all believe has done a lot for humanity, John Stuart Mill, said in 1865 that growth could not go on forever. He talked about the stable economy. I would like to read you two sentences that he wrote and just ask why we are not instituting these things today. He said:

It is scarcely necessary to remark that a stationery condition of capital and population implies no stationery state of human improvement. There would be as much scope as ever for all kinds of mental culture, and moral and social progress; as much room for improving the Art of Living and much more likelihood of it being improved, when minds cease to be engrossed by the art of getting on.

This was said by the man who did most to form capitalism. He said:

Even the industrial arts might be as earnestly and as successfully cultivated, with this sole difference, that instead of serving no purpose but the increase in wealth, industrial improvements would improve their legitimate effect, that of abridging labour.

We could discuss what he meant by ‘abridging labour’. But that was in the minds of people who developed capitalism and who believed it would be a slightly different system than the one that has evolved—one that takes no account of some of the consequences.

As a doctor, in talking to people throughout my own life, I have to ask myself how we have got into this position. What is it about us that is allowing this to happen? It is easier to go on as we are, isn’t it? It is easier just to go on, create more and give everybody a job. It is the easy way out. But, if you look at human nature, the other reason, unfortunately—and we all have it—is greed. We have to have the philosophy of getting more. Even if we are the wealthiest country in the world, we have to say to a country where people earn \$2 a day, ‘No, it is our oil. You can stay where you are.’ It is a philosophical problem that we have.

This is my final point. I raised the question of beef in my submission because I had heard so much on the radio about beef and farmers beefing about beef. Excuse me if there are any farmers here. I felt that we should say a few things about how a beef market might be run if humanity were to continue its successful existence. We should surely look at the world’s constraints—the health constraints and the environmental constraints—before we start. There are some. The beef market has been changed by the advent of mad cow disease. You have to take these factors into account. We have to look at the environmental imperative before we can take a narrow trade agreement and say: ‘That’s what we want. That’s what we’ve done.’

There is one overriding factor in the beef trade, and that is that the Amazon forests are being destroyed by the production of beef. This year, an area the size of Denmark will be cleared to produce beef—eight per cent for North America but the rest for the burgeoning middle-class markets in Poland, Russia, China and so on. We cannot let the Amazon rainforests be destroyed. We know enough about its science now. In fact, I would call it one lung of the earth’s atmosphere. There is very good evidence that, as the forests are destroyed, North America will

lose its grain belt through lack of precipitation. It is in that climactic circulation. It is unfortunate that Mr Bush does not recognise environmental issues. That is a real threat to the United States; it is a threat to everybody because of their production.

The second thing is that this degree of clearance results in a great increase in greenhouse emissions. We just cannot afford to let this happen under any circumstance, yet it will happen under the market system. It has been happening for 10 years, and in 20 years the forests will be gone. So, if we look at the beef market and we were all reasonable people who were concerned with the world vision, we would first look at the countries that need beef and we would see who could supply them, and Australia might be one of them. We would adopt some sort of beef levy on all beef production, to buy off Brazil—a poor country needing that money. They are earning \$500 million a year from it at the moment. We would have to save the forests that way. That is in the world's interest.

The last thing we would do is have countries seeking bilateral agreements and getting the best out of it that they could, without considering externalities. That is why I talk about externalities in the submission. There are dozens of externalities that the negotiators have not considered. The externality we are particularly interested in is the use of oil in products—in transport, fertilisers and all those things. That can be accounted for. In terms of greenhouse emissions, when we are accounting for externalities like that, we should perhaps be putting a cost to future generations on them of perhaps five times the present cost of oil. If you are transporting stuff across the Atlantic, that is the calculation you should be putting on it.

The message is that the trade agreement, unfortunately, has not assessed anything that we can see that is of value to the future stability of the world. That is the way we would encourage our leaders to think from now on if there are to be good trade agreements. We could perhaps ask our leaders to push for organisations like the World Trade Organisation to prepare material for consideration, like the stuff I have mentioned in the beef trade, and not just look at the economics of the costs. My conclusion—and I asked the question in the document—is: when the proponents of this agreement have provided a detailed analysis of the economic benefits of the US FTA, why have they not analysed the externalities? Without that, environmental analysis is not possible in order to pass an informed judgment on the proposal and whether it will benefit the world as a whole.

**CHAIR**—Thank you very much. Did you have any consultations prior to the negotiations?

**Prof. Shearman**—No. You will see that we are a very young organisation and we were literally under formation when this discussion started. We did not make a submission.

**CHAIR**—Okay. In your submission to the committee you have talked about the footprint for the average person on earth being 2.3 hectares and the footprint of the average American 9.7 hectares. Do we have an idea what it would be for the average Australian?

**Prof. Shearman**—About seven hectares.

**CHAIR**—You do not know what impact the US free trade agreement will have on the ecological footprint of Australia or the United States?

**Prof. Shearman**—No. Economics is going to go on GDP, but we would like to see government and all political parties adopt other measures of the good of humanity, and there are such measures. We would have liked the assessment made as to whether this would reduce the ecological footprint for either nation. That would have been a very good start-off. But it also has to ask if it has improved the ecological footprint for those nations that are down at about two and what effect it has indeed on all other nations. Nothing in this world of linked ecology can be done in isolation anymore. We have learned that from terror. Why don't we apply it to something else?

**CHAIR**—Thank you for your submission. We can take on board the point you have made and when we go back to the department we can put it to them. Within the trade agreement there is also an environment chapter, which is part of the US requirements for bilateral trade agreements. Do you have any comments on that?

**Prof. Shearman**—I read the environmental chapter thoroughly but I did not feel it was at all relevant.

**CHAIR**—It just says that we will enforce our laws; we will not put trade ahead of our laws. You make the point very strongly that neither Australia nor the United States are members of the Kyoto Protocol. That, for your organisation, is the most important one, but there are a number of other multilateral environment agreements that we would both be parties to and would work together on.

**Prof. Shearman**—Yes, I accept that there are some. But most people are worried by the severe rolling back by the Bush government of very many environmental matters in the United States, and that is of concern to us because it affects everybody ultimately.

**CHAIR**—Your point is very well made and is very powerful.

**Senator STEPHENS**—Thank you for your submission. You have raised some very important issues that we will pursue, particularly with the department. I want to read you something from this document we have received, which is a report from the Allen Consulting Group on the Australian-United States free trade agreement potential impacts on South Australia. In relation to the environmental issues, on page 30 of the report, section 3.15, it says:

United States negotiators are seeking a commitment from Australia that it will not act to encourage trade and investment at the expense of environmental protection and other related commitments. The consulting team did not receive any submissions identifying or raising specific concerns regarding protection of the environment or environmental risks under the free trade agreement. The strongest representations received in discussions about environmental issues related to support for continuation of Australia's robust science-based approach to customs procedures to prevent the spread of disease.

This is the South Australian consulting group report. Obviously the issues that you have raised with us are not particularly on the radar in terms of economic modelling or economic impacts, but when I went to the national interest statement I could see that there had been consultation with a list of organisations and that there was some input from environmental organisations, including an organisation which I do not know called the National Environmental Consultative Forum. Do you know what that body is?



**Prof. Shearman**—Yes.

**Senator STEPHENS**—Also included were the Public Interest Advocacy Centre and the Tasmanian Conservation Trust, but there were no organisations that would be considered to be the prominent national environmental organisations. There is Greenpeace and the National Association of Practising Psychiatrists—they probably do not consult on environmental issues.

**Prof. Shearman**—Probably over drugs, I would think.

**Senator STEPHENS**—I would say so. There is also the Mudgee District Environment Group, a small group in New South Wales. Has your organisation had any input into discussions with the Conservation Foundation or any of the national environmental bodies?

**Prof. Shearman**—No. Perhaps I could just explain the philosophy of our organisation. We are not another Greenpeace or ACF.

**Senator STEPHENS**—I appreciate that.

**Prof. Shearman**—The only reason we are working with the word ‘environment’ is that, to us, the environment is health as well. So we are looking particularly at those health issues. We are not dealing with the emotional issues of walking in the forest or that sort of thing, although those things are important health-wise. We are dealing with the big issues of the stability of health and the environment, which essentially maintain civilisation. We are trying to be different for another reason, and you would appreciate that. We think these issues are so important that we want to gain access to brief important people. It is a fact of life that some of our people are able to gain access easily. Although we have only just formed, already some of the names I have mentioned to you are seeing ministers to brief them on various issues. We feel that we might have some skill in opening doors. Our work is therefore complementary to the many other organisations that are also doing good work. We do not feel we are better than them; we have a different aspect to put over and we must get the message across. We have not consulted with them on these issues. We have our own researchers and we form our own opinions; today we are giving you an opinion that has been around our committee.

We are in fact helping those organisations. Quite a few of them have passed us their climate policy to look at because some of us are on the IPCC, so we have helped them. We undertake an activism role in prodding other medical organisations to play a role in these issues. If you watch carefully, you may see the AMA come out with a climate policy very shortly. So we have an activism role. You will not find us issuing press releases attacking government or opposition or whatever; we are here to work with our leaders and provide scientific advice and information which may be at variance with what they get from the departments, and jolly good if it is. I hope that explains why we are here.

**Senator MARSHALL**—Thank you for your submission. I do not have any questions because probably the only thing I could do would be to play devil’s advocate to give you a platform to proceed with. But I do not think I even want to play devil’s advocate in this respect, so I will not ask you any questions.

**Senator TCHEN**—I actually do not have any difficulties with your position as far as this FTA is concerned. But I do have a number of issues I would like to raise with you, and I would like you to put them on the agenda for the deliberations by your groups because I think you represent a very important group of people in our community and any outcome of your deliberations would be beneficial to the community as a whole. The basis of your submission is essentially that you want the government and us to look at a bigger picture than simply free trade and economic growth issues. I ask you to take a further step back and look at an even bigger picture. For example, you said in your submission on page 2:

Of necessity, if civilisation is to survive past 2050 in its present form, production will be local ...

I am not questioning your conclusion that production will be local, but I would like to ask your view on why civilisation should survive in this present form is your only consideration. There can be many forms. Don't answer that yet because I have a number of other points to raise.

**Prof. Shearman**—Perhaps I could answer that one while I remember. Is that in order?

**CHAIR**—Yes, let us deal with the questions one by one.

**Senator TCHEN**—We might run out of time. I might have to conduct a conversation with Professor Shearman later off the record.

**Prof. Shearman**—The year 2050 is the two generations, based on what thousands of scientists are saying. Why they are saying that, I answered partly in terms of the doubling of the economy. Why is the doubling of the economy important? If we go back to 1989, that was a very important time. If we look at the graphs that science is producing, economic growth is going up. In 1989, it actually crossed another line—and that was the renewable resources of the earth. If we add them all together and give them a figure—whether it is for available land, available forest, fresh water, fish in the sea or whatever—the lines crossed over. Since 1989 the available resources have been decreasing at a measurable rate. So we are in deficit, and that decreasing line is still increasing in steepness. It is not difficult, with the rate of increase of world population and the use of resources, to extrapolate to a date. We know that the world will not be able to feed its population and will not have resources to purify its needs in waste terms. The atmosphere will be much worse. It may be 2050 plus or minus ten or fifteen years, but all the estimates point to a real problem by that stage. So when I say that civilisation will not be in that form, I imagine there will be a certain amount of chaos. Australia will have to place all the people that are coming from inundated Pacific islands. There are a hundred issues like that that will make the world unstable. So the point we have made is that that is a crunch date, probably.

**Senator TCHEN**—You came up with exactly the answer I expected you to come up with. But what I was trying to point out to you is that, in that case, your deliberation is based on a fixed model as much as the models of the economists that you have accused are based on a limited outcome, because you are not prepared to consider civilisation in any other form. I am not saying that any other form will be better; I am just saying that in your deliberation you have not made any assumption of a different form of civilisation, such as different societal structures. A different form of civilisation may not have the date of 2050 as a limit.

**Prof. Shearman**—I think that is a very good point. We are considering that, but what we are saying is that civilisation—and leadership—has to make those changes now; it has to look at what it can do to change this scenario. Like everyone else, we have an open mind on that; we do not want to continue as we are at the moment. But what we are saying is that civilisation, with all its gains in technology, medicine and all these things, will not be sustainable in its present form for the rich countries, the developed countries. You need to make the decisions for us on what we are going to do; we can only point out the problem.

**Mr WILKIE**—You have made reference to the Kyoto Protocol in your submission. Views have been expressed that, at the end of the day, the Kyoto Protocol is not really an environmental agreement but more of a trade agreement in itself. Does your organisation have any opinion about that?

**Prof. Shearman**—Yes, we do have opinions about the Kyoto Protocol.

**Mr WILKIE**—Is it achieving anything worth while or is it basically another trade agreement, using the environment as a mechanism for that trade; and, therefore, is its aim not really about trying to achieve anything worthwhile on greenhouse reduction but more about trying to benefit one country over another in a trade for energy?

**Prof. Shearman**—In terms of trade, let me make the following points. Those people that trade on futures—the American system, the capitalist system—believe that it would provide an important means of reducing greenhouse gases. They believe it but their government does not. They have made representations on that. I can only pass on that opinion. I do not know whether it is correct or not. But the arguments for being in Kyoto are considerable. I am prepared to say here that I believe the government would not have adopted its present position but for the fossil fuel lobby in this country. I think it would have been signed because there are so many other industries that wish us to be part of the negotiating framework that will be part of Kyoto. As you know, the treaty is not in operation because two major countries, Russia and the USA—and, of course, Australia—have not signed. We are hiding behind the wall, saying that there is no point in us signing if the US does not sign it. If we really had a special relationship, I would hope Mr Howard would be persuading President Bush that he should sign; that really would be a special relationship.

But it is a matter of being in the process of an international system that will develop further. The protocol has to be signed so that the next step can go on. The reduction in Kyoto is peanuts compared to what we need. That is the problem. Another excuse is that we are doing as well as Kyoto anyway—we do not need to change, because we are doing just as well, we have got a good reduction. That misses the whole point. We have to be in there and offering leadership like other small countries do, including Denmark and other Scandinavian countries. We have to develop an alternative energy industry and support it. The ethics of Kyoto support that. We need leadership on the issue. I hope you will go away and hassle your leaders.

**Mr WILKIE**—The Labor Party has already committed to it; that is something.

**Prof. Shearman**—If you have made that step, I would say to the Labor Party: ‘Let’s have 60 per cent. Just committing to Kyoto is not good enough.’

**CHAIR**—Thank you very much for your submission and your attendance before the committee today.

**Committee adjourned at 12.00 p.m.**