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JOINT STANDING COMMITTEE ON TREATIES

Reference: Australia-United States Free Trade Agreement

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JOINT COMMITTEE ON TREATIES

Wednesday, 21 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: Senator Tchen and Mr Adams, Mr Ciobo, 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.

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Committee met at 10.13 a.m.

CHAIR—I declare open this meeting of the Joint Standing Committee on Treaties. This is the third public hearing of the committee's review of the proposed Australia-United States free trade agreement. The inquiry was referred to the committee by the Minister for Trade, the Hon. Mark Vaile MP, on 9 March 2004. The inquiry was advertised on the committee's web site on 10 March and in the *Australian* newspaper 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 the usual practice, the committee also wrote to all state and territory premiers, chief ministers and the presiding officers of the state and territory 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 last Wednesday, 13 April, so that members would 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. The first batch of submissions were authorised for publication at the public hearing in Sydney, and I hope that many of these are available on the committee's web site. The committee has already commenced its program of public hearings, which began in Sydney on Monday, followed by Melbourne yesterday and Hobart today. The committee will go to Adelaide and Perth later this week. In the week beginning 3 May, the committee will travel to Brisbane and Cairns and return to Sydney on 6 May. The committee will 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 welcome those in attendance today. The committee is pleased that you are able to participate in this inquiry. I understand that some witnesses have not yet lodged submissions but intend to do so before speaking to the committee. Could you indicate to the secretariat if you propose to provide a submission before commencing your opening remarks.

[10.15 a.m.]

SALTER, Mr Mark Christopher, President, Tasmanian Apple and Pear Growers Association

CHAIR—Welcome. On behalf of the committee, I thank you for appearing today 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. Do you wish to make some introductory remarks before we proceed to questions?

Mr Salter—Thank you very much for giving me the opportunity to put a verbal submission to the committee. I would like to talk more broadly on the issue of quarantine, which probably relates to the free trade agreement, and industry's concerns about quarantine and import risk assessments, particularly the protocols that are attached to those import risk assessments.

New Zealand currently has an application to bring apples into Australia, and that is currently being dealt with by Biosecurity. Broadly speaking, the concerns we have are in relation to the lowering of the bar as far as quarantine goes. It seems to be very clear from industry that, as far as quarantine is concerned, there has been a lowering of the bar by the present government and the bureaucracy attached to it. Our concerns relate to the risk assessment that is currently being dealt with by Biosecurity with regard to New Zealand apples. Their first draft came out in 2000, and the industry gave various submissions to that risk assessment. Basically, our concerns were to do with the lack of consultation with industry prior to making any draft result. As a result, a Senate committee was formed to look at the issue, and Biosecurity basically had to go back to square one to look at that issue again.

They have come back with a similar set of protocols, which we believe are not substantial enough and do not give the industry any adequate protection from diseases like fire blight, which we currently do not have in Australia. We are one of about four countries in the world that do not have this terrible disease. We liken it to the foot-and-mouth of horticulture. We are particularly concerned with maintaining the pest- and disease-free status which the industry currently enjoys. Tasmania, in particular, is focused on exports. We account for around 75 per cent of Australia's total exports in apples, and we rely on our pest- and disease-free status to gain preferential export markets.

I have also heard on the grapevine that a committee was recently set up to look at how trade can be expedited between Australia and America—particularly America. I have not heard any details but, once again, concerns from industry are that this is being done behind closed doors and that there is not transparency and adequate consultation with industry prior to these sorts of issues being dealt with. They are our major concerns.

CHAIR—Thank you very much. In the free trade agreement it is proposed that there be a bilateral sanitary and phytosanitary committee which will have representatives of both Australia

and the United States who will have responsibility for sanitary and phytosanitary matters. The role of the committee is to increase the mutual understanding of the SPS measures and the regulatory processes of each party as well as to continue the cooperative efforts of the parties internationally. Part of the evidence that we have received has been that we are not adopting United States sanitary and phytosanitary measures; we will keep our own but we will have a committee, which basically means that our officials understand our system and their officials understand their system. If that is the case, will it be acceptable to the apple and pear growers?

Mr Salter—Certainly. One of the concerns that we have with risk assessments in general and relating to what you have just said is that Australia has a sovereign right to develop its own appropriate level of protection, or ALOP. We have a right to protect our environment and our industries. If we are strong enough to put own measures in place that will certainly go a long way to allaying some of our fears. I know that there are strict guidelines in developing ALOPs, but we have a sovereign right to develop an appropriate level of protection which we feel is necessary to protect not only the industries that are being dealt with but also our environment in general.

CHAIR—Do your members currently export apples and pears and would they be interested in doing it in future?

Mr Salter—As far as the states are concerned, Tasmania is a large exporter of apples. As I mentioned previously, we export about 75 per cent of Australia's total apple exports. Over 60 per cent of our total production is exported to countries throughout South-East Asia—for example, Taiwan and Japan. India is a very big market for us now. There are a number of other countries. That trade is reliant in a big way on our pest- and disease-free status. One thing we do not want to do is to compromise the position we currently have.

CHAIR—Is the US currently a market for you?

Mr Salter—We export a small amount of product to the US. There are some issues with chemicals that we do not have registered for use in that market and a few other issues that probably hold us back from developing that market even further. The US is a big producer of apples and pears, particularly apples.

CHAIR—So they are a competitor.

Mr Salter—They are a competitor. They are able, as we are, to hold over a large degree of their crop in controlled atmosphere cool stores. Like us, they market their product basically over a 12-month period anyway. There is not a big market in the US for us.

Mr ADAMS—To reinforce the point, Tasmania has a very good reputation, mainly because we are an island and certain bugs and nasties have not got to us—we certainly do not want them coming to us—and that enhances our export opportunities, especially in apples and pears.

Mr Salter—That is correct.

Mr ADAMS—Would you like to comment on that? We cracked the Japanese market in recent years.

Mr Salter—Absolutely. Tasmania has been long recognised as fruit-fly-free. It is the only state in Australia that has that quarantine status, and that gives us a very good marketing advantage, particularly into the Japanese market. It is the only state that is able to export apples to Japan. Australia is probably about the only country that has a viable export opportunity into that market, particularly because we do not have fire blight, which is the devastating disease that I talked about earlier, which most other countries have inherited through the trade of apples or through the trade of bud wood and associated materials. Tasmania has a very good opportunity, because of its pest- and disease-free status, to take advantage of markets like Japan and, more recently, South Korea—which is another market that has been opened up.

Mr ADAMS—I guess the American market will be a niche market in different areas that we might establish over the years. The concern that some of us have is with the sanitary and phytosanitary measures that are contained in the US free trade agreement, and we are still trying to establish what the outcomes of those measures are going to be. Under the agreement there is an opportunity to enhance mutual understanding of the SPS, but it is really to support trade outcomes. So it is a little bit more than quarantine. There is also another committee to be set up, which will be based on scientific and technical discussions. And, under the SPS committee, they can establish other technical working groups if there is an agreement to do so. So we could have quite a lot of groups looking at different things. The committee has to meet 45 days after the sign-off of the agreement. So there is a fair bit of pressure from the other side. I think the Americans would really like to put apples and pears into Australia. Wouldn't you say that?

Mr Salter—Absolutely. We believe America is assisting New Zealand in their application to gain access into the Australian market in general. America also has fire blight. So it would need to come in under similar protocols as would be developed for New Zealand. America probably has a vested interest in making sure that New Zealand is approved to gain access into this market. We know for a fact that America will be lining up behind New Zealand to gain access afterwards.

Mr CIOBO—What would you say is the primary focus for the industry in terms of capturing the market for apples and pears? The impression I get from your testimony is that, given the excellent quality of our produce in these areas, we would be after a higher yielding product on the basis of (1) quality and (2) the ability to assure and guarantee that quality. Would that be a correct assessment?

Mr Salter—That is correct. We are really focusing on niche marketing. Japan, even though it is a big economy and a potentially big market, is also a niche market. We are looking at where we can place our produce to get the highest return for a small volume. In general, Tasmania produces maybe not even one per cent of the world's total production. Tasmania is a very small producer in a very large market. We are already close to world overproduction of apples now, particularly with China. China is the largest producer. It produces around 45 million tonnes of fruit annually. So it is a huge producer.

Mr CIOBO—So it is basically all about yield?

Mr Salter—Yes, it is all about yield.

Mr CIOBO—So, in that respect, as an industry, are you really all that concerned about the American product that may come in that might be used for juices and for the lower end or the mass volume type product? Is that a real concern to the industry, or are you more able to focus your efforts on that higher yielding quality product? Is that as an industry the direction in which you are going?

Mr Salter—Certainly my initial reaction to that question is that we are not necessarily opposed to competition as such. That is not the issue for us.

Mr CIOBO—It is the quarantine side.

Mr Salter—It is the quarantine side. It is the protection of our industry from some of these devastating diseases which have become so widely spread through the trade of apples and the lack of decent protocols by the importing countries. When you look at New Zealand, for example, you see that New Zealand have been very remiss. They have very weak quarantine measures, so they have inherited a lot of pests and diseases over a very short period of time. In a number of instances that has been an advantage for them because they have not had to deal with very stringent quarantine protocols when importing product. But then they have paid the price in that they have imported a lot of pests and diseases as well. That is something that we do not want to see happen for our industry. For the last 100 years we have put in the hard yards. We have had to deal with very strict quarantine measures—and we say that that is not a problem, as long as we do not lower the bar now and then compromise all the hard work that we have put in over the last hundred or so years.

Mr ADAMS—So that the committee has an idea, in New Zealand fire blight would cost production 20 per cent—

Mr Salter—At least 20 to 30 per cent.

Mr ADAMS—more to grow their apples because of sprays, the labour to use the sprays, and all those things?

Mr Salter—That is right. It is particularly alarming to note that the only spray that can be used in orchards that have fire blight is streptomycin—a bacterial spray. That is quite alarming when you see consumers' reactions to those types of products now. The last thing we need to look at is having to go down that road if indeed it ever happens.

Mr CIOBO—To clarify, is your position that the quarantine protocols are adequate, that they are inadequate, or you are not sure whether or not they are adequate?

Mr Salter—Certainly the current measures are adequate—

Mr CIOBO—I am referring to the proposals under the FTA.

Mr Salter—Sorry. Certainly any future measures to bring apples in under what is being proposed at the moment would be inadequate.

Mr CIOBO—Inadequate?

Mr Salter—Yes.

Mr CIOBO—For what reasons specifically?

Mr Salter—Specifically because of the draft protocols that have been suggested to bring New Zealand apples in. I will just clarify that we do not import any apples from overseas countries at the moment. The only country that has access to our market is Japan—and that is simply because it is free of fire blight—but it is yet to export apples to Australia. The Japanese consume all their own fruit so they do not need to.

The situation with America will be the same as the current situation with New Zealand, because they will come in under the same protocols once there is a standard set. Those protocols in the draft IRA that has just been released by Biosecurity are very weak, even by international standards. So we have got grave concerns about any future risk assessments that are to be done, whether for American apples or whatever. Once that standard is set, we have basically lost the opportunity to keep our country on that top level of the bar, so to speak.

Mr CIOBO—So if those biosecurity considerations are tackled, you would be satisfied that there would be appropriate safeguards?

Mr Salter—Absolutely. Our argument is that we need to have the most stringent set of import measures in place, because we do not have the pests and diseases that other countries have; we need to keep them out. We are not opposed to competition. We compete adequately and on an even keel with exports from other countries in other markets. So we are not necessarily saying that we cannot compete with them, although that probably is another issue. We are concerned at this point with keeping our country free of these pests and diseases.

Mr CIOBO—Thank you.

Mr WILKIE—Did you raise these issues with the department of agriculture during the negotiations on the FTA?

Mr Salter—Absolutely. I did not personally, but our national apple and pear growers office has raised all these issues.

Mr WILKIE—What was their response at the time?

Mr Salter—I am not entirely sure. I do not actually have that response.

Mr WILKIE—But you do not believe that they have taken those issues on board.

Mr Salter—Not really; not seriously.

Senator TCHEN—Mr Salter, I am not sure whether it is fair to ask you this question. My understanding of the reason we are looking into this import protocol—and, as you describe it, lowering the bar on biosecurity—is that the pressure is not in response to the Australian-US free trade agreement but more in response to WTO requirements. The assessment is supposed to be based on science rather than on industry concerns. The protocol has been drafted for New

Zealand. Is it to do with the security around the production, or is it to do with the condition of the product?

Mr Salter—It is simply security to make sure the disease does not come into the country.

Senator TCHEN—So the barrier is at the port?

Mr Salter—Biosecurity are proposing three main protocols. I will go through them.

Senator TCHEN—That is what I am looking for. I hear a lot about this, but I was not sure where the sanitary boundaries will be set.

Mr Salter—They are proposing to bring New Zealand apples in under a regime of protocols. There are three main protocols involved in the import risk assessment. The first one is orchard inspections, where AQIS officers will inspect the orchards in New Zealand for evidence of fire blight. We believe that protocol is flawed right from the start. Even Biosecurity admit that New Zealand growers will be able to mask the symptoms of fire blight quite easily by either taking out the symptoms on the trees—that is, mechanically removing them—or masking them in some other way. Fire blight is a bacteria. It is sometimes very hard to detect. We have based all our submissions and responses on science. This is not just a hip pocket reaction. We have spent three years and around \$1 million of growers' money putting our responses to Biosecurity.

The second measure they are proposing is chlorine dipping, where the fruit will be submerged in a chlorine solution. That measure has also been found to be wanting by industry and by our scientific evidence. Because an apple floats, and the calyx of the fruit is underneath, it forms an air pocket in which the bacteria can survive a chlorine dip drench quite easily underneath the fruit.

The third measure they are proposing is six weeks of cool store disinfestation. I noted in *Hansard* a comment that Senator Colbeck made recently at the Senate inquiry into this issue. He asked why that would be satisfactory when, in America, temperatures go down to minus 30 degrees throughout the winter, which would kill all the bacteria anyway. It obviously does not, because it sustains itself quite adequately there. We believe that is not a viable option.

This is the second draft. In the first draft, they proposed a much more substantial set of protocols. That is where I am coming from now. Their bar seems to have been lowered even further from the initial draft they released in 2000. There are about four or five protocols that New Zealand growers would have to adhere to, whereas here we have three, and we say they are not viable. I hope that helps to explain a little more.

Senator TCHEN—If the chair would indulge me, could you explain to the committee what Biosecurity Australia initially proposed?

Mr Salter—The original one also had a buffer zone around each orchard. If an orchard was found to be free of fire blight it then had to have, I think, a 100-metre buffer zone surrounding the whole orchard.

Senator TCHEN—So the buffer zone has gone?

Mr Salter—I believe the buffer zone has gone. There were a couple of other things they had in there as well, but the buffer zones were particularly important in that the spread of fire blight can be windblown and can be spread by bees and other things. The initial IRA had a much more detailed orchard inspection regime as well. I believe that this one has been a step back from that also.

Senator TCHEN—There is no change to the chlorine dipping?

Mr Salter—No.

Senator TCHEN—Or the six-week quarantine?

Mr Salter—It is either four or six weeks. I am not sure. It should have been more specific on that.

Senator TCHEN—From your members' point of view, if those same protocols applied to Tasmanian apples, would they be happy with that? Supposing someone comes along and says, 'We're not sure about Tasmanian apples, and we demand the same kind of quarantine protocol being applied to Tasmanian apples,' will your members accept such a proposal?

Mr Salter—If we had fire blight we would probably have to accept that—but we do not.

Senator TCHEN—Supposing you do not have fire blight.

Mr Salter—If we did not?

Senator TCHEN—Yes, if you did not, but someone said, 'We're not sure but we want the same protocol applied to you.'

Mr Salter—The process would be different. Each year AQIS do a very detailed survey of all the orchards. All the orchards in Tasmania are quite clearly free of fire blight, as are the orchards on the mainland. They have the same surveying techniques. If there were some doubt, maybe we would have to put up with a set of protocols that would be put in place by an importing country.

Senator TCHEN—I appreciate that Tasmania does not have to prove itself but, supposing an importing country put in a demand, would Tasmanian apple and pear growers be happy to go through the same process?

Mr Salter—We would. Currently New Zealand have to go through a more rigorous protocol to export to countries like Japan—and so do the US. The protocols the US export under are much more rigorous than the current protocols that New Zealand are proposing. You are no doubt aware of the recent WTO finding in favour of the US, who challenged Japan's protocols. Unfortunately, we believe it was more technical. One of the protocols Japan were using was flawed. America used that to their advantage and won the decision to weaken Japan's protocols with regard to the importation of apples. Japan were using scientific evidence based on immature fruit that could harbour the bacteria fire blight, whereas they needed to be looking at mature apples, because mature apples, not immature fruit, are the apples that are traded. So that was unfortunate.

The point I want to make with regard to the WTO decision and the issue there is that Australia still has a sovereign right to develop its own appropriate level of protection. Australia must not be put off by what happened with that US-Japan decision in the WTO and feel that it should be looking at whether or not it should be weakening the protocols or be worried about being taken to the WTO over this issue.

CHAIR—Clearly the Tasmanian Apple and Pear Growers Association are very concerned about the risk of fire blight, and this has been a longstanding concern. We have been told that our quarantine measures will continue to operate on the basis of scientific assessments and that there will be a high-level committee which will discuss this and there will also be a standing working group on animal and plant health.

Minister Truss has written to farmers basically saying that there will be no compromise with regard to Australia's quarantine regime and that food safety measures will continue to be decided by Australian authorities based on sound sciences. As it has been explained to us, the Australian quarantine regime will operate. There will be a lot more consultation and so on but it will be the Australian regime. But it seems that, from the point of view of the members you represent, you have some concerns with Biosecurity Australia. Is that a fair summary?

Mr Salter—That is a fair comment—absolutely.

Mr ADAMS—And we have had the past salmon case to worry us.

Mr Salter—Yes.

CHAIR—Of course. It is a shame we did not hear from the salmon growers.

Mr ADAMS—Yes.

Mr Salter—Yes, that would have been an interesting one too.

Mr WILKIE—I was reading an article today in the *Weekly Times*—which is a rural paper—that cast doubt about the possible four billion benefits that have been touted. At the bottom of the article they talk about how they are urging people to get more involved with China. Are there vacancies in that market for your industry?

Mr Salter—There is certainly a market in China. We currently have access to the Chinese market—quarantine access. That has only happened in the last three or four years. There are niche markets there. China, as I mentioned before, is a very large producer of apples—it is now the world's largest apple producer—but there are areas there where we can still find markets. We are in the process of developing some niche areas in that market. I believe there is potential there.

Senator TCHEN—This question is actually out of the ballpark, but I was wondering whether the concerns you express are expressed on behalf of the apple growers of Tasmania or on behalf of all apple growers in Australia.

Mr Salter—It is really on behalf of all apple growers in Australia. Tasmania probably has a slightly larger concern with regard to our export marketing program and the level of exports we currently enjoy as a result of our clean green image. But mainland producers certainly have the same concerns with regard to the perceived watering down of quarantine measures.

Senator TCHEN—I wanted to get that on the record. I was a little bit concerned that you were talking just from Tasmania's point of view. The chair's comment about salmon reminded me that there could be a perception that your evidence is more about the concerns of Tasmania and that the north islanders do not really care.

Mr Salter—It is certainly a national issue. It is well and truly a national issue.

CHAIR—As there are no further questions, I thank you very much for your attendance here today.

Proceedings suspended from 10.48 a.m. to 10.59 a.m.

SCOULAR, Mr Russell, Government Affairs Manager, Ford Motor Company

CHAIR—Welcome. On behalf of the committee, I thank you for appearing before the committee to give evidence today. The secretariat will forward to you a copy of the proof transcript of evidence 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 of Representatives and the Senate. The giving of false or misleading evidence is a serious matter and may be regarded as a contempt of parliament. I invite you to make some introductory remarks before we proceed to questions.

Mr Scoular—Thank you for the opportunity to appear before the committee in Hobart this morning. I appreciate the opportunity of being able to make some brief opening comments. It goes without saying that the Ford Motor Company, as one of the world's largest industrial corporations, has a significant interest in global trade policy. Likewise, Ford Australia has a strong interest in trade policy. I think this interest recognises the global nature of the automotive industry and its leadership role as the world's largest trader of merchandisable goods. Furthermore, the interest in trade policy reflects the importance of global integration for the Australian automotive manufacturing industry.

Ford Australia looks towards trade liberalisation as a key component in enhancing growth and the international competitiveness of the economy. It also acknowledges the importance of improved market access as an enabler in assisting the automotive industry to grow its volume base. Quite clearly, Ford Australia is a strong supporter of the multilateral WTO trading system. However, the company also recognises that regional and bilateral initiatives, such as APEC, and FTAs such as the proposed Australia-Thailand agreement and the Australia-US agreement can make a significant contribution to economic growth and can also, and importantly, energise the broader and somewhat slow-moving WTO processes.

It is in this context that Ford Australia, and the Ford Motor Company corporately, have been a strong supporter of the proposed free trade agreement with the United States and look forward to its early implementation. We believe it is imperative that the automotive industry is an integral part of such a comprehensive agreement. We also believe that the proposed phasing arrangements for Australia's automotive industry are extremely fair, particularly recognising the fact that the US has agreed to there being no phasing arrangements for its automotive industry. We look forward to doing business under the auspices of the new free trade agreements with countries like Thailand and the United States. We recognise there will be new opportunities and competitive challenges emerging from both agreements. I would be happy to answer any questions the committee may have.

Senator TCHEN—I note that you had to come from Melbourne to attend this meeting.

Mr Scoular—That was a diary problem. I had a clashing commitment yesterday.

Senator TCHEN—As a Victorian senator, I am particularly happy to point out the close relationship between Victoria and Tasmania. My first question may sound a bit strange to you.

On behalf of the Ford Motor Company you expressed strong support of this free trade agreement, but the Ford company is actually an international company; in fact, it is an American company—a global company. Yesterday we heard from one witness—and I am sure we will hear this from other witnesses as well—that, from a foreign company’s point of view, a free trade agreement like this basically means that decisions on investment and production will be corporate decisions and will be taken out of government hands. So, for a company like Ford, a free trade agreement like this basically means that the government surrenders—and these were not exactly the words used—some of its sovereign rights to your corporate decision-making, not in Australia but in Detroit, on where to invest, where to import to and where to export from. Can you comment on that?

Mr Scoular—The automotive industry is a global industry, as you point out. The Ford Motor Company is a global industry, as you point out. The Ford Motor Company will always invest where its best business interests and best shareholder interests are to invest. It has invested strongly and significantly in Australia for many years—and, FTA or no FTA, I think it will continue to invest very significantly.

Mr CIOBO—Thank you very much for coming today, Mr Scoular. I appreciated your introductory remarks. I noticed that you said that you were a supporter of the WTO round of negotiations but believe that these are often slow moving. Do you think that we have lost opportunities because of the slow-moving nature of these sometimes multilateral arrangements?

Mr Scoular—I think that goes without saying. Australia, as a major trading country and a major exporter—particularly in primary produce and products—has significantly lost over the years because of the slow-moving WTO processes.

Mr CIOBO—What about Ford as a company?

Mr Scoular—Market access has always been a significant issue globally for the Australian automotive industry as we have looked around for export opportunities to expand our volume bases. I think that the bilateral approaches that are now being taken—Thailand is a good example of that, and the US—are ways of prising open potential markets for our products.

Mr CIOBO—So Ford, I take it from your opening comments, is quite excited about this FTA.

Mr Scoular—I do not know if ‘excited’ is the right word. We certainly see it as an initiative that could provide us with good opportunities.

Mr CIOBO—In terms of what those opportunities are, do you see them as being confined to export to the US, or do you see opportunities that might also flow in terms of automotive parts and those types of ancillary and associated industries?

Mr Scoular—I see the potential benefits to Ford Australia, the Ford Motor Company and the Australian automotive industry as being threefold. Firstly, there are potential export opportunities. Secondly, there are potential input cost reductions on some of the imported components that component producers and vehicle manufacturers currently import from the US to incorporate in the products that they are making. Thirdly, I think that an agreement like this

more closely attaches the Australian automotive industry to a major global automotive and technological powerhouse.

Mr CIOBO—Do you have any concerns with respect to the way that tariffs will be reduced?

Mr Scoular—Do you mean in terms of the FTA?

Mr CIOBO—Correct. And specifically in terms of the timing of those reductions.

Mr Scoular—No, I think the proposed phasing arrangements for the automotive industry, with passenger car tariffs into Australia being phased down over five years, is a very fair outcome.

Mr CIOBO—How would you respond to claims that some witnesses have made that the phasing down of tariffs could cost thousands of jobs in Australia? I take it from your evidence that that is not the way that Ford would look at it.

Mr Scoular—From the perspective of Ford Motor Company, we would not see such a situation involving us.

Mr CIOBO—Claims have been made by other witnesses that this is basically a false economy—to paraphrase their testimony. One particular union representative made comments that any success that would lead out of this FTA would simply be an opportunity for the holding company in the US to divert all of its production to the United States—if indeed it is successful. Is that something that Ford Australia would see as being a likely event on the horizon?

Mr Scoular—No. As I said earlier, the Ford Motor Company has been a significant investor in Australia for many years. It is just in the process of launching a new all-wheel drive model, Ford Territory, that is the outcome of a \$500 million investment in Australia. We have made that investment in the full knowledge that this FTA is on the table.

Mr CIOBO—So Ford is not about to walk away from this type of investment.

Mr Scoular—Not about to walk away.

Mr WILKIE—Following on from that: does Ford Australia export to the US at the moment?

Mr Scoular—No.

Mr WILKIE—We were hearing from Holden—this is a public hearing so I do not think there is any problem naming them—who are currently exporting the Monaro, that if the Monaro is a success in the United States then chances are that production will be moved offshore to the US. That is one player, which is a large manufacturer of vehicles which is owned wholly by the US, that has put on the table that their plant could go offshore—

CHAIR—Not that their plant could go offshore—

Mr WILKIE—The plant for the manufacture of those vehicles could move offshore, which would be a serious problem. In a global market for vehicles, if you had a situation where there were no tariffs and the Australian dollar rose significantly compared with the US dollar, then down the track you could have a situation where it would be cheaper to manufacture vehicles in the US on a larger scale and import them to Australia as opposed to manufacturing them here.

Mr Scoular—There are similarities between the US and the Australian markets but there are also very distinctive differences in the types of products that do very well in Australia and the types of products that do well in the US. I do not foresee the day when the Ford Motor Company would seek to service the Australian market out of the US.

Mr ADAMS—Thank you very much for your submission and for appearing here today. You spoke about the component industry. There could be some job losses there. As you said, there could be some cheaper components with the changes in this agreement. You indicated that there may be some cheaper component companies in the States or elsewhere that you could import from. Of course there is a global car now, isn't there? With respect to the car that Ford manufacture in Australia, aren't parts of that built in other parts of the world?

Mr Scoular—Our main product in Australia, which we design and manufacture here, is the Falcon. It is not a global car; it is an Australian car. It has approximately 85 per cent Australian content in it. It has some US components in it—mainly components that are not readily available in Australia. I would certainly see going forward that the Falcon family, and our new Territory will maintain high levels of Australian content.

Mr ADAMS—Earlier you spoke about components. I will clarify where I am coming from. Our trade agreement with Thailand threw up an issue about windscreens in the Holden manufacturing area—and 100 or so jobs could have been lost there. Naturally these things occur. If you can source the components somewhere else at a cheaper price, I guess you will. But I just want to clarify that and get it on the deck that that is the way an industrial company like Ford Motor Company operates.

Mr Scoular—Firstly, I will clarify a couple of the points you made. You referred to the windscreens. In fairness to my friends at Holden, I think that the Ford Motor Company was involved in that particular case.

Mr ADAMS—Sorry; it was Ford, was it?

Mr Scoular—The auto industry is a dynamic industry. I alluded earlier to the approximately 85 per cent local content of the Falcon. What you tend to find over time is that for some components you may change domestic suppliers within Australia or you may go offshore or some may come onshore. It is a game that moves on a fairly regular basis.

My comment about components and input cost savings was primarily related to the small number of components that we currently import today from North America because they are not readily available in Australia. Potentially an example of that is the V8 engine that we offer in a limited number of our Falcon products. We do not make V8 engines in Australia. Nobody makes V8 engines in Australia. I would be staggered if anyone were about to make them in Australia. But under an FTA arrangement they would be slightly more competitive in Australia.

Mr ADAMS—Does the Ford Territory have a V8 motor in it?

Mr Scoular—No, it does not. It is entirely a six-cylinder.

Mr ADAMS—Is that a four-wheel drive?

Mr Scoular—It is all-wheel drive or rear-wheel drive. You have the option.

Mr ADAMS—Do you intend to export that?

Mr Scoular—To New Zealand initially. Our major focus with the Territory investment and program—looking at it from an economic perspective—is one of import substitution. Our anticipation is that that vehicle will take some 60 per cent of its sales from currently imported all-wheel drive SUV vehicles. That is worth about \$1½ billion.

Mr ADAMS—That is good for the trade figures.

Mr WILKIE—That would compete with something like the Subaru, would it?

Mr Scoular—No. It is more into the Honda CR-V or the BMW X5 and those types of vehicles.

Mr ADAMS—How many vehicles does Ford import into Australia? You manufactured 126,000 vehicles last year, I think.

Mr Scoular—We manufactured about 126,000 last year. Our imported sales are approximately 25,000 to 30,000 a year.

Mr ADAMS—And they are your smaller vehicles?

Mr Scoular—They include the Ford Focus. We are in the process of launching the smaller Ford Fiesta. They also include some of our light commercial vehicles—the Ford Courier pick-up truck and Ford Transit vans.

Mr ADAMS—What about the four-door ute? It has been said that that might be a bit of a goer in the United States market. Does Ford have any ideas on that?

Mr Scoular—Historically, the Aussie ute has been cut out of the US market because of the 25 per cent tariff, or what is also known as the chicken tax in the US.

Mr ADAMS—Why is it called the chicken tax?

Mr Scoular—It was originally introduced by the US in the early 1960s in response to a chicken trade war with Germany. It was a retaliatory measure that I think came in in about 1963 and stayed for quite a while.

Mr ADAMS—Thank you for that.

Mr Scoular—Under an FTA where that goes, we would see an opportunity for vehicles like the traditional Australian ute to fill a niche role in the US.

Mr ADAMS—You spoke of being tied into the US and the dynamics of the car industry as a world market. But the US lost the plot, didn't they, in car making in the 1960s and the 1970s and the Japanese got under their guard with smaller cars and with, I think, quality? Do you see that we are back on top of that now?

Mr Scoular—The US industry today is a very different entity than perhaps it was during that period you refer to, just as the Australian industry today is a very different entity than it was during that period.

Mr ADAMS—Ford Australia is owned by the Ford Motor Company in Michigan, isn't it?

Mr Scoular—The shareholding is actually held by Ford of Canada, but that is backed by the parent company.

Mr ADAMS—Mr Wilkie made the point—and we have had evidence of this—that, if we were exporting into the States, the Ford Motor Company of America would say, 'This is a bit silly. We are importing into where we raise our capital. Why aren't we making them here?' Because they are the parent company, why would they want to do that? How much autonomy are they willing to give a colony like Australia in that sense?

Mr Scoular—I think the Ford Motor Company gives its affiliates a considerable degree of autonomy. As I alluded to earlier, any investment or business decision will always be made on the commercial and business merits of the proposal.

Mr ADAMS—And the board here has the right to do that and put it to the States to get the tick?

Mr Scoular—Yes. The Ford Territory investment program or initiative was a Ford Australia idea that was sold to the US for parental or corporate investment approval. We have done it before. The Ford Capri program—which, unfortunately, for a variety of reasons, was not a highly successful export program—was a Ford Australia initiative. We get a fair degree of latitude as long as we produce the results.

Mr ADAMS—So it is all about corporate performance. We have seen a bit of that lately in the sense that performing companies can go all right but, if you are not performing, the board issues arise. With the Ford Territory, do you do all the work in Australia?

Mr Scoular—Yes. We did the whole work in Australia—the designing, which was done in our design studios in Melbourne; the engineering of it; and now the manufacture of it.

Mr WILKIE—As you know, we talked before about the Monaro being exported to the US. Does Ford Australia have any plans to develop something like a two-door Falcon itself, like it did years ago, and try to get into that market as well or is it watching Holden to see what they do?

Mr Scoular—We do not have any plans at this stage to do a model of that type. We do not believe that the volume that it offers really justifies the investment.

Mr WILKIE—You do have a development program on your Falcons, not so much for the XR series but for some of the other ones that follow on from that—the more high-performance vehicles.

Mr Scoular—Yes.

Mr WILKIE—Is there no move to try to get them into the US market?

Mr Scoular—We are looking at a whole host of initiatives over time that we could get into. I do not think that the US market for that product is likely to be on the table.

Mr WILKIE—Okay. Thank you.

Senator TCHEN—Mr Scoular, earlier you said that the Ford Australia company is an affiliate of Ford Canada, not directly of Ford USA.

Mr Scoular—It is ultimately. The shareholding is held by Ford of Canada. Ford of Canada's shareholding is held by Ford US. That is just an overhang, if you like, of the old British Commonwealth.

Senator TCHEN—Is Ford USA a publicly listed company?

Mr Scoular—Yes, it is. It is publicly listed on the New York Stock Exchange.

Senator TCHEN—I see. So it is publicly traded.

Mr Scoular—Yes.

Senator TCHEN—Do you know whether there is any Australian equity in the holding in Ford USA?

Mr Scoular—I have a few myself, Senator. Seriously, there is some modest Australian holding in it. For a number of years we have had a very active employee share program with our own employees—management and assembly line employees at Ford Australia—enabling them to buy shares in the parent company. Some 700 to 800 of our employees participate in that program.

Senator TCHEN—I do not suppose you know whether there is any substantial shareholding by Australian superannuation funds in Ford USA? It would be a blue ribbon stock, wouldn't it?

Mr Scoular—Super funds, as I understand it, tend to invest in different profiles across different sectors. I would imagine that the Ford Motor Company and other companies in the US automotive industry would form part of their mix of investment portfolios.

Senator TCHEN—Thank you. It probably was not a fair question to you since you are not in the finance area.

Mr Scoular—That is all right.

Mr CIOBO—To what extent would you say that the successful export program that you have operated and the manufacturing that you have operated have been a springboard for parts manufacturers in Australia? Have you helped to create an industry through your demand for supplies? Has that led to the growth of an automotive parts manufacturing industry in Australia?

Mr Scoular—I think it has, very much so. If you look at the Australian automotive parts industry, you will see that it has grown up and exists around Australian-made motor vehicles. Vehicles like Falcon and Commodore, with their high levels of local content and Australian design, place a demand on the Australian component industry. In addition to that we have seen examples of Australian component companies being able to successfully secure business with the larger global parents in the US or wherever.

Mr CIOBO—So a large part of their success is tied to your success.

Mr Scoular—Yes.

Mr CIOBO—We spoke of the \$500 million investment earlier. You said that that was done in full recognition of the looming FTA. I take it therefore that Ford Australia has big plans for the future in terms of export opportunities as well?

Mr Scoular—We are looking at export opportunities and where they may be for us in the future. Our business at this stage is primarily a domestically based business, but we are looking over time to export opportunities that may be there for us in terms of vehicles, components and engineering services.

Mr CIOBO—Would some of those opportunities exist within the US?

Mr Scoular—They might.

Mr CIOBO—I am aware that there may be commercial-in-confidence issues, so I certainly do not intend to press on in that regard. Those concerns have been raised by some members of the committee who have passed on comments that other witnesses have made. You made a comment earlier that, ultimately, it is always a business case to do with commercial success when it comes to investment. Would you foresee in any reasonable sense a situation arising where—and I know it is Holden and not Ford—Holden would simply shut down their factory if the Monaro were successful, or is it more likely that, should that event occur, the Australian factory would be reutilised in another way, perhaps for another vehicle?

Mr Scoular—I suppose that, in a sense, it is up to General Motors and Holden to answer for their own products. As I understand it, the Monaro and its Pontiac offshoot—assuming that they meet the volume targets that they have set—will still be a relatively modest part of their overall volume production. They will be an important part but relatively modest.

Mr CIOBO—So it is not a case of locking the front gates and shutting the factory down.

Mr Scoular—I would be very surprised.

Mr WILKIE—I have a question that has not been raised as a great concern, but I am curious to see if it is an issue for Ford. We heard people in the IT area yesterday talking more about patents and copyright and the fact that our laws will have to reflect the US's laws more. Does Ford Australia have a problem with people copying their products and putting them out as a non-original part, thereby cutting Ford Australia out of that part business? Would that change under this agreement if copyright laws changed and people had to comply with copyrights or patents?

Mr Scoular—We do not make significant use ourselves of the Copyright Act. We do make use of the Designs Act with regard to the componentry and some of the key parts that we do make in Australia. We seek to jealously guard our intellectual property that we make. We do have a number of components that are design-registered in Australia.

Mr WILKIE—I suppose I am thinking about the cheap auto part places around the country that might sell non-genuine water pumps or wheels or something of that nature. I remember that there was talk some years ago of trying to clamp down on that industry because it was taking money away from the original equipment manufacturers.

Mr Scoular—In the area of design registration, we have tended only to register those components that are, if you like, part of the aesthetic of a motor vehicle, as opposed to the mechanical or engineering performance of it. From time to time, we have seen some of those components come from cheaper production houses offshore. I do not think it is a significant issue at the moment, but we watch it fairly carefully.

CHAIR—With regard to the investment decisions that Ford Australia and the Ford motor company would make, what sort of time frame would you generally be looking at for a new model?

Mr Scoular—Generally speaking, a new model will run for five to six years, with a mid-cycle facelift or minor upgrade program. We are currently looking at investment decisions that we will make about post 2009, 2010 or 2011.

CHAIR—With such a long time frame, what role would exchange rate fluctuations play in investment decisions?

Mr Scoular—They are an important part of it, but they are only one part of it. Exchange rates, particularly the Australian dollar, tend to go up and down and up and down, so you tend to look at long-term trends.

CHAIR—Long-term trends in the exchange rate?

Mr Scoular—Correct.

CHAIR—In terms of the Ford Motor Company making an investment decision, what role do the capabilities—that is, the human resources and capital available—play in an investment

decision, as opposed to the tariff regime, given that we are talking about a 2½ per cent tariff right now for the United States and what will be a 10 per cent tariff for Australia in passenger motor vehicles in Australia?

Mr Scoular—All those factors are important. I would not like to put a weighting on one rather than the other but I think, if you look at the business equation that you are seeking to put together, the people capability and skills are obviously a critical factor. The broader regulatory environment with the tariff and ACIS program in Australia is another critical factor. The market size is a critical factor. They are all very important factors.

CHAIR—Thank you very much. Am I right in thinking that the tariff for light commercial vehicles will drop from 25 per cent to zero on the day the agreement comes into force?

Mr Scoular—The US tariff?

CHAIR—Yes, the United States tariff; we do not have a tariff of that—

Mr Scoular—We have five per cent.

CHAIR—We have a small tariff on light commercial vehicles.

Mr Scoular—Yes.

CHAIR—As there are no further questions from the committee, I would like to thank you for your attendance before the committee today.

Committee adjourned at 11.31 a.m.