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JOINT STANDING COMMITTEE ON TREATIES

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JOINT COMMITTEE ON TREATIES

Wednesday, 5 May 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 Peter King and Mr Scott

Senators and members in attendance: Senators Marshall, Mason, Santoro and Tchen and 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 10.09 a.m.

CHAIR—I declare open this meeting of the Joint Standing Committee on Treaties. The public hearing today in Brisbane is the eighth public hearing of the Joint Standing Committee on Treaties review 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 and was advertised on the committee's web site on 10 March and advertised 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 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 activity via an e-mail bulletin. To date, 189 submissions have been received and submissions are available on the committee's web site, and details are available from the committee secretariat. The committee has heard evidence in Sydney, Melbourne, Hobart, Adelaide, Perth and the last two days in Canberra. We will be hearing evidence in Brisbane today and in Sydney tomorrow. The committee will hold a further public hearing in Canberra on 14 May.

[10.10 a.m.]

BALLANTYNE, Mr Ian James, Chief Executive Officer, Australian Canegrowers Council

MALES, Mr Warren, General Manager, Trade and International Affairs, Queensland Sugar Ltd

WHITE, Mr Ian Herbert, Managing Director, Queensland Sugar Ltd

CHAIR—Welcome. On behalf of the committee, I 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?

Mr White—I would like to make some introductory remarks and then hand over to Mr Ian Ballantyne to make some introductory remarks. Obviously, from the point of view of the sugar industry in Australia, sugar was excluded from the trade agreement. The reasons for that are probably fairly widely publicised. The industry in Queensland in particular was involved in the negotiations and was represented in Washington through the final stages of the negotiations. We recognise the difficulties that transpired, I suppose, with regard to the inclusion of sugar in the free trade agreement. Australia currently has TRQ access to the US, where there is a current allocation which amounts to about 87,000 tonnes in the current year. That is fulfilled by Queensland Sugar on behalf of the industry in Australia. What we were seeking was a substantial increase in that access.

Obviously, the political strength of the US sugar lobby was apparent in the process, whereby the US government was unable to even contemplate any increase for Australia. The representatives of the US sugar lobby were indicating that no increase should be given to Australia for a number of reasons. One of those was that their own sugar regime in the US could not stand additional access from countries such as Australia. One of the other reasons was that Australia is not a developing country and therefore sugar was not vital to the agreement. That was stated by the administration representative, US Trade Representative Zoellick, at the time. It is interesting to note that the US sugar lobby is extremely powerful. Whilst they account for a very small number of the total farmers in the US, according to the records that we have been able to see they account for something like 17 per cent of the official contributions made in the political process by the farm sector.

Throughout the process leading up to the free trade agreement, the industry in Queensland worked very closely with DFAT, its senior staff and the minister. We made several trips to Washington throughout the process, which were sponsored either by ourselves or through a National Farmers Federation process. We met with leading congressmen from the Senate and the House of Representatives, trade representatives and senior officials from the USDA. Obviously we are very disappointed to be excluded from this FTA. It demonstrates how difficult it is for the Australian government to secure this access against what is a very strong sugar lobby in the US.

We are also heavily involved in trade matters, and we are working closely with the government with regard to the WTO negotiations following the Doha process and the meetings in Cancun, at which we were present. We are currently taking a supporting role in the actions taken by the Australian, Brazilian and Thai governments against the EU in the challenge to the EU sugar regime which is currently being heard. We hope for a successful outcome to that.

The reality of the world trade situation is that we do have, as it is often referred to, a corrupt world market. Sugar, in many studies, has been shown to be the most corrupt world market, with a relatively small world industry in terms of total production. Sugar farmers in European countries, the US, Japan and a few other countries appear to be heavily protected, and there does not seem to be very much movement at all to the levels of protection or regimes in those countries. That does not mean that we will not continue to support efforts by the government or on our own behalf to try to continue to improve the trading terms for Australian sugar, in particular access to markets and the elimination of export subsidies and domestic support programs.

Amongst those who mainly trade and export within the sugar industries around the world, the Australian industry has taken a leading role in the formation of what is called the Global Alliance for Sugar Trade Reform and Liberalisation, which meets on a regular basis. It comprises sugar producers from around the world who have a like mind with regard to bringing about a change in the trading terms for sugar. We currently hold the chair and the secretariat of that group. The Australian industry is well represented on that group, and we continue to lobby both internally and externally for freer trade in sugar. I would like to now hand over to Ian Ballantyne.

Mr Ballantyne—Thanks for having us here today. I will be very brief. Hopefully, I will not go over all of the same ground as my colleague—a little bit of it, perhaps. I think I am here to reiterate the fact that we are a trading commodity and that, irrespective of whether we sell our sugar on the export market—and some 80 per cent of it finds its way to the export market—or the domestic market, the price we receive is designated in US dollars against the US futures market exchange. Therefore, even the domestic sales are impacted by the trading environment at the international level. We are therefore very heavily dependent on that international trade and international access, and we are affected quite dramatically by elements of protection or lack of access. The exclusion from the US free trade agreement has certainly been disappointing—there is no question about that—but, to some extent, not totally unexpected, as we have dealt with the US sugar lobby for some time.

What I did want to say is that that level of protection—the level of, I guess, influence—is not isolated to the United States. It certainly is evidenced in other areas of the world, particularly the EU and perhaps Japan—although we do have access to Japan. I think my point today was to assure you that we wish as an industry, certainly representing the growing sector, to continue to be active in the trading environment. We see that the setback of the US free trade agreement would not exclude us from participation in other bilateral arrangements which may be contemplated. Should this trading agreement be ratified and subsequently reopened for negotiation, we would expect to be back in there negotiating again with the Americans. We certainly wish to be participative and will continue to be active in the multilateral trading environment. As Ian said, we are involved at WTO level on a number of issues, particularly in support of government action.

What I would like to say in the broad is that, while the industry was disappointed, at no stage—I think I brought out a public statement within 24 hours of the announcement of the outcome—did we expect or anticipate that the trading arrangements that may be ratified between Australia and the United States would be overturned because of the lack of sugar's involvement. We were disappointed. We would like to be involved. If they were reopened we would be involved. If there are other bilateral arrangements to be negotiated, we will be involved. Having said that, we certainly would not take the position: sugar out, all out. I wish to reiterate that point. Finally, from this perspective, we were bent but certainly not broken, and we will continue to be active—I want to assure you of that. We are active traders and we see this at the end of the day as the ultimate avenue for sustainability of our industry long term. Irrespective of government intervention at Australian level, irrespective of the need for their recent actions taken, our long-term survivability and sustainability is dependent on the international trading environment. Thank you very much.

CHAIR—First of all I would like to ask for a comment, both from Mr White and Mr Ballantyne, about the consultation process and the negotiation process, both in Australia and in the United States. You have mentioned that you were quite involved. Did it meet your expectations?

Mr White—I think that we were very happy with the consultation process. I cannot remember the number of meetings that we would have attended in Canberra, but there were many meetings in Canberra and briefings from the staff at DFAT and meetings with the Minister for Trade. The lead negotiators in the process kept all agricultural sectors very heavily informed as to their progress, particularly in the lead-up to the first rounds of negotiation, and did come to Queensland on I think a couple of occasions to talk to the industry representatives here and give them their views as to the state of play. In Washington during the final stages of negotiations we, along with a number of other industries, participated in daily briefings and one-on-one meetings and were there basically until the conclusion of the process. We felt that we had open access to members of the negotiating team basically at all stages.

Mr Ballantyne—I would support Ian's comments. For example, Mr Stephen Deady was the principal negotiator. We met with him on numerous occasions, both by telephone and face to face. So we had that level of access. We dealt on a joint basis through the National Farmers Federation, of which we are a founding member. That broad commodity approach was certainly one aspect of our consultation. But it was specifically on sugar. I think Ian is correct: I would not know whether we had 10, 12 or 15 meetings with Department of Foreign Affairs and Trade staff in the lead-up to this particular trade arrangement. I think that would also indicate that there was an expectation that sugar was going to be tough on the way through. But in terms of consultation, I think of our negotiators understanding what we were seeking and what our desires were, if you like, and what our concerns were. I was completely relaxed that they went into that negotiation with a full understanding. Over and above that, to reiterate what Ian said, I think we were present as an industry and as organisations in Washington on at least two and possibly three occasions. My own chairman participated right up until the last moments of the final days of the negotiation in Washington and had access to the minister and to the lead negotiators.

CHAIR—Thank you. As you said, before associations began it was always known that increasing access for sugar was going to be difficult. Do you think there was an external event

that made it even harder when negotiations concluded, such as CAFTA, which included sugar, and the negative political reaction in the United States? Is that a fair thing to say?

Mr White—I think the two negotiations were going along simultaneously. The situation with CAFTA might have been slightly different because there were developing countries involved and the attitude might have been slightly different there. However, the reaction to the CAFTA circumstances was certainly not unexpected. We thought it would be difficult for both of them to include sugar in any demonstrable way, and I suppose the actions of the US sugar lobby and the amount of pressure that they put on their administration was not unexpected in both cases.

Mr Ballantyne—Can I add something with regard to an earlier agreement negotiated between Chile and the United States. Chile are not sugar exporters but their access is some 15 years away. As a country that is not likely to export to the United States, they even had their sugar access deferred by some 15 years. Those are the sorts of signs that you read.

Mr WILKIE—You talked about how you thought that with the expectations on sugar it would be tough to negotiate. I remember the minister, Mr Vaile, saying that, at one stage, sugar was vital and if we did not get sugar through there would not be an agreement. Obviously, even though he recognised that it would be tough, he was supposedly there fighting the fight. At what stage did you realise that you were not going to get any concessions for sugar at all?

Mr White—We took the comments made by the minister as being proper in terms of the negotiating stance. There was no indication at all from the Australian side that we would accept anything less than inclusion. It was not until the last moments that there was a realisation that there would be absolutely nothing for sugar.

Mr WILKIE—What did you think you might be able to achieve?

Mr White—We were looking for a substantial increase.

Mr WILKIE—Can you quantify that at all? When you say a substantial increase, what were you hoping to achieve?

Mr White—We were looking for increases in the hundreds of thousands of tonnes area. We thought that would be very beneficial to our industry if we were able to achieve that.

Mr WILKIE—Given that you have received a compensation package of around \$440 million, how does that compare to what you would have achieved if you had not been able to get access to those hundreds of thousands of tonnes? Can you put a dollar figure on that?

Mr White—I might let my colleague answer that in a minute. Firstly, I am not sure that it is a compensation package. I believe there are multiple reasons for it, not the least being the low world sugar price at the present time, and forecast. I suppose we have not done a calculation as to the in perpetuity benefits of various levels of access because we really do not have a fix on what the levels of access might have been.

Mr Ballantyne—I think that is the issue, and had we received a certain level of access then we would not be sitting here, I guess, having this discussion. If you do not get access, you are

not sure what you have lost. My comment on the sugar package that has just been announced is that we have not seen that as compensatory for lack of trade access. I would be incorrect if I said that the issue with the United States did not act as a catalyst. It certainly focused attention on the sugar industry and the trading environment in which we work in the broad spectrum of things. But we would certainly not see that as a reason not to tackle other markets and try to reduce trade barriers. If opportunities arose in the United States again tomorrow, we would not say, 'No, we're being compensated. We'll back off and we won't worry.' We would be back in there. The in perpetuity calculations of access to the United States of, say, 200,000 tonnes or 300,000 tonnes of sugar are very significant. But that has not happened, and I think it is an academic exercise to multiply that out.

Mr WILKIE—Given that no access was achieved, how difficult does that make negotiations with the EU in terms of wanting to open up their market? Had we had access to the US market, I would have thought that we could have gone in there and said, 'Look, we have managed to achieve worthwhile gains here. How about doing something for us at the EU level?' I would have thought this makes it extremely tough now.

Mr Ballantyne—Warren is perhaps best placed to talk about the legal aspects. However, the EU issue in the first case is, at the moment, a legal challenge in respect of our belief that there has been a breach of the WTO rules. So it is a legal challenge; it is not a negotiation for additional access. I think that is the first case where it is differentiated. I will make another comment and then perhaps pass to Warren. As I said initially, the United States is a very difficult market to penetrate. It is not unique. Europe is a very difficult market to penetrate, along with a number of other very highly protected sugar markets, which is the reason we have this level of distortion in the international sugar trade. It is more so than in other markets. In terms of the actual challenge to the EU, if you want to pursue that more Warren is very well equipped to talk about it.

Mr White—If your question was about us obtaining additional access into Europe, or any access into Europe, then we do not have any. The European regime is more about developing countries than anything else. In fact, the changes to their regime, in everything but arms arrangements, are all about giving access to developing countries and helping them. I suppose we always recognise that whilst the barriers remain and whilst each of the countries continues to not change, then, with regard to protection around the world, it makes it difficult to have any cascading effect. If the US changed its total sugar regime for support of its farmers—not so much access, in this case—then I think that would have an impact on other countries, such as countries in Europe and Japan. That is actually the process that is going on through the WTO to try to reduce trade barriers around the world, not necessarily aligned to the US free trade agreement per se.

Mr Males—I would just like to add some comment to those remarks. The dynamics of the European system are quite different from the US free trade agreement. Australia is not in a free trade negotiation with the EU. Rather, the Australian government, jointly with the Thai and Brazilian governments, are challenging aspects of the European sugar policy and their consistency with the obligations that the Europeans entered into under the Uruguay Round of the WTO. The three governments say that it is clear that the Europeans are not fulfilling their obligations with respect to export subsidies. Quite clearly, any reduction in export subsidies of sugar out of Europe means that there is less subsidised competition for Australian sugar in the

world market. That is really where the focus of attention is. The other dynamics of the European system, as Ian White has described, are about access to that market for developing countries. The third element is about the recent expansion of the European Union from a 15-member union to a 25-member union, which occurred on the first of this month. So, together, those dynamics are all bringing pressures on the European system for a structural change in the sugar arrangements. We hope that the challenge that Australia, Brazil and Thailand are taking will be successful, because that will add a further element of pressure to removing the distortions.

Mr WILKIE—When is that likely to be heard and a verdict handed down?

Mr Males—The first oral hearing of the challenge has occurred. The second, I understand, will occur next week. We should find the preliminary outcomes of the challenge towards the end of June. The report of the panel will be made public sometime in September and then, presumably, it will be subject to challenge.

Mr White—We expect to have a final outcome sometime in late 2005, or something like that.

Mr Ballantyne—Irrespective of the outcome, the potential for challenge is very high, obviously.

Mr WILKIE—Yes. Access for sugar is an important issue for me, being from Western Australia, because we have a significant sugar industry as well. Often, particularly on this side of the country, people think of Queensland as being the primary place, but obviously Western Australia has a significant industry. My last question relates to reports that the PM made a call to the President on the day before the agreement was finalised and argued for two things: one was sugar, and allegedly the other was beef. Would the industry be disappointed if they found that sugar had not been argued at all—that only beef was pushed?

Mr Ballantyne—Yes. I think if we thought that our case had not been carried with absolutely 100 per cent effort then we would be very disappointed. Having said that, obviously we were aware of the level of resistance that was going to come out of the United States. But I can genuinely say that, right up until the announcement, we had a level of expectation that we would have some level of access. One of the fears there had always been—and I make this comment generally—was that a bad deal was worse than no deal, in that, if there had been a small amount of token access, any future potential for access to the United States may have been cut off. I cannot comment on the detail, acceptability or veracity of some of the other agreements on some of the other commodities but, for example, a 20 or 25 per cent increase to our quota would have added less than a shipload of sugar. It would have been a bad deal, and it really would not have given us any better access to the United States. So we were looking for quantum multiples. We were looking for multiples of increase rather than percentage increases of 20, 25 or 30 per cent. That would have been tokenism.

Mr WILKIE—I suppose there have been a lot of industry representatives coming before the committees who have said that they have been very disappointed with the outcome, that it was probably a bad outcome but that it was better than having nothing at all. But in your case, you did not get anything.

Mr Ballantyne—Our access to the United States is less than one per cent of the United States' consumption of sugar. A 25 per cent increase in that—particularly if it was spread over, say, 15 or 20 years—would have been no outcome. It would have been worse than no outcome, because at least with no outcome you have the opportunity to open discussions at a later date, if you do not have an agreement.

Mr WILKIE—Thank you.

Senator SANTORO—Obviously we have to live with the outcome of the FTA, particularly from the point of view of the sugar industry. I am very heartened to see that the spirit of the industry has not been broken—that we are prepared to go back in when the agreement is renegotiated and that bilateral arrangements may be attempted. I am interested this morning in just getting some insight from you as to the precise nature of the obstacle and the lobby against efforts by the Australian delegation to include Australian sugar in the FTA. Obviously—if we are going to overcome that obstacle and the objections of the lobby in the United States—members of parliament, including those who are on this committee, will have opportunities in the future to go to the States or receive delegations from the States, discuss these issues and, I suppose, promote the mutual advantages of having sugar included. So what was the nature of the lobby? Are there mutual advantages for the United States that people like us can argue? My follow-up question—and I will give it to you now—is: are these pressures likely to go away in the next five to 10 years, or, since the lobby is so strong, will we be back here in 10 years time, still having this type of discussion?

Mr White—I think the nature of the political process in the United States is something that we do have to regard as a reality at the present time. The power of various states, of the US Senate and of the sugar lobby in the US is extremely strong.

Senator SANTORO—Particularly in a swinging state like Florida.

Mr White—Particularly in states like Florida and some of those southern states as well as in some of the sugar beet states such as North Dakota, Wyoming et cetera, where they have very small populations and, I imagine, the sugar beet industry is a very important industry. The nature of the political process in the US is such that there is maybe a different level of lobbying and a different way of funding that gives the sugar lobby a disproportionate importance in the minds of politicians than perhaps it would just on the straight numbers. I think I said about 17 per cent of the total farm lobby funding comes from the sugar industry, but it is a very minor industry in terms of total production numbers in the US. Because of the power of certain individuals within that sugar industry and the way the sugar industry has organised itself, these individuals have become a very powerful lobby. They do have the opportunity in a number of states to control the power struggle. This was obviously in the minds of the negotiators and the administration of the US, and I think that is where it basically all stemmed from.

Senator SANTORO—Is the situation likely to change?

Mr White—The question is: is the political process likely to change? Probably not in the foreseeable future. However, the interesting thing about the US is that they do have a free trade policy that, if you put it down point for point with Australia's free trade policy, is very similar to ours except that they interpret it differently to us. When we talk to the American Sugar Alliance,

which is the sugar lobby there—and we do when we go there—we do not have very much disagreement about free trade policy. It is just that their interpretation of what protection is and what subsidies are et cetera is different from ours.

We think that the only way to operate now is to try through the WTO process to really make some gains there, which will start to force some changes in the US. Are there mutual benefits between us? They would like to see no farmer lost in their sugar states; we obviously would not like to see farmers lost in Australia. However, we are competing in the residual market in the world, which is not a protected market. We have to face the competitive pressures of that; they do not. In the current world market their sugar farmers get approaching three times the current world price of sugar in US dollar terms. They have lost out in their sugar industry to corn syrup and other sweeteners because their prices have been arguably too high and the manufacturers such as the Coca Colas of this world et cetera have chosen other sweeteners. I think the CIE studies have shown that, if there were freer trade around the world, we would actually see the whole price of sugar lift around the world by some 40 per cent.

Senator MASON—What do you think the prospects of success in the WTO round are like for sugar? Bilaterally we did not do well with the United States; multilaterally with the WTO what prospects do you think there are for sugar?

Mr White—I think it is going to be hard. I do not think we should at all assume it is not. But, if we were to wrap sugar up with all of the agricultural commodities and have a proper agricultural round that the European Union, the US and other powerful protection countries all participated in and there was a will to start to ease protection, then I think there would be some opportunity to see both Europe and the US start to change their sugar regimes. When that starts to happen I think it might change quicker than we think.

Senator MARSHALL—You indicated that you were involved in the negotiations all the way through. Was there anything on the table at all from the United States in relation to sugar?

Mr Ballantyne—Not that we are aware of. To follow up the previous comments, which I think are relevant, the sugar association had a policy which basically said, ‘not one more tonne’. So from the sugar lobbyists’ point of view, there was no indication of any negotiable position. It was not a certain amount of access or limited access or reasonable access; it was ‘not one more tonne’. To our knowledge, there was never anything put on the table by the Americans that was either rejected or discussed at those negotiations. Of course, we were present and we participated, but we were not actively in the room at any one stage. That is our view.

Senator MARSHALL—Nor was the US, and we were not negotiating with the US sugar lobby either. If there was nothing ever on the table, I am just wondering what was actually being negotiated.

Mr Ballantyne—One side put something on the table—it is an offer and request type approach, and there is no doubt that our request included the sorts of things that we had sought. Their offer obviously did not match that. Their offer in sugar, I can only imagine, was zero access. Lots of debate occurs and there is lots of discussion. Whether it has an outcome or not is a different matter. I have been in a lot of negotiations where we have not got very far but they take a long time.

Senator MARSHALL—Again, it is something that I have difficulty getting on top of, given a lot of the public comments that were made that said ‘sugar has to be included’. From what I hear you saying, there was never actually anything on the table if the US was saying that there would be zero access from day one. We were not starting at a token position—which you have rightly indicated would not have been satisfactory—and trying to build up from that; we were putting our position and they were saying, ‘no, there will be nothing’, so there really was not any process of negotiation outside of that, apart from both parties putting a position. Is what you are saying?

Mr Ballantyne—I can only surmise, as you can, that negotiating positions are taken and leverage is sought to be applied by making certain statements about whether sugar should or should not be included. Apart from that, I am speculating.

Senator MARSHALL—Given that we were trying to quickly conclude negotiations in the lead-up to the US elections this year—inevitably this agreement will be voted on by congress in this election year—do you think the timing of those negotiations gave the US sugar lobby even more power at that particular point in time than it may have had otherwise?

Mr White—It is arguable. I do not know that I can really answer that. In all agricultural commodities—and, I suppose, through the whole FTA negotiations—there was a view by most of us that we probably had the best chance of getting something in this window that seemed to be open for the negotiation. At the end of the day, I am just not sure whether or not there was any greater or lesser ability for the lobby in the US to apply pressure. I think that they are going to apply pressure whenever there is going to be an FTA discussion with any country. I think they just do not want to see one more tonne come in.

Mr Ballantyne—I would have to reinforce that. I can say, perhaps confidently, that the sugar lobby in this country is seen as being influential from time to time, and I am more than pleased to admit that. We pale into insignificance with the Americans. The reality is that they have a concentration of ownership and a concentration of economic power which far exceeds anything that we have seen, and they can very quickly gear themselves for that sort of thing. Having said that, from a personal perspective I would have thought that we had the best opportunity with a brief window, given that there is some support for changes to the regime from the USDA itself and from the administration. We had thought that, if ever there were going to be a deal done, the administration—certainly the influence of the USDA, which is seeking to liberalise their arrangements—could prevail in that short term. If it was going to be a marathon, they probably would not. So we were perhaps more confident in a shorter, sharper negotiation than we would have been for something that could have trailed over two years or more.

Mr Males—The US sugar lobby has not given up on CAFTA. It is still actively lobbying against the passage of CAFTA through the US Congress.

Senator MARSHALL—I will just finish off with the WTO round. It has been quite strongly argued that there is a need to move away from what has generally been our nation’s preference for the multilateral round and to give preference to bilateral agreements. It has been argued that we need to do these sorts of agreements on the basis that they will provide leverage for us in the multilateral round. I know you have touched on this somewhat but, given that sugar is left out completely of this agreement, doesn’t that actually counter the argument of your really being

able to pursue this issue? Does it not demonstrate to the world that, between two developed nations, they can actually agree on leaving sugar out? Doesn't that send all the wrong messages to the WTO?

Mr White—There is certainly some thought along some of those lines. I think all agricultural commodities have discussed with government the need to try to keep the bilateral discussions in line with where we might go with the WTO. I think it shows the real difficulty we are going to have with the sugar regimes around the world, whether it is in bilateral or multilateral discussions. I think it shows the difficulty we are going to have with the very entrenched views in the US and in Europe to actually get any significant movement. Whether it is one or the other, I think we are still going to have difficulty.

Mr CIOBO—I notice that you made comments about the sugar lobby in the US still currently working against the CAFTA. Do you believe that you would have seen—and I take it from your comments that you probably would have—active lobbying like that continuing had we been able to achieve significant access of the order that you are talking about aiming for within the US?

Mr White—Most definitely. If we had achieved something with the administration that was against the wishes of the sugar lobby—which is not to see any more sugar come in—we would be seeing a very strident campaign from them at the present time lobbying for the non-passing of the FTA with the inclusion of sugar or for the modification of it somehow, as they are currently doing with the CAFTA.

Mr CIOBO—So you would have expected that there possibly would have been significant impacts on the likelihood of congress passing it?

Mr White—It is speculation, but there may have been.

Mr CIOBO—I would be interested in your views on the sustainability of domestic sugar policy in the US. My lay knowledge of economics is such that it would be my expectation, from what you are saying, that in the long term there really is not any sustainability to domestic sugar policy. Do you see that, given the passage of time, there would be an increased likelihood for a lean and competitive Australian industry to actually gain access as you start to see some hairline fractures occurring in US policy? Or is that wishful thinking?

Mr Ballantyne—I guess we want to be there if that occurs. There is no question—and perhaps I have jumped in here, when Ian should—that Australian sugar, our supply chains and our systems are very much appreciated by the manufacturers in the United States. We would certainly be suppliers of preference to many of the refineries and long-term customers. If tomorrow there were an increase in access in some way to Australian sugar, there would be no problem with Australia accessing those refineries. Indeed, part of the alliance in the United States to break down the current regime has obviously come from the manufacturing and refining sector. So, if the opportunity arise, there would be great opportunities provided. Ultimately, the issue is that sugar consumption in the United States is mature. It is not seen to be a major economic impediment to wellbeing, and people pay the price.

Mr CIOBO—Are you aware of any industry efforts along those lines to alter US domestic sugar policy and perhaps through using vehicles such as the WTO?

Mr White—Within the US?

Mr CIOBO—Yes.

Mr White—There are a number of interest groups, particularly the users of sugar—and therefore the manufacturing companies—who are obviously not as well organised as the sugar lobby, who are actively lobbying for a change in the US sugar regime. Our own major customer that we send Queensland sugar to, CNH Global in San Francisco, are a major part of that. They would take a lot more Australian sugar if they had the opportunity to do so. Chocolate, confectionary and soft drink manufacturers are all lobbying for a change in the regime.

Mr CIOBO—Looking at the FTA in broad terms, given the exclusion of sugar and notwithstanding that fact, I was wondering if you would care to comment on whether your views are favourable towards the FTA being ratified, or whether you believe it is running contrary to the national interest?

Mr Ballantyne—It is not for me to comment on other commodities, but I think we have tried to state our position here as being that we are fundamentally interested in trade. Over 80 per cent of our product is traded internationally, and 100 per cent is traded based on an international marketing arrangement. Fundamentally, we are seeking a freer and fairer access to world markets, both bilaterally and multilaterally. On that premise, we think that anything that can be done to get better access and more open trading arrangements should be good. I cannot necessarily speak on behalf of every commodity, service and industry involved, but, as a matter of principle, we would favour improvement in trading arrangements wherever and however we can. On that basis, we would generally support the current arrangements.

Mr CIOBO—You have both made comments about the window of opportunity that has presented itself at the moment. To what extent do you think the disposition of the US administration gave you the best chance of obtaining the kind of outcome that you were seeking, notwithstanding the fact that it obviously did not take place? Do you see that opportunity, in a bilateral sense, reappearing in the short term?

Mr White—I do not know whether the opportunity is going to reappear easily in the short term. That would mean some sort of additional renegotiation of the FTA. As Ian Ballantyne said, if that were possible, we would certainly be plugging for inclusion in that. The first part of your question was about—

Mr CIOBO—It was about the window of opportunity.

Mr White—In hindsight, it is probably an arguable position, but I do believe that the window of opportunity probably did appear at the time to be advantageous to us.

Mr CIOBO—In your reading of the situation, was it political motivation that was driving this rather than a groundswell of a free trade movement in the US generally?

Mr White—I think that is probably true. I do not think, particularly in sugar's case, that there was any support at all—it was just that there was this opportunity to discuss it. We had been

discussing this with the US government for some time prior to this, and here was another opportunity to do so.

Mr Ballantyne—Where sugar is perhaps a little different from many of the other agricultural commodities is that the US is not an exporting country. Their interests in terms of access in their own trade sense are not as great, whereas perhaps with grain and other commodities there are some trade-offs—better access in one hand gives them better access on the other.

Mr White—Another thing to note is that, for the most part, the sugar regime in the US is not a government subsidised scheme. It is a transfer in price terms between the US community, which pays a higher price for their sugar, and the sugar industry. So there is the difference in terms of the budgetary implications of this in the US. It is not a transfer out of the public purse; it is a transfer from the community to the sugar industry by way of a higher sugar price that is set.

Mr Ballantyne—While it does not affect this committee today, the European situation is the same. It is not part of CAP—it does not come out of that. It is affected by the same rules, but it really is direct support from the consumer.

Senator MASON—This is a background question. Mr White, in your opening remarks you said that sugar is the most corrupt world market. Why is it worse than other agricultural products? Why is the sugar market so corrupt?

Mr White—I do not know the answer to it necessarily. Most countries in the world do produce some form of sugar, whether it is sugar beet or sugar cane, and only a relatively small percentage of the world's sugar production is actually traded. Countries are often mostly self-sufficient and import a little bit or export a little bit. Countries like Australia and Brazil are quite different from that. The majority of countries are different. I think the sugar farmers have gained a position in those countries that is one of prominence probably out of proportion to many other industries. They are generally small farmers and, not so much in the US but generally, there are a lot of them. In China, India and countries like that there are millions of small sugar cane farmers.

Mr Ballantyne—There are 33 million sugar cane farmers in India.

Senator MASON—It is unusual, because you have farmers in First, Second and Third World countries producing it and all being subsidised or directed by bounties or tariffs.

Mr White—Correct. You can show that Australia is the most exposed of any of the countries to the world market price.

Mr Males—Senator Mason, in response to your question, over 140 countries produce sugar. Most of those countries, with the exception of Australia, New Zealand and perhaps Canada to a lesser extent, protect their markets with high tariff barriers, quota entries or high domestic prices, through various forms. So the world sugar market, as Mr White described it, is a residual market. Changes in government policy in any part of the globe—whether it is in the US, Europe, China or, most recently, India—will have an impact on the trade in sugar. Australia is the most exposed of all countries.

Senator MASON—I have one last observation perhaps. I thought Mr Ciobo's second question was excellent because it exposes a lot of the myth about this debate. I will summarise your evidence: if we had secured more of a market for Australian sugar and that had gone, as it has, before the US Congress—it is all in or all out; it has been fast tracked, so the entire free trade agreement is up; there is no room for debate on particular aspects or articles, and it is all up—the sugar lobby may have turned against the free trade agreement, holus-bolus, in its entirety (because that is what has happened; the arrangement has been made to fast track it) and that could have cost us the entire agreement. Is that your evidence?

Mr Ballantyne—No.

Senator MASON—I do not want to put words in your mouth, but that is my understanding of what you said.

Mr Ballantyne—I think the comment was that the expectation was that the American sugar lobby would have continued to lobby very actively against the entire agreement on the premise that it was fast tracked. I would argue then that it would really have become a balance. If you are not arguing on a commodity basis you would have the entire agreement—who knows. It would certainly be my view that there are very many interests in the United States who see this as a good agreement and their level of influence brought to bear on the sugar industry may have perhaps balanced the sugar industry's. This is speculation.

Senator MASON—You are right—it is speculation. The fact that it is being fast tracked does make it more vulnerable to particular interests, doesn't it?

Mr Ballantyne—Correct. We were in Washington at about this time last year and there are a number of industries that anecdotally have been saying that the sugar industry in the United States has had a very good run. We have continued to expose ourselves and have continued to trade. Perhaps their run needs to come to an end at some stage. So I do not think that they necessarily would have the number of allies at home they would think if, indeed, an entire agreement were threatened. That again is speculation.

Senator TCHEN—Coincidentally, my questions actually begin along the same lines as Mr Ciobo's and Senator Mason's questions. Regarding the world sugar market, Senator Mason said that Mr White had said it was extremely corrupt. Mr Ballantyne said the local market price is influenced by what our sugar will fetch on the world market. It has a local impact. Can you gentlemen tell us exactly how cost competitive Australian production is on the world market?

Mr White—It is difficult to be entirely definitive, because we are averaging things through and making assumptions about costs in other countries. We do follow what we believe the cost to be in other countries and we do look at studies that are done. The most important study is one that is regularly updated by an organisation called Landell Mills. That study shows that the Brazilian industry has a lower cost overall in US dollar terms than the Australian industry does. But the Australian industry is generally considered to be the second in the world in terms of costs. The other thing to note is that, whilst costs are important, total revenue is also important. As I said before, we are the most exposed to world prices, because just about all of our product—apart from the access to the US—is sold on this world residual market, whereas even our major competitors who export, such as Thailand, Guatemala, South Africa and even Brazil,

have various levels of either protection at home with higher home consumption prices or different revenue streams that allow them to have a different set of economics in their industry than the economics in the Australian industry.

Senator TCHEN—That is because they are developing countries?

Mr Ballantyne—No. Perhaps to describe that simplistically, Brazil export around about a third of their production from sugarcane. About half of their production is converted to ethanol and about a quarter of their production is domestic sugar. So when you get a significant fluctuation on the world market because of supply, it is only impacting on about 25 per cent of their revenue stream. Now it transmits. At the moment Thailand export about 40 per cent of their sugar. The other 60 per cent, give or take, is used domestically or in the immediate area. That is at a high price. So when the export market falls and prices fall because of oversupply—on average, when you look at the average price received—it is still underwritten relatively stably. Most other countries have a number of sources of revenue streams or pricing bases. We talk about the No. 11 market. When that international price fluctuates for a range of reasons, it only affects part of their revenue stream. When it fluctuates for Australia, it affects fundamentally 100 per cent of all product that we sell.

Senator TCHEN—So if Australia actually developed an ethanol industry, it would help the sugar industry as well?

Mr White—If ethanol were to be made out of some form of sugar stream and if the prices that could be obtained for ethanol were better than the prices able to be obtained for sugar, and if they were constantly available and so forth, yes, you could argue that there might be some benefit to the industry. I think the economics of that have to be worked out internally in Australia. It is a different set of economics to those in Brazil.

Senator TCHEN—Earlier you were asked a question about the \$440 million restructuring package for the sugar industry. Once the restructure plan has been implemented in a few years time, would it put the Australian sugar industry in a more competitive position when opportunities like the US free trade agreement or entry into other major markets like Japan or Europe or China occur?

Mr Ballantyne—The answer is yes. That is the intention of the whole process. We talked a little earlier about costs of production. The reality is, in terms of efficiencies and extraction capacities and ability to grow cane, we are No. 1 or No. 2; it has varied in the last five years.

The issue is competitiveness, and that is a combination of relative currencies and so on. The aim is to bring our costs of production down in US dollar terms and competitive terms. Without going over this too broadly, throughout the 1990s the industry expanded quite significantly. We expanded by 60 per cent. We went from three million tonnes of sugar to something like 5½ million tonnes of sugar. We did that on the back of a prevailing return of about \$A340 a tonne.

We are now looking forward, and we are projecting that prices could be—and if I knew this I would probably not be working only with Canegrowers—more in the mid-\$200 range. Basically, our industry has to find about \$80 a tonne—a very significant amount of money when you look at the quantum of cost reductions—to put us back on in terms of profitability. My view is that we

have found \$50 of that already. This additional package gives us the capacity and a time frame to find the other \$30. Some people will not, and they will leave the industry; some people will, and they will aggregate and make decisions which will allow us to get somewhere. If in three or four years time we are not able to be competitive at those levels then we will not be around to chase that US market—that is not our intention, I might add.

Senator TCHEN—The committee has been told by a number of expert witnesses that the bulk of the benefits of the free trade agreement—something like 60 per cent—will in fact come from investment liberalisation. Would that have any impact on or assist the sugar industry?

Mr Ballantyne—I would not think so. The only issue that has been debated is the issue of our capacity and desire to diversify our base—if you like, our sugarcane agribusiness. Ethanol has been discussed, but we are certainly not only concentrating on that. There may well be additional opportunities to partner with people with technology in the United States, but I guess that is drawing a long bow. It will not do any damage from that perspective; it may give us better access to those sorts of partnering arrangements, that is all.

Senator TCHEN—I want to ask another question, which does not actually have much to do with the FTA as such but which I would like to get your comments on. It seems to me that there has been a fairly quiet but persistent campaign in the community to replace sugar on health grounds, quite often with a chemical substitute. That is a very strange thing, because usually we get a public outcry whenever a chemical is introduced instead of a natural product. But in the case of sugar that seems to be the reverse situation—everybody is complaining about sugar and nobody is complaining about sugar replacement. Can you comment on that? Do you see the same sort of threat?

Mr Ballantyne—It is interesting that there have been threats to sugar over many years and there have been all sorts of what I would call spurious claims made about the health or non-health aspects of sugar. The facts are that sugar consumption in the world continues to rise at about two per cent per annum year on year, and that has been occurring over about the last 25 or 30 years. With regard to the substitutes, it is interesting that the chemical substitutes have come and gone, so to speak. They have registered a place in the market in diet products and so forth but they have remained relatively stable.

Sugar consumption in Australia is probably going down slightly, and some of that is about health aspects. There has been a lot of discussion about diabetes, obesity and dental issue. However, the work done by the World Sugar Research Organisation—the WSRO—of which I am a director, has tried to base its findings on science. There is a lot of scientific evidence that, for instance, while obesity and other matters might be affected by total calories, they are more affected by fats than sugars and that there is certainly a requirement by the body for some sugar intake. The World Health Organisation has recently come out with some new guidelines.

We as the sugar industry in Australia, and sugar industries around the world, try to base our evidence here on science. The science does not actually show the sorts of things that some might say. The current campaigns are associated with sugar and fitness and exercise, and it is interesting that through all of this sugar consumption in Australia basically remains relatively stable and in the rest of the world continues to increase.

Mr Ballantyne—If there were a threat to the volume of sugar, it would probably come more from the calorific sweetener area. The United States—I guess that is the focus of our attention—changed its sugar regime 20-odd years ago and fundamentally drove the price of sugar up to US21c a pound. The consequence of that is the alternative sweetener, high-fructose corn syrup, became very economic and very attractive at lower cost. It basically displaced five million tonnes of sugar from the US market, which is one of the contributing reasons that our exports to the United States dropped. Many of the sugar regimes around the world, particularly in Europe, for example, militate against the production of high-fructose corn syrup because of the conflicts with sugar. If indeed some of those regimes are broken down, there could well be some competition from those other calorific sweeteners in a more open market place. So it is not so much the chemicals that would cause the competition; it would be the alternative calorific sweeteners that are fundamental—sucrose or fructose type sweeteners.

Mr WILKIE—I made comments earlier that I thought it was the trade minister who said, ‘No sugar, no deal,’ but I think it was actually the Deputy Prime Minister, John Anderson, who made those comments—

CHAIR—And Mark Latham.

Mr WILKIE—and, in fact, he went on to say that it was also ‘un-Australian’ not to include sugar in any free trade deal. I just want to go back to the expectations. You have said that at no stage during the negotiations did the US appear in any way, shape or form that they were likely to budge on sugar. It appeared that they were very firm in their negotiating stance and nothing was likely to happen, and that was happening right up until the last moment. But also right up until the last moment there was an expectation on behalf of the sugar industry that we might be able to achieve something, and obviously we did not. What led you to that position where you thought that we may achieve something, given that they had been so tough?

Mr Ballantyne—I would argue that we did have a very supportive group of negotiators and certainly a supportive group of policy makers. I think that a mechanism for negotiation is to say no. I have been involved in a range of negotiations over the years where there has been no deal right up until the deal is done. So I suggest the fact that one side says ‘no way’ does not necessarily mean ‘no way’. Again, we were in there as optimists; we were in there knowing it would be tough but we certainly had an expectation that there was some potential for a deal. If there were absolutely no opportunity and absolutely no chance, I do not believe the industry would have wasted and committed the resources it did in that activity.

Mr WILKIE—I can appreciate that. I think you always go in with an expectation that you may be able to achieve something, but right up until that last moment you thought you might be able to get something. Did someone from the department suggest that they may be able to get a concession or was it just a wild hope?

Mr White—We talked right through the process. The process was: what would the sugar industry in Australia negotiate for? And I have to say they were honest. They always told us it would be difficult, but they were honest in taking our positions forward and trying to fight for the positions we had. I do not think that anybody was under any illusion about the fact that it was going to be very difficult.

Mr WILKIE—I suppose I put that in light of the reaction from the sugar industry after the deal was negotiated, when really the industry were furious, to put it mildly, that they did not achieve anything whatsoever. If you really believed that you were not going to get anything but you would try and hang out for some outcome, then I would have thought that the reaction might have been more attuned with disappointment rather than anger.

Mr Ballantyne—I have no immediate explanation for the response of my members.

Mr WILKIE—That is just a personal observation, I suppose. You said you were a founding member of the National Farmers Federation. The National Farmers Federation have said that, because we did not get sugar and because we did not get the concessions we needed in a whole range of other agricultural products, in the end we did not really achieve a free trade deal; all that we achieved was a trade arrangement of sorts. Would the sugar industry agree with that?

Mr Ballantyne—From a sugar perspective, we have long embarked on this campaign to seek better access to the United States and, in the short term, we did not expect, even with a positive outlook on life, to see free trade in 2005. We had hoped that some access now would lead to better trade and, ultimately, free trade a long way down the track. I do not think we had an expectation to see free trade, irrespective of the deal done in 2005, just better access.

Mr White—I think the whole WTO process over the years shows that, whilst we have an aim of free trade and we would like to see a complete level playing field, we are actually trying to level the playing field to some extent through the actions, recognising that we cannot determine the outcomes by ourselves.

Mr WILKIE—Thank you.

Senator SANTORO—I think the question I was going to ask has been answered. To crystallise it, you really had to be at the table; you do not have two nations such as Australia and the United States negotiating a free trade agreement of the magnitude that is obvious to everybody, and the sugar industry not being there. Irrespective of what you thought your chances were, you had to be there, didn't you?

Mr Ballantyne—Absolutely. And we will be at the next one as well.

Senator SANTORO—We want to keep in touch with you so that when we are dealing with our counterparts in the states, we are finetuned, particularly if we can convince them that there are mutual benefits. I have been listening to the deputy chair leading evidence, but I want to make it perfectly clear that your expectations were quite low. You had to be there, but your expectations, as you have just said, of free trade in 2005 were not great.

Mr Ballantyne—I would not describe our expectations as being low. I guess it is a comparative term. We were expecting and seeking increased access by multiples.

Senator SANTORO—What were the chances of getting that?

Mr Ballantyne—We always knew that was going to be very hard.

Senator SANTORO—Thank you.

CHAIR—Are you satisfied that we continued to demand a multiple increase in our quota in sugar right up to the end?

Mr White—Yes.

CHAIR—Mr Ballantyne?

Mr Ballantyne—Yes.

CHAIR—Obviously, everyone is disappointed that we were not able to achieve increased access in sugar. Given that we are now considering the draft text of the Australia-United States free trade agreement, what is the position of your organisations as to whether we should ratify this agreement?

Mr Ballantyne—I have made the comment directly to the Prime Minister and made a public statement that the exclusion of sugar should not prevent Australia from making its decision to enter the agreement. I cannot comment on the economics, the value and the commercial positives or negatives but, from a sugar perspective, if it is a positive outcome it should go ahead, albeit without sugar. We would not like to see a positive outcome for the country overturned because of lack of sugar.

CHAIR—Mr White, could I seek clarification of Queensland Sugar's position on that?

Mr White—Our position is exactly the same as that of the industry on that point.

CHAIR—Okay.

Mr WILKIE—I have one last question which is based on comments by Senator Mason and other comments that have followed. If sugar had been deliberately abandoned for the sake of the agreement—in other words, if we knew that we were not going to be getting anything on sugar and deliberately did not push the argument in order to save the rest of the agreement—how would that make the sugar industry feel?

CHAIR—I think that is a hypothetical question, is it not?

Mr WILKIE—I do not think it is. Based on what I have heard, I think it is a high possibility.

CHAIR—It is a hypothetical question.

Mr Ballantyne—In answer to the hypothetical question, we certainly would have been disappointed.

Mr WILKIE—Thank you.

CHAIR—There being no further questions, thank you for your attendance before the committee today. The secretariat will forward a copy of the proof transcript of evidence to you as soon as it becomes available.

[11.26 a.m.]

SCHRADER, Dr Tracy, National Vice-President, Doctors Reform Society

CHAIR—Welcome. 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?

Dr Schrader—Yes. Thank you for the opportunity to address the hearing and contribute our views to the inquiry. The Doctors Reform Society is an organisation of Australian doctors concerned with the provision of universal, high-quality health care. We believe this should be on need and not the ability to pay. We do not represent the interests of doctors but are concerned with health care in Australia. The Doctors Reform Society has previously addressed its concerns about health and the health care delivery implications of economic globalisation and international trade agreements in submissions to the Department of Foreign Affairs and Trade and to the Senate inquiry on the General Agreement on Trade in Services and the Australia-US free trade agreement. In our submission to this inquiry we have dealt with our concerns specifically in relation to health care in Australia and the Australia-US free trade agreement. I will briefly reiterate these concerns that are dealt with in more detail in our submission.

First, I would like to address our main broad concern before discussing the specifics of the agreement. Our main objection is that health care and the Pharmaceutical Benefits Scheme are incorporated in this international trade agreement in the first place. We believe such matters as health care should not be negotiated in international trade agreements. The fundamental purpose of international trade agreements is to reduce barriers to trade. Barriers to trade in services are largely domestic regulations. Through this trade agreement Australian health care policy, including that for pharmaceuticals, will be linked to the nation with the most inefficient and inequitable health and pharmaceutical system of all OECD nations.

Again to emphasise this point, this is a trade agreement. The priority is to open up trade. Public health principles, equity and universality are not priorities. Australian negotiators and representatives of the Department of Health and Ageing are keen to emphasise that most of the agreement in relation to pharmaceuticals reflects the status quo and that changes are minor. However, this is now incorporated in a trade agreement, where the principles are vastly different from the underlying objectives of the PBS and are open to further discussion and negotiation and possible dispute resolution in a trade tribunal. Previously, policy decisions on the PBS occurred under Australian guidelines with public health principles and the welfare of the Australian people at heart.

The concerns in relation to the PBS may be more apparent and have rightly received attention, but we have other concerns in relation to health care that may not be as apparent and are buried in the services section, chapter 10 and annex II. As you know, the Australia-US free trade agreement is a 'top down' agreement using a negative list approach: any service not explicitly

excluded automatically comes under the terms of the agreement. Thus the issue of clearly defining exclusions is crucial. We do not believe that health care is unambiguously excluded, and it may consequently become open to market forces and US style corporatisation. Health insurance has not been excluded, so it will come under the full obligations of the agreement. There is grave concern about how Medicare—Australia's universal health insurer through the HIC—fits into this picture.

I will summarise the main concerns that the DRS have on the specifics of the agreement in relation to health care, which are outlined in our submission. First off, public services are not protected from the market thrust of the agreement. Article 10.1(4), for the exclusion of government services, reiterates the contentious article 1(3) of the GATS. Another concern is that health care is not unambiguously excluded and thus may become open to market forces.

We are concerned that health professional qualifications, licensing and standards within health facilities are not to be—and this is quoting from the agreement—'unnecessary barriers to trade' and are to be 'not more burdensome than necessary'. The US government and pharmaceutical companies will have greater influence over the functioning of the PBS, which will compromise public health principles and the price control capacity of the Pharmaceutical Benefits Advisory Committee.

The introduction of the 'independent review process' of negative Pharmaceutical Benefits Advisory Committee decisions will lead to greater pressure on the PBAC to approve more expensive drugs even when they may not give any significant advantage over drugs that are already available. The creation of a medicines working group with the US government will be another mechanism for the US pharmaceutical industry, through their government, to continue to pressure the Australian government to make further changes to pharmaceutical policy that would lead to greater profits for the US industry.

The increased patent rights for pharmaceutical companies will delay the entry of new generic drugs onto the market from the generic industry, maintaining higher prices for longer and thus higher costs for the PBS and ultimately the Australian people. Also, there is the possibility of the beginning of direct-to-consumer advertising of pharmaceutical drugs through the inclusion of a clause on Internet direct-to-consumer advertising. This may open up direct-to-consumer advertising for further discussion and negotiation under trade priorities rather than on public health merits. There will be opportunity for further pressure from pharmaceutical companies. What is considered necessary to protect human life or health, whether a particular health service is a social service for a public purpose, public health measures such as tobacco and alcohol control, and pharmaceutical policy will be open to interpretation by trade dispute panels whose priority is not public health but reducing trade barriers.

To conclude, the DRS believes there will be profound, long-term effects on the Australian social fabric and national democratic processes from this agreement. These have not been taken into account by economic modelling. We believe these greatly outweigh any possible economic benefits. As Professor John Quiggin from the University of Queensland has said, in these integration agreements—rather than free trade agreements—the smaller, less powerful nation integrates or adopts the economic and social institutions of the larger, more powerful nation. I do not believe this is in the interests of the Australian people, especially in relation to health care.

For these reasons, the Doctors Reform Society does not believe the Australia-US free trade agreement should be accepted.

CHAIR—Thank you very much, Dr Schrader. The first dot point of your submission says:

Public services are not protected from the market thrust of the agreement ...

In your submission, you talk about annex II, which contains exclusions for social services including health care, with an exclusion saying:

Australia reserves the right to adopt or maintain any measure with respect to the provision of ...

And it goes on:

... to the extent that they are social services established or maintained for a public purpose—

and that includes health and child care. Surely there would be no question at all that Medicare would come firmly and squarely within that definition.

Dr Schrader—In Australia there is a close interaction between the private and public delivery of health services.

CHAIR—But you mentioned Medicare.

Dr Schrader—Yes, Medicare and the funding of public hospitals. Sometimes public hospitals charge private patients. Sometimes they are promoted as being in competition with private suppliers. Sometimes public hospitals buy in private services. In Australia there is such a complex interaction between public and private that it is very difficult to delineate what is purely a ‘social service established or maintained for a public purpose’. In the United States they interpret this quite differently. As I mentioned in my submission, there have been differences in US and Canadian interpretations when the same wording has been used in the North American Free Trade Agreement.

CHAIR—Do you believe there is anything in this free trade agreement which would affect the Commonwealth government’s ability to run Medicare or the state and territory governments’ ability to run their public hospitals?

Dr Schrader—I think it is open to interpretation. That is the scary bit.

CHAIR—Okay. The second thing I wanted to ask is about the Pharmaceuticals Benefits Scheme. We are maintaining the Pharmaceutical Benefits Scheme, the Pharmaceutical Benefits Advisory Committee and the Pharmaceutical Benefits Pricing Authority. Do you agree with that?

Dr Schrader—Maintaining it, yes.

CHAIR—Yes, we are maintaining it. We are introducing review mechanisms and consultation processes. Is there anything wrong with that, per se?

Dr Schrader—I think the problem is that it is being done with another country and it is coming under trade guidelines, where the principles are quite different from the guidelines and objectives that are stated for the PBS. Yes, maybe there are areas that are open for improvement, but I do not believe that should be done in a trade agreement; it should be done under public health policy guidelines.

CHAIR—So a review mechanism is okay if we do it but it is not okay if the United States asks for it.

Dr Schrader—No, not necessarily. I think we should determine this by Australian guidelines. And a review process has been rejected previously in the Tambling review—I think I mentioned that in my submission as well. They said it was unnecessary to have a review process. Maybe at some later stage a review process is an option, but I think that should be under Australian guidelines not within a trade agreement with the United States. As I said, they have the worst pharmaceutical system of OECD countries.

CHAIR—Sure, but we are not adopting the American pharmaceutical system; we are keeping the Australian pharmaceutical system.

Dr Schrader—We are negotiating aspects of our pharmaceutical policy and guidelines with the United States. We are discussing it in this medicines working group.

CHAIR—Okay. If the free trade agreement were to be ratified, are there any conditions you would like to see on the appeals process or for prior consultation and so on?

Dr Schrader—I just do not think it should be there.

CHAIR—Thank you. Mr Wilkie?

Mr WILKIE—I am right at the moment. The submission speaks for itself.

Mr CIOBO—Has the Doctors Reform Society always been known as the Doctors Reform Society?

Dr Schrader—Yes.

Mr CIOBO—You were never Doctors for Labour when you were originally instituted?

Dr Schrader—No.

Mr CIOBO—All right. With respect to a number of points you have made in your submission, I note in particular in your introductory comments you say, ‘Public health principles, equity and universality will not be priorities.’ Why do you say that?

Dr Schrader—It is a trade agreement, and the main priority in a trade agreement is to reduce barriers to trade. If you read the principles in annex 2-C, Pharmaceuticals, you can see that they are basically to reward innovation and research and development by pharmaceutical companies. It is not under public health principles or equity. Universal access is not even mentioned.

Mr CIOBO—Do you disagree with the two principles that you just read out from annex 2-C?

Dr Schrader—It is very unbalanced. This was never the priority of the Pharmaceutical Benefits Scheme. It was not about rewarding innovation.

Mr CIOBO—What is the problem with rewarding pharmaceutical companies that expend large amounts of money on research and development in pursuit of new drugs and new ways of treating illness?

Dr Schrader—I will just read something to you from the submission. It says that the objectives of the Pharmaceutical Benefits Scheme are ‘comprehensiveness, universality and responsible community cost’. So the idea is to get value for money in what you are getting. It is not about rewarding research. The companies do their research and produce their products, then it is balanced up with the question of whether we are getting value for money—for example, whether the difference a drug makes is worth the cost; how much money we are prepared to pay; how much money we have to pay; and what is our best value for buying for the Australian community. That should be the priority, not rewarding pharmaceutical companies.

Mr CIOBO—That is the point of the objectives of the PBS, but I guess my question goes back to the FTA. What is wrong with the principles that are outlined in the FTA?

Dr Schrader—I think it is wrong to have those principles in where it is discussing the PBS. Maybe that should be in a separate area that is just about trade or whatever. But when we are discussing the Pharmaceutical Benefits Scheme, which is providing affordable medicines for Australians, I do not think we should be talking about rewarding extremely highly profitable pharmaceutical companies.

Mr CIOBO—So we should not be seeking to list on the PBS innovative new drugs, recognising that there is a commercial cost associated with that?

Dr Schrader—No, I am not saying that, if they have a place and have been shown to be value for money.

Mr CIOBO—My point, though, is that the FTA is about the latter—that is, to try to provide Australians access to innovative new drugs, a plethora of which are appearing on the market place.

Dr Schrader—I did not know it was that.

Mr WILKIE—They have that anyway!

Mr CIOBO—Given that that is part of what the FTA’s objectives are, what is the problem with that running in parallel? I get the impression that you are saying they are mutually exclusive and not running parallel with domestic policy considerations that relate to, for example, the PBS or, indeed, our public health system.

Dr Schrader—I do not see why you need to have market issues like that in relation to our public health policy.

Mr CIOBO—But aren't you really losing touch with the way our public health system works? Does it not in fact operate along the structure where we have, in fact, public health policy that is built upon a market environment? The reality is that you have drugs that are listed on the PBS and are put there through a commercial market environment. If you do not accept that, will that not in fact jeopardise the ability of Australians to have access to commercially placed drugs on the list?

Dr Schrader—I think that the PBS actually works very well in market situations in that case—it works as an informed consumer buying medications or drugs. It has monopsony power to buy, so it is actually working well in the market. It is doing the cost-value analysis and asking whether they are value for money. So it is being the informed consumer and saying, 'This particular drug is not particularly worth it—it doesn't give us much value over what is already available.' I think it is already working under those market principles in quite an effective way. I think what the US system is wanting to do is bring in quite a protectionist system for their pharmaceutical industry, especially in the area of patents.

Mr CIOBO—Is that because of the extensions that are sought to patents?

Dr Schrader—Yes.

Mr CIOBO—But doesn't that bring Australia into line with the patent system that operates around the world?

Dr Schrader—No, I think the US is higher than what is prevalent. I am not an expert in this area, but I believe that it is TRIPS-plus and that the US has one of the strongest patent regulations in the world.

Senator MASON—You say in the third paragraph of your submission:

The DRS believes the market ideology of trade agreements is a threat to universal health insurance schemes like Medicare, the Pharmaceutical Benefits scheme and public health principles.

Do you think that free trade on the one hand and public health on the other are necessarily in opposition or antagonistic?

Dr Schrader—No, but I suppose that depends on your definition of free trade—free trade, fair trade or preferential trade. So, no, I do not believe they are necessarily antagonistic. But the way that has been propagated—through economic globalisation principles—is, I think, a threat to health and public health principles.

Senator MASON—So you would not say that free or freer trade necessarily—

Dr Schrader—Or fair trade.

Senator MASON—Free trade—the lowering of tariff barriers. Let me define it. It is either the extinction or diminution of tariff and non-tariff barriers to trade. Do you think that is necessarily in opposition to—

Dr Schrader—Not necessarily, but that is not my area of concern. I am interested more in services. The barriers to trade in services such as health care delivery are domestic regulations. That affects domestic policy, and that is my area of concern.

Senator MASON—I wanted to make that clear, because it would be very unusual to mount an argument that free or freer trade, which has certainly increased the amount of wealth in the world, is somehow in opposition to public health.

Dr Schrader—It also depends on the distribution of that wealth.

Senator MASON—Yes, but that is another issue. If you were to argue that, I would have thought that the credibility of your argument would take a dive somewhat. But you are saying, 'Not necessarily,' and I think that is wise. You conclude your submission by saying:

The DRS believes any potential benefits for Australia from the AUSTFA are outweighed by potential costs to the community.

This gets back to your 'not necessarily'. We have heard evidence over the last couple of days in Canberra about the potential economic benefits to Australia of the free trade agreement. The Centre for International Economics gave evidence yesterday. They concluded:

... the most probable range of estimates indicates that there is a 95 per cent chance the extra welfare of Australians could lie between \$1.1 billion and \$7.4 billion per annum in 20 years time once all liberalisation and effects have worked through.

These bounds were indicated in chart 3 of their submission. I do not want to mislead the committee, but I think it is fair to say they think it is most likely to be worth around \$2½ billion to \$3 billion per year to this country. Are you honestly suggesting that that sort of benefit to the community is outweighed by the potential costs that you have outlined to the chair and Mr Ciobo? It is a lot of drugs, a lot of health care.

Dr Schrader—I am not an economic expert on this, but I think a lot of things may not have been taken into account in that report; this is the thing in economic modelling. I think the Pharmaceutical Benefits Scheme section in that report was very superficial; it brushed over the big issues. It said: 'We are not sure what is going to happen. But we think that if something does happen it will be minimal, so we'll leave it out.' That is a basic summation of it. In the first section of the report they said that one of the reasons for the rising costs for the PBS has been aggressive marketing by the pharmaceutical industry. But they totally disregarded that in their assessment that this aggressive marketing would have any effect through the pharmaceuticals section in the agreement. So, just on that point, I feel quite unsure about this assessment in that a lot of things may have been left out of the social section.

Senator MASON—Let us assume, like economists do, that they are right and that there is a 95 per cent chance that the benefit will be between \$1.1 billion and \$7.4 billion per annum. That is worth tens of thousands, if not hundreds of thousands, of jobs. That is the evidence.

Dr Schrader—I think this is hypothetical again.

Senator MASON—That is the best evidence we have received thus far. Do you still believe the potential costs to the community outweigh that?

Dr Schrader—I would like to see it all weighed up.

Senator MASON—Assuming that is right, do you stand by your conclusion?

Dr Schrader—I do not assume that is right.

Senator MASON—Assuming that is right, do you stand by your conclusion?

Dr Schrader—There are a lot of things that have not been taken into account, and I do not think economic modelling—

Senator MASON—You are not going to give me a yes or a no, are you?

Dr Schrader—No.

Senator MASON—I did not think so. Okay.

Mr WILKIE—I want to make a quick comment about the economic modelling. Professor Garnaut, a leading economist, made the comment the day before yesterday that he believed that the economic modelling done by CIE did not meet the laugh test. In other words, if you looked at the modelling and the predictions and you did not burst out laughing you might believe it had some credibility. He cracked up when he first read it, so he said it did not pass the laugh test. Mr Cutbush, who also is a well-known economist, made the comment that, while he would not support the view about the laugh test, he thought it certainly raised a few eyebrows, because he did not believe that there was any economic benefit. In fact, if you took into consideration a number of factors, the net benefit was—

Senator MASON—Mr Wilkie, that is a gloss on the evidence. Neither of them said we should not enter into the agreement.

Mr WILKIE—You have to quote the evidence.

Senator MASON—Neither of them said that. That is misleading the witness.

Mr WILKIE—I allowed you to make your comments. I am just quoting from other witnesses.

Senator MASON—That is wrong, though. That is a gloss on them which is incorrect. Neither of them said we should not enter into the agreement.

Mr WILKIE—The view there was that there was a zero dollar net benefit overall.

Senator MASON—None of them have said that. How many have said that? How many of the economists have said to you—

CHAIR—Senator, we will let Mr Wilkie finish his question.

Mr WILKIE—The view was also expressed that the Productivity Commission should have been the commission to do a full study, taking into consideration a whole range of different factors over a longer period in order to give us a very accurate and comprehensive study about what the benefits or negatives were for Australia.

Senator MASON—It is my prediction that the Labor Party will support this agreement. You watch: Mr Wilkie will vote for it in the House of Representatives.

CHAIR—Okay, Senator Mason.

Mr WILKIE—It is all right. We will give him a Valium later.

Dr Schrader—I am not used to parliament. Was there a question?

Senator MASON—No, there usually is not.

Senator MARSHALL—One of the issues which you raised—if I heard you correctly; correct me if I am wrong—which I am interested in exploring was the fact that the Medicare system itself may be regarded under this agreement as a private insurer and therefore come under a different regime than it does now. Was that what you were indicating?

Dr Schrader—There are question marks. Health insurance has not been excluded and there has not been a clear statement that a public, universal supplied system—like the Medicare system—is explicitly excluded. I do not know, but it is not clear. Because health insurance is not excluded and it does not mention that Medicare is excluded, there is that possibility there.

Senator MARSHALL—I thank you for your submission because it raises many of the concerns that have not been satisfactorily answered to date. That is certainly one of my concerns, too, because this agreement has been described by another economist as a living document. Certainly in terms of the PBS and our public health system I for one really want to know before making a recommendation what a living document actually means and where that might lead us, so we know what we are agreeing to or what we are not agreeing to. That is one of the issues. Have you raised the questions that you have raised in this submission directly with DFAT?

Dr Schrader—There was a meeting with the Department of Health and Ageing. That was basically on the Pharmaceutical Benefits Scheme. I raised with Stephen Dady the question of how health services will be defined because there is a question mark there. But I have not raised them directly with DFAT since the agreement has come out. I did have meetings with DFAT prior to that.

Senator MARSHALL—Are you saying to us that, based on the information that has been provided and based on what you have heard about the agreement, these questions still remain unanswered as far as the Doctors Reform Society goes?

Dr Schrader—Yes.

Senator MARSHALL—If there is nothing to worry about, those concerns ought to be able to be addressed quite simply and easily by the department to everyone's satisfaction. Is the other thrust of your argument about what the PBS system is actually doing in a trade agreement? If the PBS is to do with public health, why hasn't it been excluded altogether and why does it for some reason have to be mentioned in the trade agreement? Because it has not been excluded, why is it actually included in the agreement?

Dr Schrader—This applies to other international trade agreements as well. We believe that health care should be excluded from international trade agreements and that the health care should be self-defining—that a nation can define what it considers to be health care itself and that it is not up to a trade tribunal to decide this.

CHAIR—Would you like to add to the comments on professional qualifications and standards? I have had a look at this chapter. I do not see anything for Australia to be concerned about here. Perhaps you would like to elaborate.

Dr Schrader—Yes. I am considering it under the domestic regulations article in chapter 10, which is the chapter on services. I am just trying to find my reference to it: Professional Qualifications and Standards. This does not come under the specific one on professional qualifications, but it is under article 10.7, Domestic Regulation, which is similar to that in the GATS. The bit that is important is that the measures should be:

... not more burdensome than necessary ...

The articles states:

...that measures relating to qualification requirements and procedures, technical standards, and licensing requirements do not constitute unnecessary barriers to trade in services—

and, as I was saying, they should not be more burdensome than necessary. The fact is that that is in this trade agreement again and whether some qualification is not more burdensome than necessary, and the definition of what is 'necessary' as well, will be decided by a trade tribunal. They often say that it has to be the least trade restrictive, so what a trade tribunal considers to be the least trade restrictive can be quite narrow.

CHAIR—Do you believe that if it is just looking at something like an ability test or whatever, like the AMCE—for example, if the requirement for qualification for an American graduate in Australia or an Australian graduate in the United States is likely to be a language and professional aptitude sort of test—surely that is not going to meet the definition of being unduly restrictive to trade?

Dr Schrader—The fact is that, whatever the measure is, it is going to have to be this 'not more burdensome than necessary' and it has to be decided by a trade tribunal if there was a dispute about any qualifications or standards within health facilities as well which may come up.

CHAIR—I would like to thank you very much for your attendance before the committee today. I also did notice in your submission that you talked a little bit about tobacco control in the context of the US free trade agreement. You might not be aware, but at the moment the

committee is looking at the WHO Framework Convention on Tobacco Control. It is on our web site and if you would like to make a submission on that you are very welcome. I am just touting for business there.

Dr Schrader—Just before I finish, I wondered if I could submit a paper that I gave to a pharmaceutical conference last year. It was before the agreement was released, but I think some of the points in that are still fairly relevant.

CHAIR—If you table it, we will accept it as an exhibit to the inquiry.

Dr Schrader—I table this document.

CHAIR—There being no objection is, it is so ordered.

[12.01 p.m.]

TEMPLETON, Ms Theodora Wendon, Publications Secretary, WTO Watch Queensland

CHAIR—On behalf of the committee I welcome you and 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. I invite you to make some introductory remarks before we proceed to questions.

Ms Templeton—Thank you for the opportunity of appearing today to give evidence. WTO Watch Queensland is a grassroots community organisation which has grown out of concern among members of the community about where the neoliberal policies of successive governments and unquestioning faith in the ability of the free market to deliver wealth and wellbeing to the majority of the people and a complete acceptance of the policies of free trade as embodied in the World Trade Organisation are leading us. WTO Watch Queensland has no political connections. We put out a regular Internet bulletin dealing with issues related to trade and globalisation, which circulates widely around Australia.

One of our other activities is holding information stalls. We see our core business as stimulating debate about trade and globalisation issues within the community. As well as circulating our bulletin we hold information stalls at every opportunity whereby we talk to a large number of ordinary people on trade issues. We found a significant lack of knowledge among ordinary people about trade generally and trade agreements in particular, but the exception to this rule is the Australia-US free trade agreement. We have had a number of information stalls lately and we have found that there is a very high level of knowledge about the Australia-US free trade agreement and precious little support. People regard it as a lopsided agreement which clearly favours US interests over Australian interests.

I must mention at the outset concerns which have been rattling around for a while about the transparency and accountability of these trade agreements. I am sure the committee is aware that the Senate Foreign Affairs, Defence and Trade References Committee recently conducted a very wide-ranging review into the GATS and the US-Australia free trade agreement. They brought down their report in November 2003 and made a number of recommendations about the way these trade agreements should be dealt with by the parliament. They are outlined in my submission, but basically they are asking that prior to any negotiations beginning the government should table a document in parliament setting out the aims of the negotiations, including comprehensive information about the economic, regional, social, cultural, regulatory and environmental impacts which are expected to arise. These documents should then be referred to a Senate committee, which would hold public hearings, accept submissions and report back to parliament within 90 days. Both houses of parliament should then consider this document and decide whether to proceed with negotiations. Once parliament has endorsed the proposal negotiations may begin, and once the negotiation process is complete the government shall then table in parliament a package including the proposed treaty together with any

legislation required to implement it. The treaty and the implementing legislation would then be voted on as a package either up or down.

That is the process that occurs in the United States, and it is the process that I believe we sorely need in this country. The way trade treaties are dealt with at the moment totally bypasses the democratic process. It would stimulate public debate. It would also stimulate media debate about these treaties, and that is very important. The reason there is knowledge about this particular treaty in the community is that there has been significant media debate about it.

Not being an economist, I briefly deal with assessment in my submission and comment on the original CIE study which found benefits to Australia of 0.3 per cent or \$US2 billion after 10 years. If you sit down and work that out, it translates to \$26.05 for every man, woman and child in Australia. I venture to suggest that this might not even cover the increased cost of pharmaceuticals. I note that the new report is out, and I note also that the benefits have gone up to some \$6 billion after 10 years, which is scarcely credible. The original report assumed that most, if not all, barriers to trade would be removed, especially in agriculture. We now know that very few—certainly not most—barriers to trade in agriculture have been removed, and agriculture is the sector in which we are most competitive. As far as WTO Watch is concerned, the current CIE study does not pass the laugh test. Two other studies done at the beginning of the negotiations found slight losses, largely due to trade diversion. It should also be noted that Australia currently has a \$9 billion trade deficit with the US. I will comment more on that later.

Australia has long been a supporter, as was commented on before, of the multilateral trade system. Successive governments have judged it to be in Australia's best interests to support this multilateral system because as a medium-sized trading power we do not have the clout of some of the bigger trading powers such as the US and the EU. It has been judged that better gains are likely to be made for this country through the multilateral system.

Article 1.1 of the Australia-US free trade agreement says, among other things, that this is a free trade agreement consistent with the obligations that all parties have accepted in the World Trade Organisation. Quite simply, this is incorrect. The WTO is not against regional and bilateral agreements, but it does set some rules about them. The two major rules are that these agreements should be comprehensive and cover all of trade and that the phase-in times must be reasonable. Quite clearly, the Australia-US free trade agreement fails on both counts. The lead-in times of 18 years for beef and 11 years for wine, among other things, are certainly not by any stretch of the imagination reasonable, nor does it cover all of trade; significant sectors are left out. This leads to two considerations. Should our fellow members of the WTO decide to challenge, we would have no defence if they claimed the same advantages that we have granted to the US under this agreement. That is something that needs to be taken into consideration. The fact that the WTO has not ruled that this agreement is legal means that the WTO is in trouble at the moment. But that should not leave us with a sense of complacency.

General concerns include that this agreement gives unprecedented access for the US into Australian domestic policy making. The agreement sets up three committees: one dealing with quarantine, one dealing with technical matters such as food labelling and another dealing with medicines. This gives US officials direct access into Australian policy making. The stated purpose is to facilitate trade and to resolve with mutual consent, in the case of agriculture, matters dividing the countries. WTO Watch Queensland believes that it is quite outrageous that

we have agreed to the setting up of these committees and have agreed to this level of American input into our domestic policy making.

We also note that the Department of Foreign Affairs and Trade has stated on numerous occasions and with some vigour that our quarantine laws will not be traded away. Yet shortly after the text of agreement was released Biosecurity Australia announced a new draft import risk analysis which makes it easier for entry to Australia for products of interest to the US. Our GM labelling laws have wide support and the PBS is the envy of the rest of the world. American negotiators made no secret of the fact that these were areas that they were targeting in the negotiation. They now have a foot in the door through these committees which have been set up.

Of more concern to the NGO community is article 8.7, which states that the Australian government will recommend that Australian non-government bodies should also let the US government representatives have the same rights as Australian citizens to participate in Australian NGO processes for developing standards in Australia. I will leave the reaction of the NGO community to the imagination of the committee.

The dispute process in the agreement contains all the faults of the dispute process of the WTO, which has been one of the main planks of disagreement. The NGO community across the world—not just in Australia—has vigorously criticised the dispute process of the WTO, which is secretive and non-transparent and which decides matters of great importance to countries purely on the basis of trade and not taking into account considerations relating to health, the welfare of the people or the environment.

The negative list of the US-Australia free trade agreement is of enormous concern. Negative list agreements are full of hazards. All laws and policies relating to services and investment are covered unless they are excluded. So any nonconforming policy that the government wishes to preserve must be listed, otherwise it has gone. If you do a short trawl through the WTO disputes progress under the GATS—the General Agreement on Trade in Services—there are a number of disputes which will illustrate the hazards and the pitfalls of a negative listing approach. I would be happy to go into those later if the committee should so desire.

Public services have been covered largely by the previous speaker. But the Foreign Affairs, Defence and Trade References Committee, during its taping of public evidence, noted extraordinary concern among members of the community and NGOs about the definition of public services contained in the GATS and the requirements regarding domestic regulation. On page 69 the committee reports:

It is clear that there remains a significant level of concern about the potentially broad-ranging impact of the GATS on public services. Reassurances that all Members of the WTO are certain of the meaning of the Article 1.3—

which is the same definition as that which appears in the Australia-US free trade agreement—

may mean that it is unlikely that there will be a dispute. However, the Committee remains unconvinced that, in the event of a dispute, article 1.3 would be interpreted in the broad or inclusive way suggested by DFAT. This would mean that public services now said to be exempt from the GATS could be found to be subject to the obligations under Part II.

Exactly the same criticisms apply to the definition of public services in the Australia-US free trade agreement. This is a very contentious and ambiguous definition and WTO Watch would like to express its concern at the extraordinary way that this definition has reappeared in the Australia-US free trade agreement, despite the acknowledged huge level of community concern about it.

Under the services agreement, some services are reserved, but there are notable exceptions—water, energy and public broadcasting. In sectors which are reserved the government may create new regulations in the future. If sectors are not listed under the reserved sectors then regulation is at a standstill; no government regulation is possible in the future. This should be of major concern with water, because a market in water licences is developing on the Murray River. Should the government decide at some point in the future that it would be desirable for those licences to be held by local landholders that regulation will be challengeable under the Australia-US free trade agreement. There are also big implications for energy insofar as regulation to reduce the use of fossil fuels and global warming is concerned.

Investment is a particular area of concern. With the increased level of review to \$800 million, most US investment over the past three years would have exceeded this amount. The main point about it is that the Foreign Investment Review Board has not knocked back many applications but it does uphold requirements which ensure that any incoming investment operates in the national interest. That will be lost and that will be extended to Japan and New Zealand by virtue of the treaties we have with them. On manufactured goods, why are 97 per cent of Australian manufacturing exports to the US duty free whereas 99 per cent of US manufacturing exports to Australia are duty free? I note that included in the three per cent of Australian exports which are not duty free are ferries, which remain subject to duty—because, dare I suggest, Australia happens to be very good at making ferries.

I note that the CIE report states that most textiles will have no duty-free access because of the USA's yarn forward rule. The effect on the car industry and the car components industry as a result of the immediate lifting of tariffs will almost certainly cause huge job losses in regional areas. As far as audiovisual services go, WTO Watch supports the submission of the Media, Entertainment and Arts Alliance. The previous speaker has dealt with pharmaceuticals. Changes to copyright law will increase costs to education facilities.

On government procurement again, the Australian government has deliberately not signed the WTO's transparency in government procurement agreement because it has been judged to be in Australia's interest for governments to have the flexibility to encourage regional development by imposing requirements on foreign operators in this country. But now that we have signed up to this, in the government procurement agreement under the Australia-US free trade agreement there will be huge pressure on Australia to sign the WTO's agreement as well. It should be noted that in America only 26 states have agreed to sign up to the government procurement agreement, and some states in Australia—I believe Queensland is among them—are still considering whether they will accept this. Public Citizen, a high-profile NGO in the US, has mounted a big campaign to persuade the 26 states in the US to change their minds about government procurement in this and other agreements.

It is all in my submission, so it is not my intention to go into the agricultural side of things except to say that if developing countries in the forum of the WTO were to suggest that they

needed 18 years to phase in competition to their agricultural markets they would quite simply be laughed out of town. I note that DFAT states that single-desk marketing will stay. The US trade representative said that this arrangement will be negotiated away through the WTO. But I note with pleasure that a decision has just been made in the dispute between Canada and the US on single-desk marketing and the single-desk marketing regime in Canada has been upheld. I note that the *Age* has estimated that, even after all the phase-out periods in agriculture are over, a quarter of Australia's agricultural exports will still be subject to tariffs or quotas. I also note that US agricultural exports to Australia valued at \$400 million will receive duty-free access to Australia as at the date of effect of the FTA.

In conclusion, this is not a free trade agreement, it is not legal according to WTO rules and it is not in the benefit of Australia or Australia's citizens, and I very strongly urge the committee to reject it.

CHAIR—Thank you, Ms Templeton, for your submission and for your opening statement. What is your view of the actions of Public Citizen?

Ms Templeton—In America, jobs are a very big topic at the moment. Jobs are a huge topic. There have been over 100,000 jobs lost in manufacturing in the US as a result of US companies moving offshore in the last few years, in fact since the Bush administration began.

CHAIR—Okay. You have mentioned that Public Citizen's campaign is to persuade US states to withdraw from the agreement which would allow Australian individuals or companies to provide government procurement services to United States states.

Ms Templeton—Not just in relation to this agreement but in relation to the other agreements which the US has signed with Central American states.

CHAIR—How you feel about that?

Ms Templeton—I think there is a quid pro quo in all these trade agreements. If we have access to the American government procurement market then they have equal access to ours and we give away the right to put strictures on how that investment will be used. We can no longer put local content requirement on it, we can no longer demand transfer of technology and we can no longer require that inputs be sourced locally. So it is a quid pro quo, and I think Public Citizen is approaching it from the American perspective just as WTO Watch Queensland is approaching it from the Australian perspective: jobs, jobs, jobs.

Mr WILKIE—You mentioned job losses in the car industry. That is a very sensitive area for Australia. Can you expand on that?

Ms Templeton—I cannot give you any major details because it is not my area of expertise, but the Productivity Commission recently did a study on the car industry in Australia. I think I have outlined it somewhere in my submission. It found that a large percentage of workers in the car industry are men over 35 from non-English-speaking backgrounds. A large part of the car industry occurs in rural and regional areas such as Mount Gambier, Ballarat, Geelong and Toowoomba. There has been tacit, if not open, acknowledgment that the car industry has needed to be protected, otherwise those remaining tariffs would have been removed some time ago.

Once they are removed one can only assume that there will be big job losses in those areas. But the fact that this agreement is being pursued with no regional studies done on the possible employment effects is a fairly major criticism of the process.

Mr WILKIE—You mentioned that we do not have a free trade agreement but there is an agreement there. Can you expand on why you believe it is not a free trade agreement?

Ms Templeton—It is not a free trade agreement because it does not cover all of trade. A free trade agreement is an agreement that covers all of trade—for example, 97 per cent of our manufactures and 99 per cent of American manufactures. There are serious limits on the market access of our agricultural produce to the United States. There is some access for beef, dairy and lamb, but things like pears, garlic, peaches, apples, onions, tomatoes, apricots, orange juice and grapefruit have no access at all. It certainly does not cover all of trade.

Mr WILKIE—It has been put to us that a free trade agreement does not need to cover all trade, it just needs to cover substantial areas of trade. I am interested in your views on that.

Ms Templeton—I am only quoting WTO rules. This information that I have about compliance with the WTO comes from an article by Colin Teese, a retired GATT negotiator and former Deputy Secretary of the Department of Foreign Affairs and Trade. In an article which appeared in *News Weekly*, he calls the US-Australia free trade agreement a ‘monumental folly’. He says that, on the basis of the comprehensiveness of the agreement and the fact that the phase-in periods are quite extreme, on those two counts, this agreement is not legal according to WTO rules and could be challenged.

Senator MASON—Is WTO Watch Queensland like a trade watchdog?

Ms Templeton—Yes.

Senator MASON—Leaving aside the US free trade agreement for a second, what trade agreements that Australia has entered into in the last 10 years have you opposed?

Ms Templeton—WTO Watch do not oppose things per se. We seek to educate the public on trade agreements and stimulate debate. This is what we do in our Internet bulletin. We include articles from the WTO, NGOs and notable world leaders in opinion. We include various opinions on globalisation. We seek to educate and stimulate debate.

CHAIR—But you do oppose the proposed Australia-United States free trade agreement?

Ms Templeton—I do indeed.

Senator MASON—Let me ask again: what other treaties over the last 10 years have you opposed?

Ms Templeton—The treaty of most concern recently has been the GATS, which has been opposed not just by WTO Watch but by a huge number of ordinary people and very respected NGOs across the world, including Community Aid Abroad and Oxfam. As I outlined in my

submission, the complaints about the GATS are precisely those which are reflected in the Australia-US free trade agreement.

Senator MASON—Have you opposed any other bilateral treaties?

Ms Templeton—No. I have taken no part in the New Zealand one or Singapore one.

Senator MASON—So is the GATS the only one you can think of in the last 10 years?

Ms Templeton—Our main focus has been on the WTO treaties.

CHAIR—So the New Zealand free trade agreement, the Singapore free trade agreement and the proposed Thailand free trade agreement are okay?

Ms Templeton—I have not looked into the Thai free trade agreement. The CER with New Zealand happened long before I became interested in the trade debate and, due to the fact that this is all done in my spare time and I have to earn a living, there is a limit to how much I can do.

CHAIR—But it is a reasonable question. The Australian government can enter a free trade agreement with Singapore but a free trade agreement with the United States is really bad?

Ms Templeton—There is a very big difference in magnitude. The comments by Professor Quiggin are very relevant.

CHAIR—But that has both an upside and a downside. It means that it is free trade with a very large, dynamic economy as well.

Ms Templeton—If it were free trade it could possibly be a subject for debate. It is not free trade. Australia went into this agreement saying we wanted market access.

Senator MASON—So it is not sufficiently free for you? You are saying that if the US free trade agreement was freer you might support it.

Ms Templeton—No. I am not necessarily saying that. I think there is a big question mark hanging over a lot of the ideology of trade liberalisation.

Senator MASON—We will get to that in a second. You argue on the first page of your submission:

The secrecy which attends the negotiation of trade treaties is a major problem for members of the community.

Ms Templeton—Indeed.

Senator MASON—As I understand it, treaties that are negotiated are placed on the Department of Foreign Affairs and Trade web site. What is your concern? Do you mean that during the process of negotiation there is secrecy? What is your concern with secrecy?

Ms Templeton—The whole process is probably reflected in the comments from the Foreign Affairs, Defence and Trade References Committee report on how these agreements are dealt with. Before the negotiations even begin there needs to be public debate, public information and media debate about what the objectives of the agreement are, how they will be achieved, what the impacts will be on welfare, environment, employment, rural development and regional development. All this information needs to be out in the public domain, with public and media debate. This has happened to some extent with the Australia-US free trade agreement and it is reflected in the higher level of knowledge amongst members of the community. With other trade agreements it does not happen.

Senator MASON—I asked you because, as you said in response to my first question, you are a trade watchdog group, yet you mentioned one treaty that you have opposed in the last 10 years, as well as this one, but no others. So I am just not sure what the concern with secrecy, lack of accountability and transparency is when you name only two treaties that you have opposed in the last 10 years.

Ms Templeton—Our comments about accountability and transparency apply to all trade treaties across the board and all WTO processes.

Senator MASON—Sure, I accept that.

Ms Templeton—The fact that I am a WTO watchdog does not necessarily mean that I, per se, oppose all these treaties.

Senator MASON—Let us get to that. I noticed that at the top of the second page of your submission you say:

WTO Watch Qld holds information stalls to talk to members of the general public about trade and globalisation ...

Do you take a balanced public interest view in your advocacy?

Ms Templeton—We believe we do. We believe we represent the public interest.

Senator MASON—Do you believe you are advocates for a particular view—anti-free trade? Do you believe you are an advocate for opposing globalisation and free trade?

Ms Templeton—We hope to stimulate public debate. We believe that the force of public opinion is swinging very much away from the sort of trade liberalisation that is occurring and has occurred in the past. We certainly reflect that public opinion. When you have people like the World Bank coming out and questioning the value of liberalisation, and when people of the stature of George Soros and Warren Buffett actually call for re-regulation of the international financial sector, and when you have the former trade and industry minister from Britain, after his retirement, travelling around the world and coming back and repudiating the policies of liberalisation that he enacted while in government, I think there is a very big swing against these things, and, yes, I think we do reflect that.

Senator MASON—Have you generally opposed Australia's liberalisation trade policy over the last 15 years?

Ms Templeton—I think there are big question marks hanging over it. I think that there are questions as to whether it is in our long-term national interest.

Senator MASON—You mentioned in your opening statement concern for the Third World and poor countries. In your stalls and in your advocacy do you mention that it is Third World countries that are the foremost advocates for free trade? Do you say that?

Ms Templeton—Some governments in the developing world may be advocates for free trade. I think you will find that the vast majority of the citizens who know anything about it would be very much opposed to free trade.

Senator MASON—So you do not think the citizens in Third World countries want lower trade barriers in the First World so that they can sell their goods? You do not think that?

Ms Templeton—I am certain they want that, but they are not getting it.

Senator MASON—So they do want freer trade?

Ms Templeton—They are not getting it, are they?

Senator MASON—No, they are not. They are not getting free trade because people are opposing free trade. The greatest—

Ms Templeton—People are opposing—

Senator MASON—Let me put the question to you directly.

Ms Templeton—They are not getting free trade because the developed countries, like the European—

Senator MASON—In your role as an advocate, in the stalls that you hold around Queensland, do you tell people that it is the Third World—nearly every country in Africa, most in Asia and most in South America—that want free or freer trade? Do you say that to people? It is the First World that has the high tariff barriers. It is the European Union that keeps out African farmers and manufacturers or Chinese manufacturers, and it is the United States that keeps out the Third World. Do you tell people on the streets of Brisbane that the Third World needs free trade? Do you tell people that?

Ms Templeton—If the question came up, I would probably say that the Third World is being very disadvantaged by the current trading system, which is totally unfair for the very reasons you mentioned. I would also point out that there is an elite in all the developed countries which thinks that free trade is a wonderful thing because they benefit. There is also a vast mass of people represented by people like Vandana Shiva, Arundhati Roy in India, and a number of other people who represent the peasants who are being totally downtrodden and disadvantaged by the current regime.

Senator MASON—That is right—because they cannot get access to First World markets. I am hoping that you do your bit to advocate for the freeing up of First World markets for Third

World goods. I hope, Ms Templeton, that you do that, as someone who believes in social equity and social justice. Without that, your mission is a lie. Does anyone want to debate that?

Ms Templeton—I would love to.

CHAIR—We will now move on to Senator Marshall.

Senator MARSHALL—I hope you do not take Senator Mason as a representative of the rest of the committee.

Senator MASON—So you oppose it too, do you, Gavin? Your party agrees with me, Gavin.

Senator MARSHALL—That shows how ill informed you really are about these issues.

Senator MASON—You can plant a tree then, Gavin, if you want. We look forward to your vote.

CHAIR—Senator Marshall has the call.

Senator MARSHALL—Thank you, Chair. Ms Templeton, I am pleased that you actually have read the Senate report into these issues. It was a very wide-ranging report, and it actually confirmed a lot of the things you have said—for example, that there is a lack of knowledge in the community of a lot of these issues and the impacts. I certainly support further knowledge for and debate and engagement with the community about the impacts of these agreements. That is very legitimate, and I think anyone who would suggest that it is not legitimate has a strange view of what a democracy is. They might throw the words ‘free’ and ‘trade’ around, but they ought to throw the word ‘free’ around a little bit more when it comes to our rights. So I congratulate you on that. But, to be fair, I should also say that that report was a majority report of nongovernment parties who were participating in that committee. The government did not support those recommendations that came out. I want to take you to another issue. Have you read the proposed Thai free trade agreement?

Ms Templeton—I have not looked into that at all.

Senator MARSHALL—Do you know why you have not been able to read that?

Ms Templeton—I have not had time.

Senator MARSHALL—There is also the fact that it is actually a secret. I have not been able to see it either.

Ms Templeton—Oh, okay.

Senator MARSHALL—I would like to see it. Even though it was signed many, many months ago, it is a secret at the moment. Anyone who suggests that there is no secrecy around some of these issues are rather ignorant of the reality.

The negative list issue was subject to the Senate report, and I see that there were a lot of concerns. You did not actually go to the question of future technologies or future issues. A negative list approach actually deprives future legislators, parliaments, local governments and state government of the right to regulate in the public interest, because we will have tied their hands into the future because we are talking about things that we do not know exist. For instance, if an agreement done on a negative list was done 10 years ago, before there was any recognised trade in genetic materials, we would have been severely restricted or completely unable to legislate about that trade. I think everyone in the parliament determined that that was certainly an important issue. To go back even further, prior to the advent of the Internet, we would have deprived legislators today of being able to regulate with respect to, for instance, pornography on the Internet. So I am just wondering whether you see as an issue absolving ourselves from any responsibility to consider the future, given that I do not think you touched on that issue when you talked about the negative list.

Ms Templeton—I believe I did note on the section on services that the agreement does involve Australia signing away its right to regulate future new forms of services across the board. Of particular concern, as I said, are water, energy and public broadcasting—on which we have also signed away our right to introduce new regulations for the future. I believe that should be of major concern.

Senator MARSHALL—It is to some.

Mr CIOBO—I notice that, earlier in your submission, you make some comments about the car industry. We have had some comments on the car industry from witnesses at previous hearings. The impression I got—and correct me if I am wrong—is that your concern pertains to whether or not liberalised trade will in fact lead to job losses in those areas.

Ms Templeton—That is certainly one of the main concerns. The people who are likely to lose their jobs are those who are least able, or least likely, to find replacement jobs.

Mr CIOBO—So the WTO Watch perspective would be that we should maintain tariff barriers in those areas where we could potentially suffer the pain of a more competitive US industry, for example?

Ms Templeton—Maintain tariff barriers as they are in the car industry?

Mr CIOBO—For Australia—to ensure that we protect our workers from a more competitive car industry in the US.

Ms Templeton—I think we could probably follow the United States lead on that. As far as the outsourcing of jobs in the United States goes, something like several hundred thousand IT jobs have been outsourced in the last 12 months. The US has actually moved to forbid the outsourcing of IT jobs on any government contracts. So perhaps we could follow their lead.

Mr CIOBO—Is that a roundabout way of saying, yes, that is what you would have liked to have seen?

Ms Templeton—I think the government itself has tacitly acknowledged that we need to maintain those tariffs at 15 per cent if we want to have a car and motor component industry.

Mr CIOBO—So you would have been supportive of that?

Ms Templeton—Yes.

Mr CIOBO—It appears to me that that is exactly what the sugar lobby in the United States have done. Their concern is that they are not as competitive as Australian sugar manufacturers, and that is why they walked away from the sugar component of the deal. So I take it you can completely understand their position with respect to sugar cane?

Ms Templeton—I think there is a vast difference. I gather that most of the wealth of the sugar industry is concentrated in a few Louisiana families. We are talking not about protecting the jobs of 100,000 Australian car workers but about protecting the wealth and privilege of half-a-dozen Louisiana sugar families who own most of the sugar fields in the US.

Mr CIOBO—So your evidence, if I am summarising it correctly, is that, from the perspective of the US sugar cane industry, the exclusion of Australian sugar was to protect six families, or thereabouts, in the US who control the US sugar industry.

Ms Templeton—I am not an expert, but I understand that the US sugar industry is largely owned by a small number of groups.

Mr CIOBO—It is about six groups.

Ms Templeton—It is not like our sugar industry, which has a lot of family businesses; the wealth is concentrated in a few very powerful families, entities, corporations, or whatever.

Mr CIOBO—What about the US beef industry?

Ms Templeton—I know very little about the US beef industry, but I have read reports from the American cattlemen's union, which is very concerned about the amount of Australian beef coming in and says a number of family ranches will be put out of business.

Mr CIOBO—So I assume that, in the same way that you would be supportive of the principle of protection in Australia against more competitive industries, you would be supportive of US efforts to protect their beef industry against Australian imports?

Ms Templeton—It is a vexed question. I cannot really support a system that forces countries to lower their barriers to take goods they do not want. America produces all the sugar it needs; Australia produces more than it needs. All the other countries of the world produce enough sugar for their own needs and a little bit to export. These things should be done by negotiation and not by bulldozing down the barriers through such means as the WTO. I cannot say that about this agreement because I do not think it has bulldozed too many barriers.

Mr CIOBO—I am confused. I am talking about principles. As I understand it, you are making the comment that, as a matter of principle, you would have liked to have seen protection for the

Australian car industry because we are up against a more competitive industry in the United States. Should that same principle apply in the United States against a more competitive Australian manufacturer of beef? I am just asking whether you agree with that principle.

Ms Templeton—It is a very difficult question. I would have to say yes, I do agree. I think it is up to every country to look after its national producers of whatever they produce.

Mr CIOBO—I also think that logically you would have to say yes; that makes sense to me. But what does not make sense to me is why then, in the body of your submission, you are so critical of the fact that we were unable to achieve gains in agriculture. It seems to me internally inconsistent that when all the US is doing—to use the logic that WTO Watch would apply—is protecting interests in the United States in the same way in which you would seek to have Australian interests protected along the basis upon which you have made arguments in your submission you then turn around and also be critical of the fact that we have not been able to gain access in agricultural areas.

Ms Templeton—My criticism probably reflects back on the fact that claims are made that this is a free trade agreement when clearly, by not achieving that market access, it is not a free trade agreement.

Mr CIOBO—So it is about the fact that we only achieved 97 per cent as opposed to 100 per cent? Is that the thrust of your argument?

Ms Templeton—Are we talking about beef?

Mr CIOBO—No, across the board.

Ms Templeton—Across the board, 90 per cent instead of 100 per cent?

Mr CIOBO—Free market access of 97 per cent across the economy. Is your concern that that is not 100 per cent, and is that why you are not calling it free?

Ms Templeton—Certainly according to WTO standards it is not a free trade agreement.

Mr CIOBO—But I am asking you for your opinion.

Ms Templeton—In my opinion it would not be a free trade agreement.

Mr CIOBO—Is that because it is 97 per cent and not 100 per cent?

Ms Templeton—I would question the 97 per cent; I have not seen that figure written down anywhere. The market access in agriculture is nothing like 97 per cent. There is nothing for sugar. There is 97 per cent for manufacturers—

CHAIR—It is in your submission—

Ms Templeton—whereas America has got access for 99 per cent of their manufacturers to Australia. But it is not 97 per cent across the economy—I would be very surprised if that figure—

Mr CIOBO—Do you know what the percentage is across the economy?

Ms Templeton—No, I have no idea.

CHAIR—According to the NIA, duties on two-thirds of all agricultural tariffs will be eliminated immediately, duties on a further nine per cent of tariffs will be eliminated within four years and duties on more than 97 per cent of US non-agricultural tariff lines, excluding textiles and clothing, will be duty-free from day one of the agreement.

Mr CIOBO—At the end of the day, to take it back to principles, what I am driving at is ascertaining why you say it is not free trade. Is it because, as a matter of principle, it is not the whole lot, or is it because of some other reason?

Ms Templeton—You have to look at it in terms of WTO requirements. Quite simply, it is not consistent with WTO requirements. It is not comprehensive—

Mr CIOBO—What is your concern with non-compliance with WTO guidelines? The impression I have from your opening paragraph is that the WTO is effectively corrupting public amenities, corrupting public wealth generation and corrupting public interest, and yet you seem to be bound by WTO standards. I do not understand why you place such faith in WTO standards when you seem to be undermining the WTO, full stop?

Ms Templeton—I suppose it is a convenient stick to beat people about the head with. It is true; it is fact. It is not a comprehensive agreement. The phase-in periods are unreasonable—in the opinion of a former GATT negotiator, that makes it inconsistent with WTO rules. I do not support the US-Australia free trade agreement. Obviously, I am looking for criticism of aspects of it and that is one of them. My aim is to draw these matters to the attention of the committee. Is the WTO inconsistent? I personally do not support it. I believe WTO Watch do not support it and I believe a large proportion of the Australian population—certainly the people we have spoken to—do not support it either.

Mr CIOBO—So one of your primary criticisms against the US-Australia FTA is that it is in breach of WTO guidelines, yet you as a body are opposed to the WTO and think that it as an organisation is detrimental to public interests. Is that correct?

Ms Templeton—You have to take that to its logical conclusion. It is against WTO guidelines and therefore other members of the WTO will be able to claim the same benefits that we have given to the US, and that is a very big ask.

CHAIR—I would like to ask one further question. You have said in your submission:

The job losses which will occur if this agreement comes into force ...

That is talking about the auto industry and the TCF industry as well. Are you pretty confident there will be job losses in those areas?

Ms Templeton—I really cannot comment from the position of an expert, but from a position of commonsense it would seem that, as soon as we remove those protective tariffs on our car and motor components industries, inevitably there will be closures of businesses. To suggest that our car industry can compete with the giants in the US is really stretching the bounds of credulity. If those businesses are forced out of business and closed, or whatever, then I think it is inevitable that there will be job losses.

CHAIR—Yet we had evidence yesterday from the Federal Chamber of Automotive Industries that, on balance, it would be positive for the Australian automotive industry. Would you care to comment?

Ms Templeton—I really cannot comment from any position of expertise. I most sincerely hope that they are right.

CHAIR—We also had evidence from the CIE and Dr Andrew Stoeckel. Looking at the sectoral impact, they did predict a small increase in output of the Australian automotive industry, including automotive parts, and an increase in exports to the United States—roughly about a seven per cent increase in exports and a two per cent increase in imports.

Ms Templeton—Again, I cannot comment—I have no expertise. I sincerely hope they are right.

CHAIR—Thank you very much for your attendance and your resilience today. I think the Deputy Chair just wants to make a clarification.

Mr WILKIE—I have a point of clarification on comments I made during the evidence of the Doctors Reform Society in relation to the economic modelling. I think I referred to Mr Cutbush coming up with a zero net benefit. Actually, I think Mr Cutbush came up with a negative in the original modelling that he had done on the proposed original free trade agreement before we found that we did not get the free trade agreement that we had hoped for. It was Professor Garnault, in his evidence on Monday, who did state that you would come up with gains not of \$5.6 billion but of approximately zero. He also made a statement that I believe was reported in the media. He said:

Before economists are really satisfied with any piece of econometric modelling, they put it through the laugh test. The laugh test is: can someone who knows the real world that is meant to be described by the modelling exercise look at the results and not laugh? I do not think that this exercise passes the laugh test.

He went on to talk about foreign investment and the money that was supposedly coming in. He said:

I do not think you can talk about \$4 billion, four times that and eight times that and not laugh.

Senator MASON—That means that you can vote against the agreement when it comes up. I look forward to it.

Senator MARSHALL—No, what it means is that you were wrong again, Senator Mason.

Senator MASON—I look forward to your vote as well, Senator Marshall.

CHAIR—Thank you.

Proceedings suspended from 12.53 p.m. to 3.53 p.m.

[3.53 p.m.]

HANSEN, Mr Robert Bruce, Managing Director, Peanut Company of Australia

CHAIR—Welcome. 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 these 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 Hansen—Yes, I do. First of all, thank you for allowing me to present our case. We have been involved in previous Senate hearings. We have been working on this issue since 2001. We have made several trips to Washington to try and get background information on where the free trade agreement was going in relation to peanuts. I am sure you are aware from some of the previous information that prior to 2004 we had nil access to the US market, although we could have had access had we been prepared to pay an extremely high duty. Under this free trade agreement, we would have access, as you are aware, at 500 tonnes a year, increasing by three per cent cumulatively—and free trade after 18 years.

We took the view several years ago that free trade agreements would be negotiated and that we needed to be involved to ensure that we at least had an outcome that was positive for us, which would be better than no outcome at all. We have not seen the origin rules yet—or I have not personally seen the origin rules yet—and I suspect that they will be onerous and will create difficulty for us in getting access to the US market and I suspect that the US will continue to enjoy access to our market with a reduced duty of five per cent.

I suspect we probably could have achieved more. We certainly asked for more in our original submissions. I was not consulted in the final arrangements, in the final days of the negotiations. Hopefully, the Hon. Mark Vaile did push our case hard. But I do know that Nicaraguans, under the CAFTA agreement, got a quota of 10,000 tonnes, which is considerably more than the amount that was conceded to us, and I understand from the American peanut industry that they suspect that, if there is a free trade agreement negotiated with the US, the Chinese will actually have access at a much faster rate than the 18 years that we seem to have achieved.

There are a couple of interesting recent events. It will be interesting to see what the outcome of the cotton issue between Brazil and the USA will be. Brazil won their case in the World Trade Organisation against the USA, suggesting that the current US program on agricultural subsidies is illegal under world trade agreements, and that could have an impact on the US program on a number of agricultural products. I am unsure of the impact that that would have on this free trade agreement. Secondly, whether we get any real value out of these trade agreements will depend in future on the strength or weakness of the Australian dollar in relation to the US dollar, which is true for any product. That could make the situation more volatile than it was before.

But on balance we are supportive of the agreement, because if we do not support it we will have nothing, whereas if we do support it we have something. In 18 years at least some of my children or somebody else may benefit from the arrangements. So on balance we support it.

CHAIR—Thank you very much. In your submission, you do say that the Peanut Company of Australia was a strong supporter of the negotiation of a free trade agreement with the United States. Would you care to comment on the process of consultation and the period of negotiation over last year and earlier this year?

Mr Hansen—I stated our position quite strongly to the previous Senate committee hearing on this. I put our position to Steve Deady. I had several meetings with him, face to face. I also made several submissions to him. I spoke to him several times on the phone and I was in Washington in the first week of December when he was in Washington, although I got minimal access to him at that time. I know our case is not as large as a lot of other cases, but we consider it important. So, yes, we had considerable discussion with the parties involved—on both sides, in fact. In October last year, I travelled to the US. I went around the US Senate agricultural committee, the Senate ways and means committee and the USDA—I went to several—putting our position to them.

CHAIR—Thank you. You estimate the present value of the quota as \$US3.5 million: is that over the 18-year period or is that a per annum figure?

Mr Hansen—That is over the 18 years.

CHAIR—Thanks.

Mr Hansen—There are several TRQ lines for peanuts we requested—1,250 tonnes in one grouping and 1,250 tonnes in the other grouping. I believe it was increasing to 12,500 tonnes over five years, and we asked for free trade after eight years.

Mr WILKIE—And ended up with 500?

Mr Hansen—That is correct.

Mr WILKIE—There is a common theme—I say this, others may disagree—that we have had, particularly with agriculture, where people have put in for something which is probably fair and reasonable in their eyes and very little has been achieved compared to what they were expecting. Was your expectation in the negotiations a lot higher than 500 tonnes?

Mr Hansen—I was expecting more than the 500 tonne quota, yes. You have to remember the US market consumes 1.7 million tonnes of peanuts annually. So 500 tonnes is peanuts—pardon the pun. I am sure you are well aware that US negotiators consider every agricultural product to be highly sensitive. It just shows that even with their friends—they consider us friends; they openly say that when you go to meetings—they still behave with disdain when it comes to trade issues.

Mr WILKIE—This is despite the fact that they import 73,000 tonnes of peanuts. It is not like they are producing enough themselves.

Mr Hansen—No, they do produce enough themselves. They have been forced into those quota arrangements under NAFTA and the Mercosur agreement with South America.

Mr WILKIE—So they still see themselves as protecting their own markets?

Mr Hansen—Correct.

Mr WILKIE—I should say their own producers.

Mr Hansen—They export 300,000 tonnes a year, on average.

CHAIR—In your submission, you talk about 500 tonnes representing an increase of approximately 10 per cent in PCA's exports of peanuts in 2001-02. Just so I am clear on that, PCA's current exports would be 5,000 tonnes in 2001-02?

Mr Hansen—In the last three years we have averaged approximately 500,000 tonnes in exports. This year we may be exporting 15,000 tonnes. But they mainly go to Europe, Japan or New Zealand.

CHAIR—That is a big increase—from 5,000 to 15,000. Where has that increase come from?

Mr Hansen—We have had a very good season actually. We had two years of drought followed by a very good year rainfall wise. We have had a substantial increase in the crop size this year.

CHAIR—When you were asking for 12½ thousand tonnes in the quota, would that have taken care of all of Australia's exports?

Mr Hansen—Correct.

CHAIR—No Australian peanuts for the rest of the world?

Mr Hansen—Yes, that is where we go—the rest of the world.

Senator TCHEN—Mr Hansen, \$3.5 million over 18 years is not that much.

Mr Hansen—That is correct.

Senator TCHEN—But it is a substantial proportional increase in terms of the Australian peanut export market?

Mr Hansen—Ten per cent a year is a reasonable increase, yes.

Senator TCHEN—But it is increasing by 3 per cent a year, so in 18 years time we have something like 17 or 18 per cent of the increase rather than—

Mr Hansen—That is correct. I think in 18 years time it equates to just over 800 tonnes.

Senator TCHEN—After that it is open sesame?

Mr Hansen—I do not know whether it is open sesame.

Senator TCHEN—Open peanut, anyway.

Mr Hansen—That is right—open peanut. As I said in my opening statement, we took the stance that we were going to put some effort into this to try to get something from it—a positive outcome. We know of other commodities where nothing was done and where people put a lot of effort in—sugar being a good example—and got nothing out of the FTA. So in 18 years if we have got something it is something.

Senator TCHEN—Maybe the sugar industry frightened them; they have not realised how good you are yet.

Mr Hansen—I am sure you understand the strength of the sugar lobby in the US—it is huge; unbelievable.

Senator TCHEN—I know the chair probably asked you this question in a different form. If the US market was open now to the Australian peanut market, as it will be in 18 years, would that encourage further diversification in Australia's agricultural sector? Would there be greater incentive for people to move into the peanut area?

Mr Hansen—The US producers are the highest-cost producers in the world. There is incentive there to have a percentage of their market. How that domestic support program in 18 years will depend on how beneficial it is to us. If the current WTO ruling is upheld on appeal by the USA, that would be extremely beneficial to us. I am not at all asserting that we could supply every peanut in the US, but even if we had 10 per cent of the market that is a huge impact on the Australian market. There would be significant long-term benefits to us if we were to have free trade.

Senator TCHEN—How competitive are Australian peanut producers? We heard earlier from the sugar industry that they reckon sugar is the second most competitive in terms of cost. What about peanuts?

Mr Hansen—I would not attach the tag of being the lowest-cost producer in the world to us. The lowest-cost producers in the world are Argentina and China. We are not in a position to compete with them. As to value for money, we certainly produce a much higher quality product. We have much lower contaminant levels and our breeding programs are significantly better than China's or Argentina's and are equivalent to the USA's. We believe that in the world market we can actually attain niche markets, and we are doing that right now. In Japan, New Zealand and Europe there are small markets in all those places that we can deliver into where people are prepared to pay for a high-quality product.

Senator TCHEN—Is peanut farming single-crop production or is it a rotation crop?

Mr Hansen—Peanuts generally are rotational crops. In the Kingaroy region, they are generally rotated with maize and cattle. In many of the irrigation regions like St George and

Emerald, peanuts are rotated with cotton. In Bundaberg and North Queensland, they are rotated with sugar cane.

Senator TCHEN—With the market opening up, more people will get into peanut production, potentially. Wouldn't that actually help the agricultural sector as a whole, because it would increase the opportunity for crop rotation?

Mr Hansen—Peanuts are a legume. They are a nitrogen fixer. They are very beneficial in lay systems where you are looking for rotational crops. Yes, there has been a push by the Queensland government and agriculturalists for over 20 years to try and get sugarcane farmers to use legumes in rotation with cane.

Senator TCHEN—Somewhere down the track this little addition into the United States might actually help Australian agriculture a fair bit, particularly the cotton growers, maize growers and cattle farmers?

Mr Hansen—Yes, that is the intention.

Senator TCHEN—Sometimes good things come unexpectedly.

Senator MASON—I have a question about definition. Senator Tchen touched on it in an interesting line of inquiry. What is a peanut? Is a peanut a specific nut which does not include things like macadamias and almonds? Are the peanuts that are being produced in China and Argentina a specific nut?

Mr Hansen—Yes. A peanut is a tropical legume. It is a relative of lucerne. Do you understand farming at all?

Senator MASON—No. Mr Wilkie knows much more about farming than I do.

Mr Hansen—It is basically a tropical legume, so it is related to lucerne. It is a nitrogen fixer: it extracts nitrogen from the atmosphere and puts it in the soil so that it can be used. Prior to the Second World War—before we had fertilisers—peanuts and other legumes were used in rotation with cereal crops to fertilise the soils.

Senator MASON—I did not express myself well. My question is: does the term 'peanut' cover a mixture of nuts, or does it refer to a specific nut?

Mr Hansen—It is a specific nut. It is called a peanut because it is a legume—like the pea—and it is a nut.

Senator MASON—It is just that people sometimes use the word 'peanut' to mean more than one nut.

Mr Hansen—Yes, that is right.

Senator MASON—So we are talking about just the specific nut?

Mr Hansen—Yes. We do not farm macadamias or cashews, which are tree nuts, or anything else.

Mr WILKIE—Do we import peanuts?

Mr Hansen—Yes, we do.

Mr WILKIE—How many tonnes do we import, as compared to what we produce?

Mr Hansen—On average, we import approximately 5,000 tonnes a year.

Mr WILKIE—What are they—beer nuts, low-quality peanuts?

Mr Hansen—It depends on which marketplace they are going into. They tend to be Chinese peanuts imported for the cheap end of the market.

Mr WILKIE—The peanuts you see in a little bowl on the bar at a hotel or something like that?

Mr Hansen—You see them mainly in Woolworths in barrels and thing like that. Those are mainly Chinese peanuts.

Mr WILKIE—How much room would there be for the Australian market to expand, if we had greater access?

Mr Hansen—To the USA?

Mr WILKIE—I mean generally. Are our farms able to increase their production in the long term?

Mr Hansen—Yes. Yield improvements on our current farms have been running at three to five per cent a year for the last 10 years, and there is huge interest in growing peanuts in a number of the sugar farming areas such as Bundaberg. Our acreage in Bundaberg has doubled every year for the last four years. Five years ago, I think we were producing about 100 tonnes in Bundaberg; this year we will probably produce 8,000 tonnes.

Mr WILKIE—Is it a cost-efficient crop? We often hear of how we have to put in lots of money to support some of our primary industries. Does the peanut industry support itself?

Mr Hansen—We get no government support. Do you have a handout today?

Mr WILKIE—I am just checking. We always like people who support themselves.

Mr Hansen—The only support we get in this industry is from the Queensland government, which currently funds the peanut breeding program to the tune of about \$250,000 a year.

Mr WILKIE—This current Queensland government are pretty good. Being from Western Australia, I do not get a lot of these facts and figures about peanuts. It is quite interesting. You have basically said that you have had a very limited increase but, as that is better than a poke in the eye with a blunt stick, you will take it.

Mr Hansen—Correct.

Senator TCHEN—What is the size of the American peanut market?

Mr Hansen—Consumption in the US is about 1.6 million to 1.7 million tonnes.

Senator TCHEN—My goodness, that is a very sizeable market, isn't it?

Mr Hansen—Correct. It is probably the most valuable market in the world too.

Senator TCHEN—I was going to ask you to talk to us about the comparative merits of Australian nuts against Chinese nuts but, given the context, I thought that maybe I should not ask.

CHAIR—We import about 5,000 tonnes of peanuts, and they tend to be at the lower end of the value scale. In 2001-02, we exported 5,000 tonnes, and this year we will be exporting 15,000 tonnes, and they are higher-value peanuts.

Mr Hansen—Correct.

CHAIR—Mr Hansen, would you like to add anything?

Mr Hansen—No. I think we have made our point in several submissions.

CHAIR—Thank you very much for your attendance before the committee today. The secretariat will forward you a copy of the proof transcript of evidence as soon as it becomes available.

We have received a submission from FASTS, to whom we will be speaking in Sydney tomorrow. There being no objection, the submission will be numbered 190 and is authorised as a submission to this inquiry.

Resolved (on motion by **Mr Wilkie**, seconded by **Senator Mason**):

That this committee authorises publication, including publication on the parliamentary database, of the proof transcript of the evidence given before it at public hearing this day.

Committee adjourned at 4.16 p.m.