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JOINT STANDING COMMITTEE ON FOREIGN AFFAIRS,
DEFENCE AND TRADE

TRADE SUBCOMMITTEE

**Reference: Review of the operation of the free trade agreements with Singapore,
Thailand and the United States of America**

FRIDAY, 19 AUGUST 2005

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**JOINT STANDING COMMITTEE ON
FOREIGN AFFAIRS, DEFENCE AND TRADE**

Trade Subcommittee

Friday, 19 August 2005

Members: Senator Ferguson (*Chair*), Senators George Campbell, Eggleston, Hutchins, Johnston, Kirk, Moore, Payne, Scullion, Stott Despoja and Webber and Mr Baird, Mr Barresi, Mr Danby, Mrs Draper, Mr Edwards, Mrs Gash, Mr Gibbons, Mr Haase, Mr Hatton, Mr Jull, Mrs Moylan, Mr Prosser, Mr Bruce Scott, Mr Sercombe, Mr Snowdon, Mr Cameron Thompson, Mr Turnbull, Ms Vamvakinou, Mr Wakelin and Mr Wilkie

Trade Subcommittee members: Mr Baird (*Chair*), Mr Snowdon (*Deputy Chair*), Senators George Campbell, Eggleston, Ferguson (*ex officio*), Johnston and Webber and Mr Barresi, Mrs Draper, Mr Edwards (*ex officio*), Mr Haase, Mr Hatton, Mr Jull, Mrs Moylan, Mr Prosser, Mr Bruce Scott, Mr Sercombe, Mr Cameron Thompson, Mr Turnbull, Ms Vamvakinou, Mr Wakelin and Mr Wilkie

Senators and members in attendance: Senators Eggleston, Ferguson and Webber and Mr Baird, Mr Edwards, Mr Cameron Thompson and Mr Wilkie

Terms of reference for the inquiry:

To consider and report on:

The annual reports of government agencies, in accordance with a schedule presented by the Speaker of the House of Representatives. The Speaker's schedule lists annual reports from agencies within the Defence and Foreign Affairs portfolios as being available for review by the Committee.

The major focus will be on Output 1.1.5 in the 2003-04 DFAT Annual Report dealing with Australia's bilateral trade negotiations. The Sub-Committee shall examine the operation of the free trade agreements with Singapore, Thailand and the United States of America, with particular reference to:

- business experience of the free trade agreements, in particular participation in negotiations and support from Australian agencies in-country;
- government and business perspectives on what works well and could be improved in the operation of the agreements; and
- issues to consider for future free trade agreements.

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Subcommittee met at 9.02 am

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DAVIS, Dr Brent, Director, Trade and International Affairs, Australian Chamber of Commerce and Industry

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MARSDEN, Ms Freya, Director, Policy, Business Council of Australia

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TATE, Ms Alison, International Officer, Australian Council of Trade Unions

WELLS, Mr Ric Lawson, First Assistant Secretary, China Free Trade Agreement Taskforce, Department of Foreign Affairs and Trade

CHAIR (Mr Baird)—I declare open this public roundtable hearing on the review of Australia's free trade agreements by the Trade Subcommittee of the Joint Standing Committee on Foreign Affairs, Defence and Trade. On 15 June 2005, the Trade Subcommittee resolved to examine the operation of the free trade agreements with Singapore, Thailand and the United States of America, with particular reference to: business experience of the free trade agreements, in particular participation in negotiations and support from Australian agencies in-country; government and business perspectives on what works well and what could be improved in the operation of the agreements; and issues to consider for future free trade agreements. Apart from the considerable value for the committee of obtaining information on each of the free trade agreements, the information provided by the witnesses will assist the committee in its ongoing consideration of different aspects of Australia's current and future free trade agreements.

Today we will be conducting the hearings in three sessions. Session 1 will focus on the initial stages of signing a free trade agreement—the negotiations and consultations. The committee is interested to hear views of what went well and what has not from the various perspectives of those seated around the table. Session 2 will examine the FTAs in operation—how they have impacted on trade and Australian business and industry here and overseas. Session 3 will conclude the hearing by focusing on lessons for future FTAs—what we have learnt that could help Australia negotiate and take advantage of the next round of FTAs.

Session 1: negotiations and consultations—what went well, what didn't?

CHAIR—In moving to session 1, on the negotiations and consultations conducted in the lead-up to signing each of the free trade agreements, I welcome the witnesses. I remind witnesses that although today's hearing will take the form of a roundtable discussion, all questions will be directed through the chair. The subcommittee prefers that all evidence be given in public but should you wish to give evidence in private you may ask to do so and the subcommittee will consider your request. We have got quite a cast appearing before us this morning and there are various representatives behind the witnesses who may wish to supplement the evidence. Please let us know if you want to come to the table. I invite the witnesses to make some brief opening comments, then we will proceed to questions. Hamish, I know that you are involved in the negotiation; we heard from you the other day. Perhaps you could make the opening gambit and others might wish to comment.

Mr McCormick—If I could put this in context, Austrade's primary role is to promote the outcomes of the FTAs, and that is obviously a whole-of-government exercise that we do in conjunction with our other colleagues in the Commonwealth government and with industry associations and companies themselves. Certainly since the introduction of all of the FTAs we have been very busy putting new resources in to take advantage of the FTA opportunities that are coming out. We have been doing a full range of analyses of where we think we have particular opportunities that match with Australian business capacities, skills and experience. We have been very active in trying to make people aware in the business community about the opportunities that are being identified from the FTAs, so we have a range of activities around Australia. We are also increasingly doing a number of activities in each of the FTA markets designed to capture those opportunities and to identify that. TAFTA and the USFTA have only been in place for seven months or so, but certainly in our experience—much of it is anecdotal—there are a number of new opportunities there. There is a much greater interest in those markets than there was before and we are certainly very busy trying to do this business matching. We have a number of examples where people are following up leads; they have already got new business opportunities that we think come directly or indirectly from the FTAs.

CHAIR—I do not want to stop your flow, Hamish, but if we could concentrate in particular in this section on what went well and what did not, I think that is probably useful for those involved in future negotiations and discussions. From a historical viewpoint, we have just been through three significant trade agreements: what have we learnt? We have the key participants as we see it in the process. We would appreciate your focusing particularly on that.

Mr McCormick—I was just coming to that point. I wanted to give you a little bit of background, a bit of context, about the role that Austrade has. I guess the key thing that we identified as being particularly positive out of the FTAs was the extent of consultation, both

intergovernmentally and with industries. We think that actually provided a very good basis for us to begin work very quickly on trying to promote and deliver outcomes as a result. As to the preparation in the negotiations, Austrade is one of the bodies that fed into that and obviously we used our posts overseas to feed into that. The whole-of-government exercise, from our agency's point of view, was a very positive plus. That translates once the agreement is up and running and there are a number of implementation issues affecting individual businesses. Again, we have been able to work very effectively with our colleagues in Customs and DFAT to overcome any small issues that have come up since the implementation of those agreements. As a primary thing, given the focus of Australia's activities, that would be one of the major positives that we have identified in the negotiations.

CHAIR—So you are saying: it all went well, no problems, you all worked together magnificently and produced a great outcome.

Mr McCormick—In the context that trade is never a simple thing, we think it went as well as we could have expected.

CHAIR—What are the lessons from your perspective?

Mr McCormick—Again, we do not have lessons on the negotiations themselves obviously, because we are implementing the outcomes of those things. People can always say there are things that they did not get or things that they would have liked done differently, but our focus is to try and make the most out of what we have got there. So our focus is not to try and say, 'It's a pity we didn't get something else'—we do not have that sort of focus—but to say, 'What have we have got now, and how do we make the most out of it?' So from an agency point of view that question is not really one for us.

CHAIR—Perhaps for the others who are here this is your opportunity to say how you felt the negotiations went. Was it all very positive and textbook style, or were there lessons to be learnt in terms of the process?

Dr Davis—There is no textbook to these things; they are all unique. Australia only ever had one experience, the New Zealand FTA, CER, and that was 20 years ago. I should hazard a guess that none of us around the table probably did that with New Zealand, although the Australian Chamber of Commerce and Industry would have been involved in most of the annual reviews. We went on the trips—I do not think anybody else from the business community here was on those trips—to Singapore and Thailand as part of the negotiations. That was instructive and gave us an insight into how that worked.

What are the positives? We did them, but I think one of the downsides is there is a false expectation. I am not pointing the finger at anybody and certainly not at DFAT, the government or the opposition. These are one-and-for-all-time instruments; we come back with the perfect document. One of the great flaws we suffer in this country is that we do it once, we get it right for all time, and that is the end of it. It is not. New Zealand was never a once only document. If you look at the history of ANZCERTA, or 'CER' for short, I cannot think of how many dialogues we have had in order to step it up, and that is the case with Singapore also.

DFAT are very good on tariffs; not so flash on non-tariff barriers. That is not their fault. Any fault falls with the private sector. It is up to us to tell them what the non-tariff barriers are, because our members know where they are. They have got to tell us and they have got to be prepared to tell DFAT. I am not going to hang myself out to dry, but on our own reflection we could have done better in some places in bringing up the evidence. We never quite know how they make the trade-offs. We know in commercial negotiations that it is subjective, so we presume in diplomatic negotiations, which are political as well as commercial, there is an added dimension of complexity. From our point of view, on reflection, we think we have to do better on getting non-tariff barrier information. Tariffs now are fairly low. Their negotiating value is probably diminishing anyway. It is the NTBs, and how you make a values trade-off with NTBs is very difficult.

Where to next? The other issue that we are pondering is: how do you go second generation with some of these? What happens with the first ministerial, or however they badge these things, and how do we leverage them up as the platform to continue to go forward? The other value judgment is that most of us in the private sector have finite resources, and we have to make a judgment between the four that we have got in place, the four that we are negotiating and the other three that could be coming up in the next couple of years. DFAT may have substantial resources, but they are not inexhaustible. The Australian Chamber of Commerce and Industry and networks has a depth of resources, but the big challenge for us is going to be resource allocation. We have made judgments about which ones we are going to let go by and not engage with and which ones we will stay with.

Mr Stoler—One thing that went particularly well in the case of these agreements—and keying a little bit into what Brent Davis was just saying—is the fact that these are not static agreements, it is not what you see is what you get and that is it. In all cases these agreements have a living agreement element to them where they can be improved over time. In particular, the provisions that you find in the agreement with the United States for the Professional Services Working Group, the Quarantine Committee and the Technical Barriers to Trade Committee—these types of things that will take up problems and evolve the agreement over time—are a very important institutional aspect. It is still too early to see what the impact of that is going to be after just seven or eight months, but I think over time they are going to be very important aspects of the agreements.

Mr Pearson—I make two points from the minerals business perspective. There were obviously varying degrees of engagement in the three FTAs. It is fair to say that the minerals business undertook a sort of watching brief for the negotiations with Singapore and Thailand, but was much more intensively involved in the FTA with United States. The assessment there is that the degree of consultation, both formal and informal, was very good. I might just add one other point on the expectations issue that Brent raised. The one element that contributes to this raising of false expectations is the econometric modelling that the department has commissioned in recent years. I do not think it achieves all that much. I think it raises expectations. When people see a big number like \$24 billion—or an even larger number in the case of the United States—it is treated sceptically by the public and by opposition groups. The assumptions are generally complete free trade. That then alarms the groups in the community who are going to be adversely affected, because the assumptions generally involve a free trade on both sides. It also creates a mistaken impression for groups within Australia who are interested in lowering barriers in the target country—I am sure agriculture is in that category but also many others—who all of

a sudden see this big headline number and an assertion that the benefits from this agreement in this sector are going to be this figure. Given that there are number of FTAs if not in negotiation then in contemplation, I think the taxpayer would be saved some money in future agreements. I do not see the utility of these estimates.

CHAIR—You do not think that, going into a trade agreement, you would do a forecast of what you think you are going to get out of it?

Mr Pearson—You do an assessment of where the barriers are and then a realistic assessment of where you think you can get. But the assumptions in most econometric models are complete free trade. This has been the case in the ones that have been done so far. The assumption is that complete free trade will be achieved by a certain date. It just never happens like that. I know that other countries who have done plenty of FTAs do not bother with this stuff—for the reasons that I have spoken about.

Mr Mitchell—I would like to make a couple of comments on behalf of the NFF. By and large, we think that the negotiations and the consultations with the three recently concluded FTAs were excellent. We think that the consultation process since they have been concluded, on implementation and in the consultation process on the FTAs that are currently under negotiation, has been excellent. We agree with some of the points that Brendan and Brent made about managing expectations. We could learn from that. Most in our constituency have generally been happy with the gains—they have all been good from these FTAs.

We are not seeing much evidence—they are very much in the infancy of implementation—or getting much feedback on how many new trading opportunities our member companies are being able to take advantage of. But it would have been good if we had done better in some cases, with quicker phase-ins et cetera. I agree with the point that Brendan made about modelling. I think that modelling based on an assumption that things are going to get to a free trade situation very quickly create problems in managing expectations and may even create anxieties in some communities. But overall we think the process worked very well. We think the negotiation went well. We have learnt a lot from the consultation process, and we will get better at providing government and negotiators with information and building our arguments in different ways.

Ms Marsden—The BCA is on the record many times saying that we think that increased trade overall will benefit Australian business and the Australian community and will have benefits globally. It is quite clear that how that is implemented and how business takes up those opportunities will make the difference in benefits to Australian businesses, employment and those sorts of things.

CHAIR—Were you adequately consulted in the process?

Ms Marsden—I think it is true to say that we are both learning—DFAT are still learning and business is definitely still learning—when it comes to free trade agreements. DFAT have been negotiating multilateral agreements for a very long time. They have excellent expertise in the area and they have been doing them very well for a long time. When it comes to free trade agreements, they are much faster. There are different dynamics involved and business needs to learn how to step up to the block and provide better information to DFAT in order to get better

outcomes overall. The three free trade agreements that have already been negotiated have been done well, but there are certainly lessons that can be learnt from them. I think those lessons are already being played into how, for instance, consultations have been run in the negotiations with China. From our perspective, things are getting better and we are certainly thinking about how we can improve our consultation and input on that. So the situation is good but we can improve. I think that is just part of what is going on in terms of a change in how we negotiate.

Ms Tate—From the ACTU's perspective, our concerns are more about follow-up and assessments of impacts further down the chain, so think I will restrict my comments to that section.

CHAIR—We are going to give you an opportunity to speak on it. Do you feel that you were consulted sufficiently in terms of each of the free trade agreements?

Ms Tate—We were involved in consultations, yes. There are some key points that I we would like to emphasise, and we have a concern that some of those were not taken up as effectively as we would have liked. Perhaps I will address those in the lessons learnt section.

Senator FERGUSON—I was interested in some of the comments. We talk about free trade agreements but I think it would be better if we called them 'freer trade' rather than 'free trade'. I have always thought that. I support all the agreements—do not get me wrong—but Mr Edwards and I have just been to the United States and if someone can tell me how Australian companies can get around the Jones act and still work in Australia as a part of the free trade agreement then I would be very interested. The only way that the Jones act can be circumvented is to set up business in United States and build your ships there. So there are lots of things that are not included in the free trade agreements, and I think the general expectation of the public is that when you sign a free trade agreement it means free trade. It does not matter what you are dealing with, the public think free trade means everybody has access to whatever they want. Dr Davis, I was interested in your comments about non-tariff barriers. Australia is not bad at setting non-tariff barriers.

Dr Davis—No.

Senator FERGUSON—I would like your view on this. I think that the non-tariff barriers have to be negotiated on a one-on-one, individual item basis rather than as part of a whole agreement—to see why, you only have to look at our quarantine regulations and all sorts of other things which prohibit imports into Australia. I would be interested in your comments on the effects of this and would like you to expand a bit of non-tariff barriers. Mr Wells, if we are talking about future negotiations and how things are going, the one thing that is on many people's minds in negotiating a free trade agreement with China is how you negotiate a free trade agreement where most of the companies you are dealing with are owned by the government.

Dr Davis—Senator Ferguson, you have alluded to one of the issues we are wrestling with, which is: are they free trade agreements or free market agreements? There is still a fuzzy expectation in most quarters that these things are free trade agreements, freer trade agreements or free market agreements. What is the difference? Free trade agreements, people would conventionally think, mean you are looking at barriers at the border. Free market agreements

means you are looking at issues behind competition policy and to some extent investment. You have a separate debate where the Labor stand is environment, and whether that sort of issue should be there at all—and that one goes on and on and on—versus the classic free trade at the border type issues.

In terms of non-tariff barriers, they are the hardest to find. They are certainly the least transparent, and they are probably where the greatest dividends are. How do you engage on tariffs? DFAT is very well informed on what the tariffs are. There is precious little to know. Just to go on a tangent, the easiest way is to run a negative list approach to negotiations. That brings everything to the surface brilliantly but it is usually a challenge when you are negotiating with a developing country. But with the NTBs, it is up to the private sector because our constituents know where they are. How did we do it? Simple case study: with the USFTA we had a series of round tables amongst our members trading with the US who had NTB problems, and these firms gave the negotiators actual examples. The negotiators took them to the negotiators with the Americans and basically there was a disjuncture between what the Americans told our negotiators and what our private sector were telling our negotiators. Where and why that happened, I can leave others to surmise. But it was of great value, because we were able to tell our negotiators, 'Look, this is what is happening. And this is what is really going on and this is why we can't do it.' I cannot speak for what negotiating coin value it was to them; but I presume it was better than not knowing at all. But our assessment is that that where the future challenges will be, and this is why we are thinking about how we engage with them.

Mr Wells—It is certainly an interesting question. As a point of fact I would need to check the figures. I don't think it is accurate to say that most companies in China are owned by the government.

CHAIR—Perhaps I should have said 'many'.

Mr Wells—Many are indeed owned by the government and particularly the largest companies. Obviously, the state-owned enterprises in China still play a very important role in China's economy. In some sectors of interest to us, particularly our minerals trade, a lot of state owned enterprises are quite big consumers of our exports. Obviously, too, in terms of investment in Australia, which is something we expect to increase over the years, you have to work on the assumption that a lot of the Chinese companies, particularly the resource companies that will be seeking to invest in Australia, will be state owned.

One of the concerns we have heard from business in our extensive consultations is that there is not always a level playing field in China. A lot of businesses have said to us that they are concerned that their competitors in China are being subsidised by the Chinese government. That is something we will want to talk to the Chinese about in our meeting next week. It is obviously an important issue, and we ought to try to get to the bottom of it. At the moment business has not given us a lot of hard evidence about the extent to which companies are being subsidised by the Chinese government.

CHAIR—It would be difficult to prove though.

Mr Wells—It would be difficult to prove, and that is what makes it hard for us. But there have been some interesting things said which we want to pursue. For instance, we will be asking the

Chinese whether state owned enterprises receive power at cheaper tariffs than private sector companies, and we will be asking about conditions of land tenure. But it is a very big subject, and I think it will take us a while to get to the bottom of it. It was an issue that was extensively discussed during China's accession to the World Trade Organisation, so we have some material that we will go back and have a look at. But I think it is also true to say that things have changed a lot in China since then.

Senator FERGUSON—It is true. I vaguely remember an antidumping case about four or five years ago where it was almost impossible to identify where a government subsidy was involved in the production. People just could not separate out the individual components of what government was providing with regard to the total cost of production. I think it was to do with chemical spray. I do not know how, in your negotiations, it is going to be any easier to identify government subsidies, whether they are by way of free land or free power. It is just so hard to get those figures. I am just not sure where you are going to go from there.

Mr Wells—It will be difficult. And that of course raises another issue that is going to be very important for us in the negotiations, which is transparency—or lack of it in China. It can be very difficult to obtain this information. But I emphasise that what we are talking about is our first negotiating meeting with the Chinese next week. We have a long way to go on this.

CHAIR—I imagine you will.

Mr Wells—We are not in a rush. If it takes us a lot of time to get the sort of information we need then we will spend a lot of time trying to get it. I suppose what I am saying is the fact that a company is state owned per se is not necessarily an issue. What we really want to know is: what does that mean in terms of competition; do these companies have an unfair competitive advantage? That is what we want to try to understand.

CHAIR—We had lobbying from the banking sector yesterday about the regulatory requirements in relation to quite a number of Asian countries. I am interested to know whether you have looked at the regulatory aspects of Australian banks going into Thailand, in particular, or whether that was just not part of the agreement. A whole delegation came down yesterday lobbying members and saying that we need to see some action at the WTO level in terms of the requirements. I think it was particularly aimed at China.

Mr McCormick—Do you want me to respond to that?

CHAIR—Yes, Hamish.

Mr McCormick—I defer to my DFAT colleagues.

Mr Grigson—This gives me the opportunity to underline the concept of the living agreement. Neither the Singapore agreement nor the Thailand agreement was ever drawn up to be a one-off, and there is an ongoing review process for both. In the case of Thailand, we have the first review in December. Over the next three years, regulatory issues will be among those that we address.

CHAIR—So have the banks been to see you about this problem? It sounded very restrictive, particularly for the Australian banks wanting to go into China, and I just thought it might have applied in your case.

Mr Grigson—Not in recent times.

CHAIR—It is probably an issue that we should pursue at some stage.

Mr WILKIE—I am pleased to see that most people were happy with the consultations that occurred. Were people generally involved in consultations right up to the very end, even in the final stages? Was there anyone who was not?

Ms Marsden—We were kept closely informed right up to the end—

Mr WILKIE—Even with the US agreement?

Ms Marsden—including with a very early phone call right towards the close of it. We were not closely involved until towards the end. We came in late in the piece, so credit to DFAT and the government for giving us a hearing despite the fact that we were a Johnny-come-lately. But we did get to hear about what was going on to a reasonable degree towards the end.

Mr WILKIE—Is there anyone who was not involved?

Mr Mitchell—I was not personally involved in any negotiations—

Mr WILKIE—But NFF was.

Mr Mitchell—but, having talked to many in the NFF who were, they were extremely involved in Washington. They had a very large delegation on the ground and very regular consultations with negotiators—several times a day in many instances. All the feedback I have received from that has been very positive in that it worked very well. We had a direct ability to advise negotiators on tactics and priorities moving forward, so we thought it worked very well.

Mr WILKIE—My next question then will be to DFAT. There is no one present today from local government, state government or the territories, yet the territories, state and local governments were very critical of the fact that they were not involved in consultations in the latter part in particular of the US free trade agreement. In fact they were exceptionally critical and it is reported in report 61 of the Joint Standing Committee on Treaties that it was a very common complaint that they did not have any consultation in the final weeks of negotiations, and that they were actually prevented from doing so because DFAT requested that because of confidentiality—and they were excluded. Can DFAT comment on that?

Ms Greville—The consultation process that was set in place for the US free trade agreement—in the same way as for our other free trade agreements—has a very significant component which includes consultation with states and territories through the standing committee on treaties, but also through other mechanisms. In fact, during several of the negotiating sessions on the US free trade agreement we had, as a member of our delegation, a representative of state governments who participated directly in the negotiations on several

elements of the free trade agreement that had particular ramifications for state governments, like government procurement.

To be honest I am not aware of any particular criticisms that the states made about their lack of consultation. In the processes that are ongoing for the implementation of our free trade agreements we have continued the same consultative mechanisms that we had before on government procurement and various other elements. States are continuing to participate very closely and to reiterate that they appreciate the opportunity to do that.

Mr WILKIE—I suppose the states would have been very concerned given that they would see themselves as not just involved in government procurement but also as heavily involved in industries in their states and trying to liaise on behalf of industries and ensuring that they get a fair go. So if they were excluded in those final weeks would that be of concern?

Ms Greville—I am sorry, I probably did not address the question very well. Government procurement was only an example of where states were directly involved in the negotiations. The processes that we employed through the US free trade agreement had repeated and regular consultations with states at various levels through various agencies. The central agencies were involved through the standing committee on treaties. We had regular teleconferences and face-to-face meetings with central agencies in the states and with individual agencies depending on what the subject matter was. On services negotiations, for example, where there were listing approaches, as somebody mentioned before, the states were fundamentally involved in identifying areas where they could agree to the commitments that were being mooted by both sides. The face-to-face consultation with industries also involved state governments, and state governments participated in those consultations.

It is true that there was not the capacity for states to participate face-to-face in all of the negotiations. That was, to some extent, governed by the attitude of our negotiating partners. The US has a different approach to negotiations and they were very clear in their minds that these were federal government to federal government negotiations. Their system did not allow for them to involve states as part of their delegation so they were a bit sensitive about states being part of our delegation. The agreement we came to was that the state representative would be involved personally face-to-face in the government procurement negotiations rather than the others.

Mr WILKIE—What about local government—were they involved at all?

Ms Greville—They were included in the consultation processes. Some local government associations made submissions so in a sense there was the same opportunity for them to participate as there was for individuals or business, for industry and for state and territory governments. I do not recall as I was not involved in that process, but I can look it up for you.

Mr WILKIE—Yes, I would be interested to know to what extent local government was involved, particularly given that industry bodies were represented because of the impact on their organisations. If local government was not involved I would be rather disappointed. I look forward to getting the information.

CHAIR—Perhaps you could send us a note on the degree to which state and local government was consulted, for our report, as it was highlighted in the treaties report that there were complaints so it would be interesting to know what the reality was. Obviously we do not want you to create a task bigger than Cecil B. DeMille of going through every appointment, but just a review would be useful.

Ms Greville—We would be very happy to do that.

Mr EDWARDS—I would be interested to know how much involvement individual states in America had in the negotiations and how much influence they might have had on the outcomes.

Ms Greville—That is a difficult question for us to answer. The US has a federal system which is similar but not clearly identical to ours. The extent to which the US federal government could, would or should speak on behalf of the states was certainly an issue in the negotiations. Some of the comments that were made before about technical barriers to trade and regulatory issues and the extent to which they can be addressed in a free trade agreement that is being negotiated within a very tight timeframe are germane in the sense that in the US, as they are in Australia. A lot of the regulatory barriers and some of the non-regulatory technical barriers are the province of state governments. A short answer to your question is that there was not as much involvement as might have been the case had the negotiations taken place over a longer period of time. But, as a personal comment, I think that the Australian government was much more inclined to take on board its state governments' opinions than perhaps the US government was.

Mr EDWARDS—The states seem to have a very big influence on the Jones Act, in which state interests seem to override a lot of things.

Mr Stoler—On the question of the degree to which American states might be involved in the negotiation, in the US there is a very highly evolved advisory committee system for trade negotiations that involves both businesses and labour unions and state and local governments. There is an intergovernmental advisory committee that has to be consulted in the course of these negotiations and prepares a report at the end. So there is a formal mechanism that exists in Washington.

Mr EDWARDS—Do you think that Australia could benefit from a similar sort of mechanism? Do we have that mechanism?

Mr Stoler—I do not know what your mechanism is here, but I think it has been a mechanism that has served us pretty well when I was a US trade negotiator.

CHAIR—Isn't that similar to COAG? It is a different level, though, isn't it?

Mr WILKIE—Yes, but I do not think they would have been involved.

Senator EGGLESTON—Trade is a fragment.

CHAIR—So this one comes down to more of a working level, does it, in terms of the group you are talking about in the states?

Mr Stoler—There are three different levels in the advisory committee system. There is a working level, a cross-sectoral level and a high-level CEO group, but the intergovernmental advisory committee aspect exists at all three levels.

CHAIR—Okay. We do not want to get bogged down in this section. We have broken it down into somewhat artificial sectors, but nevertheless we are really talking about the initial stages.

Mr CAMERON THOMPSON—I want to ask what people think about the issue of export subsidies. I noticed that in the three—in the material there—there is only one that really addresses the question of not using export subsidies. In the US, particularly, I wonder, given the comments that came from Mr Wells before about export subsidisation in China, to what extent the question was still open in the US about subsidisation of their exports under the free trade agreement.

Ms Greville—There is a commitment under the US free trade agreement that neither of us will use export subsidies into each other's markets, with the caveat that either of us reserves the right to do so if a third party is subsidising into that market. The US does not employ export subsidies particularly and, of course, are limited under the WTO obligations to having only the capacity to subsidise certain products. So, within the list of products that they are able to subsidise, they currently do not subsidise into our market and would probably argue—I cannot speak on behalf of the US—that they do not utilise export subsidies widely into anyone's market. But there is a commitment in the agriculture chapter of the US free trade agreement that neither the US nor Australia will subsidise into each other's markets except for that limited caveat.

Mr CAMERON THOMPSON—You use the term 'export subsidies'. What about other forms of subsidisation? We said before that behind all this some of the measures that can be taken to assist with production and to make production cheaper certainly apply in the states. In effect, that would have the same effect.

Ms Greville—Within trade parlance there is a distinction made between export subsidies and domestic support, which covers a range of other mechanisms by which government can assist industry. I take your point. I was actually talking technically about export subsidies, which is only one facet of government's capacity to help exporters. The US does in fact have a significant domestic support commitment—again, I am particularly talking about agriculture here—and that was not addressed in the free trade agreement between Australia and the US. It was very clear to both sides that a government's commitment to domestic support is a mechanism to address a whole range of global factors, and it would be extraordinary for any government to consider dismantling its domestic support mechanisms in the context of a bilateral free trade agreement with just one other party. The US's attitude is that it can and will address its domestic support regime in the context of the multilateral round, and Australia are certainly putting an extraordinary effort into ensuring that we make that happen.

Mr CAMERON THOMPSON—If it is that extraordinary, how could we get anywhere with an agreement with China?

CHAIR—We are really moving to segments 2 and 3. Please go ahead.

Mr Wells—Mr Chairman, do you want me to answer that now or wait?

CHAIR—Why don't you do it now. It is on the table.

Mr Wells—Okay. It is a good question, but in fact a lot of these issues are already dealt with as a result of China's membership of the World Trade Organisation. As a WTO member, China has undertaken not to subsidise what we could loosely call manufactured exports. I would need to check on this, but I am pretty sure that China has also surrendered its ability to subsidise agricultural exports. This is obviously something that we will need to talk to the Chinese about, but whether you would want to restate those commitments in a bilateral trade agreement I think is an open question. The main point is that, as a WTO member, China has accepted rules that forbid it from subsidising exports.

Senator FERGUSON—Could I ask Ms Greville to add to that answer to Mr Thompson. Are you saying that, in negotiating the subsidies that might be domestic, the US do not mind Australian primary producers getting a diesel fuel rebate as long as we do not question what they are getting domestically, but we do oppose them getting a direct dollar subsidy?

Ms Greville—That is a difficult question to answer. I guess the short answer is that we did not adjust our diesel fuel excise in the context of the Australia-US Free Trade Agreement and no more did they adjust their much wider and much more lucrative domestic support arrangements for their primary producers in the context of that agreement. Either one of us may have opinions about the appropriateness or the trade distortionary effects or any other aspect of each other's domestic regime designed to assist rural sectors, and there are plenty of opportunities in the context of WTO negotiations where those sorts of issues might be on the table and might be thrashed out. But certainly, in the case of the US free trade agreement, we gave them information about our excise, and we already had, to be frank, a lot of information about their domestic support regime and we asked them questions about it, but there was not the capacity within the context of a bilateral free trade agreement to make those kinds of changes to domestic processes.

Senator FERGUSON—But I am trying to get at whether there is a difference of view on what might be called a 'cost of production' subsidy, which is where a diesel fuel rebate comes in, as compared to a direct dollar subsidy, which is so much per tonne produced.

Ms Greville—My colleagues might want to jump in on this. Certainly, within the WTO for example, there are various ways of classifying forms of support in terms of how trade distortionary they are, and countries have different levels of commitment to reduce or different capacities to subsidise up to a certain level, depending on what category your assistance falls into. As a general rule, as I said, the test is how distortionary it is. All countries with ambitions for trade liberalisation are working in the multilateral round to try and reduce as far as possible those categories which have the worst distortionary effects.

Senator FERGUSON—The Chinese may say that what they are doing is providing a cost of production subsidy rather than any other form of—

CHAIR—We also have our own export incentives, too.

Mr WILKIE—Is state support for industry included in any of the negotiations? How could it be if it is a federal agreement? Surely our states must provide some incentive to business, which

would not be taken into consideration? What consideration was given to what the US states provide to their businesses?

Ms Greville—There was certainly an extensive information exchange in the context of the US-Australia Free Trade Agreement about the sorts of assistance and the sorts of programs that we provide and run federally. We asked them questions and they asked us some questions regarding the states' arrangements. To the extent that we were able to make commitments, or wanted to make commitments, which included commitments that impacted on our states, we did so. While it is not directly on point, we made some commitments, for example, on government procurement that impact on the way that state governments run their government procurement processes and the capacity they have to determine criteria for procurement. That was not quite the question you asked, but my answer is that in a negotiation of federal governments with federal systems, there is the capacity to make commitments—if the parties want to—on behalf of their states, if the states agree.

Mr WILKIE—Moving on to the free trade agreement with China and others, given that the states are also heavily involved in trade with China, is there a view that they should be more involved in the negotiations and consultations in the future? I am from Western Australia, so if you look at our resources, negotiations and contracts with China, they are quite amazing. I would hate to think that here we have the federal government negotiating agreements with China, without taking into consideration the impact on states like WA.

CHAIR—I have suddenly realised that there is quite a bit of disproportion of members on this committee from Western Australia. It is a conspiracy. Would you like to answer the question?

Mr Wells—I am happy to do so.

CHAIR—We are starting to drift!

Mr WILKIE—We were talking about consultation. I am concerned that the states were not involved as much as they should have been in the US agreement, and I want to make sure that they will be more involved in future agreements.

Mr Wells—I do not know that I would agree with the judgment that the states were not involved as much as they should have been in the United States's negotiations. In fact, one of the very valuable lessons that we have learnt for China is that we need to do at least as well as was done in the consultations with the states and territories for the US FTA negotiations. In advance of the first round of negotiations with the Chinese next week, we have had well-attended roundtable meetings with, I think, all state and territory governments. In some cases, that has meant sitting down in a room like this, around a table with about 20 colleagues from state and territory government departments, speaking to them in detail about the initial stage of the negotiations.

I have to say that not once has any state or territory government official complained to me about lack of consultation regarding the US FTA. They have said, 'We would like that to be done for the China FTA.' We have told all state and territory governments that we are open to including a representative of the state and territory governments in individual parts of the China FTA negotiations that will be of interest to them. Realistically, I do not think that will happen for

a while, because it will be a good six months or so before we will actually start talking about text or commitments.

The only caveat I would add to that is that obviously this is a negotiation between Australia and China, so we will need to get the Chinese to agree to the inclusion of state and territory government representatives at a later stage. Again, that is something that we have already flagged with the Chinese, so we are quite serious about this and we are well aware of Western Australia's interest in these negotiations. I have to say, though, that I think all state and territory governments are intensely interested in the China negotiation, for a variety of reasons. In some cases, it is because they have concerns about the outcomes, and we are determined to make sure that we consult appropriately with the state and territory governments at all stages of the negotiations.

CHAIR—That is reassuring.

Mr Wells—We will be briefing them all after every negotiating round and consulting them all before every negotiating round.

CHAIR—All right.

Mr EDWARDS—Can you tell me what influences America might have on discussions with Australia in relation to Australia's free trade agreement with China?

CHAIR—It is outside the league of what we are talking about today, but rather than having it hanging out there, did you want to take that on board?

Mr Wells—I am happy to. This is a negotiation between Australia and China. We are doing this to obtain commercially valuable outcomes for Australian industries. To a large extent, the outcomes we will be looking for will be preferential—that is to say, when it comes to, let us say, tariff issues, we will actually be looking for preference that United States companies will not have. But then there are other areas where we will be looking for good outcomes that perhaps cannot be dealt with on a preferential basis and, if we do manage to achieve anything in those areas, then other countries will enjoy those benefits. I am not saying what we will be able to achieve, but we are doing it for the interests of Australian industry; depending on what we achieve, industries of other countries might also be beneficiaries.

CHAIR—Thank you. Let us now get back on track with the three free trade agreements we have negotiated, without having a red herring—if I can use the phrase—across the trail. Before we move on to the next sector, the Treaties Committee has said that there was a degree of concern from particular sectors, for example the plastics and chemicals industry, about increased competition from duty free imports from Singapore. Actually if you look at the first year's figures from Singapore, there would seem to be an element of justification for that concern. I do not know who would like to take that on board in relation to consultation of the plastics and chemicals industry with SAFTA? Then we will move on to the next sector.

Mr Grigson—Certainly there is an issue; plastics and chemicals spoke to us at length during the TAFTA negotiation, but in terms of Singapore I am not aware that that has been raised as an issue at all.

CHAIR—You might like to have a look at the hearing from the Treaties Committee—the regulation impact statement; right—you may want to look at that because it does relate to the next sector.

Mr Grigson—Leave it with us; we will come back to you.

Dr Davis—I can partly answer that. They are a member of ours. It is a question of rules of origin, and that was one of our areas of expertise. Petrols and chemicals have very special issues under rules of origin, involving what amounts to substantial transformation or change of tariff classification. To get the preferential treatment, you have to be deemed to originate in that country. For most manufacturers, the hop in the tests is a lot greater than for chemicals. All you need is a chemical reaction. So it is a very complex issue. But the simple reality for petrols and chemicals is that the change involved for rules of origin is going to be very, very small, whereas for most other manufacturers it is going to be quite large. That is the element of their concern. It is not just with any of these, it is a whole-of-world issue. It is a very, very complicated issue that only with expertise in rules of origin would you understand.

CHAIR—We have well and truly covered that sector, so we will move on to the next.

Session 2: FTAs in operation—the impact on trade and on business and industry

CHAIR—This session relates to the impact on trade, business and industry. I wonder whether we could have some opening statements on how you see it. Perhaps we could start with you again, Hamish, in terms of how you see it. We had the benefit when we had a private briefing from you of looking at some of the figures—early figures undoubtedly—but maybe you would like to comment on them.

Mr McCormick—Certainly. As Andy Stoler has already said, it is early days, particularly with the TAFTA and USFTA ones. I guess one of the measures of outcomes that Austrade focuses on in particular is the extent to which we are able to engage with Australian businesses to actually identify particular opportunities and bring them back to Australian companies or to have Australian companies expressing to us an interest in going into these FTA markets. Certainly, anecdotally, we have seen a much greater interest in having a look at the markets again. We have a number of examples. For some of them we are not able to give company names because the companies involved are not necessarily at a point where they want to be identified publicly. There are others but, if you like, we can give you a couple of examples where we think there have been particular outcomes.

CHAIR—That would be great.

Mr McCormick—There are a number of different benefits that come from an FTA. There are the direct benefits that come from a tariff reduction or a tariff elimination. That can have different types of benefits. You could be in the market already and have a lower tariff and that improves your bottom line, or you could have been kept out of the markets because you thought the tariffs were too high and suddenly there is a new opportunity in that market. There are also the indirect benefits that come from a lot of the political and public attention that goes into FTA negotiations. If I could just start with that, we think that that whole process—the head turning effect, if you like—is certainly working in those markets. An example is when the Thai Prime

Minister came down to Australia last year to sign the FTA agreement—that was before it came into force, obviously. From Austrade's perspective there seemed to be a much greater subsequent interest that we perceived amongst Thai companies in looking at Australia as a possible supply source. That is one example. Extending on that, with respect to the Makro supermarket group in Thailand, as a result of the FTA and the broader attention Austrade helped to bring this supermarket chain, a group of buyers came down to Australia to link up with potential Australian suppliers and there have been a range of outcomes associated with that.

That is one sort of example, but we have other examples of where there are companies that are already in the market. Some gem producers were trying to get into the US market and they were basically not aware of the tariff reduction and how it impacted on their attempts to break into the US market and neither were their customer-suppliers in the market. So we were able to help this company and they have publicly identified us as playing a role, jointly with DFAT, in making sure that we received the full benefits that are available to people. One of the issues is that sometimes when our FTA partners implement the FTAs there is a lack of understanding in the countries themselves. For example, customs agents in the US may not necessarily be aware of all the tariff changes that apply to Australian exports. We have been working in that area, trying to make customs agents in the United States aware of some of the impacts.

I will start with the United States. On the government procurement side, Aerosond is one particular example we use now. It has entered into a large reseller agreement with Lockheed Martin, which is the largest US defence contractor. The North American manager of Aerosond has forecast that the reseller agreement will deliver multimillion dollar sales over the next 12 months. That company directly benefited from the government procurement aspects of the USFTA.

We have done a number of other activities there. There is the example of the Australian Flower Export Council, AFEC. There was a range of tariff reductions or eliminations on cut flowers. Austrade has been working with AFEC along with some other companies at the world floral expo in Miami in March this year. AFEC has reported at least \$8 million in sales from these and other marketing events that they have undertaken this year.

CHAIR—What was the tariff before?

Mr McCormick—The tariff was 6.4 per cent. We are finding that even a very small tariff can sometimes give a company some sort of competitive advantage at getting into the market or rid a company of a competitive disadvantage relative to some of their other international suppliers.

There is also the example of Barrier Reef Pools. This is a family owned manufacturer of fibreglass swimming pools. They have had a benefit from a 5.3 per cent reduction in the tariff that previously applied to its products and it is going to be selling in excess of 350 pools in 2005. Sometimes these benefits can come in two different ways. They do not have to pay the tariff any more so they get a benefit out of that or it may be that they are able to expand their market or get into a market they were not able to before. They are examples of people who are in the market but get a benefit from the reduction in the tariff.

I mentioned Berryd Opals, a South Australian opal company. They were having trouble with import duties when they attended a gem show in Arizona. The owner of that company said that

he was presented with a customs bill five times higher than expected and this was going to put his whole exhibition in jeopardy. We were able to assist Mr Berry in advising the custom officials of these new conditions under the AUSFTA and he received a reduction in the import tariffs of about \$US10,000. He said to us that the USFTA, for example, and the reduction in duties could very well have saved his business. I do not say that lightly. We have been talking to these people.

I have some other examples of TAFTA and SAFTA if you want me to go through them. I just want to raise one issue in particular that is of interest. Austrade is available to assist all companies that want to be assisted in these markets. We have a very good reach. We do try to target in particular the SME type market. That is our focus but we certainly assist more than that. We are certainly out there telling people what we want to do. Of course, we do not claim that every exporter that goes into these markets is a client of Austrade. Sometimes in trying to assess and find examples of companies that have benefited from the USFTA we come up with a number of challenges. One is that they may not come to Austrade, DFAT or the post. They may just be out there in the marketplace getting some good outcomes. So one of the challenges for us in trying to come up with examples is that not all companies want to come and identify that they are there. They may not be in contact with us. So we have a challenge in trying to look at some of the impacts of these measures. We are working through that now to try to get a better across-the-board assessment of some of the opportunities that come out of the FTA.

Mr WILKIE—The other day we were having a discussion in another meeting room and Mr Barresi asked a question about what the department is doing to identify those people who are losers in the process and how they are going about being supported so that their businesses do not go broke. We are hearing a lot of the success stories of FTAs but there are obviously people who are going to lose. How are we going about identifying those people and what are we doing to assist them?

Mr McCormick—I do not like to say this, of course, but Austrade's focus is very much on the export side. I do not really feel I am in a position to be able to talk about some of the other measures taken by other government agencies to assist Australian industries.

Mr WILKIE—Is any department doing that?

CHAIR—Does anyone from DFAT want to answer that?

Ms Greville—The only response that I think is appropriate for me to make to a question like that would be to make the fairly obvious point that Australia's economy is already extraordinarily open and we have very low—in lots of cases, zero—tariffs already. In the context of a free trade agreement, it is our ambition that the tariffs on the other side are adjusted a lot further than the tariffs on our side. In the US case our tariffs went to zero, but the highest tariff we had outside the textiles and passenger motor vehicles sectors was five per cent or thereabouts. So the tariff changes for Australian businesses are significantly less in many cases than the tariff changes for our exporters into other markets. That is not to say that there is not some increased competition and that it does not have an impact on Australian business. We are already experiencing extraordinary competition from economies like China, and having a free trade agreement with them is not going to necessarily make that situation different.

Mr WILKIE—But that is not answering the question. The question was: how are we identifying people who have lost out and what are we doing to look after them?

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

Mr WILKIE—But, if we are encouraging and supporting those people who are exporting and helping them develop new markets, surely on the other hand we should be looking at those people who are not benefiting, and who are going backwards from the agreements we are signing, and looking at ways of supporting them.

Ms Greville—I think the government's view would be that—

Mr WILKIE—The question actually came from a government member; Barresi asked it.

Ms Greville—entering into free trade agreements with vibrant economies increases the economic advantages on both sides. The kinds of general economic settings in Australia are such that we believe business can take advantage of those and do well.

Mr WILKIE—I will follow that up later, because in Singapore's case we have actually had a trade deficit blow-out of \$6 billion since the agreement came into place.

Senator FERGUSON—I was wondering whether Ms Tate could comment, while we were talking about winners and losers. At the time of the Thai agreement I think that the textile, clothing and footwear sector said that there would be an immediate effect, possibly in loss of jobs. Has that happened? Has the impact been as severe as you anticipated it might be?

Ms Tate—I do not have the statistics for the current assessments on that. I am not sure whether anyone else around the table is able to add to that. We have not seen the immediate effect, but I think it is still early days in terms of the longer-term impact.

Senator FERGUSON—I think it was said at the time of the agreement that there would be an immediate effect. That is why I was wondering.

Ms Marsden—Without talking about winners and losers, there is another issue there—that is, there are often rough patches when you put in a new trade agreement. We have been talking a bit about the implementation side—let's say, with respect to getting into the US, Austrade helping companies find their way across new rules et cetera and taking advantage of that. But on the other side I think there are some lessons to be learnt about areas such as government procurement, where Australian companies and governments now have to change the way they operate. We are aware of examples where people have put in tenders and only one tender has met the mark and is therefore able to be considered under the new rules. So there are areas where it is important that government, once it has set up this framework, work over those rough patches to make sure that it actually operates very well.

CHAIR—That is a scenario that we might like to address. We are halfway through, because we were on a specific point, so we might come back to that. Hamish, do you want to finish off.

Mr McCormick—From our point of view, we are certainly very much out there. We do have evidence that there is a greater level of interest from Australian business in these things, and we are busily working through a number of ways of trying to identify specific opportunities for Australian businesses and matching them up. We have examples that we think are clearly linked.

As I said before, there are some issues about how you identify and associate something with the FTA. There are some broader benefits. The benefits that people often focus on are tariff reductions, which are pretty clear. For ones involving head-turning effects, it is sometimes more difficult to definitely be able to say, 'This is because of the FTA.' Certainly our sense is that, when people focus on the markets—for example, in Thailand—and on potential sources of supply like Australia, we need to see that we do have a flowthrough.

Essentially, in some of these FTAs, as Andy Stoler said before, there were specific consultation mechanisms that allowed you to work through problems. Having an FTA in place, from our experience, can be a very good form of leverage to overcome particular problems. So, even if the FTA does not specifically deal with an issue but you have an FTA, then you have an opportunity to say that there are particular developments that you do not think are in the interests of Australian exporters, and you can use the FTA as leverage to overcome this.

CHAIR—I would like to drill down a bit in terms of government procurement. We all recognise that it is early days and we are setting up virtual offices and other offices throughout the US. I was there in April and they were recruiting people, so it is early days. Since we negotiated TAFTA, there has been a significant increase in exports. In relation to Singapore our exports have gone down significantly, and there has been hardly any movement in the US in terms of exports. Singapore was the one that was negotiated earlier. Do you have any initial comments as to why we would see that result? Is that an aberration?

Mr Grigson—In relation to Singapore, firstly, it was more about services and investment, given that it was already a free port. Secondly, currency fluctuations affected values. Thirdly, the drought affected some of our trade in goods. Fourthly, and perhaps most importantly, is the point you made: we would want to look at it over a five- or 10-year period, not over one or two years.

CHAIR—What was the biggest contributor in Singapore? Australia's exports to Singapore went down from \$369 million per month before the agreement to just \$268 million per month after the agreement.

Mr Grigson—I will have to get the figures for you; I do not have them with me.

CHAIR—Could you review which ones in particular have changed during that time?

Mr Grigson—Yes.

CHAIR—Do you think it was the drought? What is the key commodity that goes there?

Mr Grigson—Processed food exports—we have significant exports in meat and chilled dairy products.

Mr WILKIE—On that specific point, it is not just the monthly figures that we have in the report. We have gone from having a surplus in 2003-04 of \$1.177 billion to, after the agreement, a deficit in 2004-05 of \$5.849 billion. I find it hard to explain that sort of turnaround just through agricultural products and a drought. Significant amounts of imports have been coming in from Singapore. In fact, they have skyrocketed by comparison to our exports. I would like to see a detailed analysis of where those changes have occurred and try to find out why they have occurred.

Mr Grigson—We can do that.

Dr Davis—A solution is to distinguish between Singapore as a country of origin and destination and Singapore as a transit port—which is an enormous problem with Singapore.

Mr WILKIE—Yes, but the rules of origin are supposed to sort that out when it comes to some of these sorts of arrangements.

Dr Davis—But some of the statistics do not.

Mr Grigson—We will do you an analysis.

CHAIR—On the other hand, it would be interesting to know why Thai exports have gone up so significantly during that time. Where in particular have we benefited? Are you able to comment on that?

Mr McCormick—Not in great detail. There are one or two products that can distort the picture sometimes, and it may not necessarily be—

CHAIR—It went up by \$740 million in a five-month period, which is very significant.

Mr McCormick—To come back to the Singapore example, you are focusing on the trade balance. I was just looking at the figures here on our exports, and the change in annual terms between 2003 and 2004 is essentially taken up by one product—petroleum. There was a drop in petroleum exports which, again, would not have been affected by the Singapore FTA. Again, there can be these one-off things.

CHAIR—If we do another round of these, it would be useful to come prepared in terms of product variations and where there has been a change.

Mr WILKIE—Even though the US agreement has been in place for only a short period, why do you have a very similar story there as well? Our exports to the US have decreased by 2.7 per cent, and our imports from the US have increased by 7.4 per cent.

Ms Henderson—Our exports to the United States have been on a very gentle decline since 2001—nothing dramatic.

CHAIR—Exchange rates, is it?

Ms Henderson—Exchange rates is one factor in that. The government is very confident that over time the FTA and the market access we have achieved through that will turn that around. But, as people have commented this morning, we are in our infancy in terms of the agreement only having been in place for a few months. Whereas we have seen some positive impact in a few sectors—for example, in relation to our lamb exports there was an elimination of duty and we have seen a 29 per cent increase year on year for the first part of this year—across the board it is a bit too early to tell. Also, with some of our major opportunities such as government procurement that Hamish has referred to, we are in a phase of helping Australian business understand and access that market.

Mr WILKIE—But haven't we as a country, through our budget forecasts into the future, predicted an increase? It is too early to tell, yet we have the government putting in the future forecast for the budget with significant increases in trade. Isn't that a little premature, if what you are saying is that it is too early to tell?

Ms Henderson—We are saying that in relation to the US FTA seven or eight months down the track we are seeing an impact in some specific sectors where the market access benefit was from day one. In other sectors there is a lot more work to do. There are some further negotiations to be had in terms of services and investment opportunities that we want to pursue. Then there are the factors of government procurement—a major opportunity—but it takes a while to work your way through the US federal government procurement system and actually get the contracts, and also time for Australia's exporters to assess the benefits and decide what investment they want to put into the US market. Hamish may want to make a bit more of a comment about this, but we have always said that the US market is extremely large and complex; it is not easy to just dive in.

Mr WILKIE—Just to follow up on that, I would like those figures to be checked to see whether they are accurate in terms of the changes. I understand there has been an increase in our trade deficit with the US of 16.4 per cent. So we are not talking about a slight fluctuation in trade—16.4 per cent is a major change, and that is since the implementation of the agreement.

CHAIR—According to the figures I have, since the FTA came into existence on 1 January 2005, exports to the US have been \$3,634,000 in the five months to May—up slightly from the corresponding period in 2004.

Mr WILKIE—Yes, but that is only one. You have to look at the deficit overall: it is imports versus exports. I understand that there is a deficit of 16.4 per cent since implementation. I would like that figure checked. If anyone can explain why that has occurred, I would appreciate it.

CHAIR—Perhaps the department could write to us on that. Hamish, how many new trade people are you employing in the US? When I was there in April, the department was busy recruiting and setting up the offices.

Mr McCormick—We have 23 new additional staff. So, in terms of our client-facing employees, we have about 57 altogether. The 23 new ones are all in place and spread around the US.

CHAIR—So they are all now finally in situ?

Mr McCormick—Yes. We have been implementing that gradually, obviously, over the last eight months or so, trying to get the right people. It is a new business model for us to extend our reach and to target industry specialists to particular areas where we think there are opportunities for us to develop further. So we have government procurement specialists, agribusiness specialists, people who are specialists in music, for example, in particular areas. We have put a lot of new resources into making sure that we maximise these opportunities. While you certainly can look at some figures and ask the question, I still think that, basically, these agreements are about a whole range of benefits that flow through.

It is far too early to try and draw conclusions as to whether the overall picture is due only to the FTA, whether it be positive or negative. Most people would assume that, when you look at markets more, you are going to get some associated benefits with that. Some of these projects take time to work through. So when we get new access that we did not have before, like the government procurement area, we have to have an opportunity to work through that. We take this as an opportunity for us to improve the way we can service businesses in the US market over time. For example, we did a string of seminars around Australia focusing on new government procurement opportunities in the US. We have new staff in the US and we are working with our colleagues from the department of finance to prepare a more detailed business guide to government procurement markets in the US. We have a lot of activities which are designed to make sure we get the most out of it. But some of these things do take a long time. Some of them are very big opportunities, which obviously take more time to develop.

Mr CAMERON THOMPSON—I return to the issue I was concerned about with domestic subsidisation and the likely trends now that an agreement is in place, particularly with the US, where they have quite a capacity to hide domestic subsidies. Tim made the point earlier that, if we look at companies in Australia that are struggling as a result of the FTA, there is a temptation to do something to assist them. That amounts to a level of domestic subsidisation. What trends are there in domestic subsidisation? Can we expect a continuing decline in domestic subsidisation, particularly in the US, or are we in a position where the US has basically more capacity to subsidise than we do and that, over time, we will be on a slippery slope?

Ms Greville—I can perhaps address some of the question. I am not sure that I have the expertise to answer it as fully as I would like. There is a big distinction between WTO trade rules that apply to agriculture and the rest. Agriculture is the sector of trade for which most distortions still exist. One of the big emphases in the current multilateral trade negotiations is to try and reduce the level of subsidisation within the agriculture sector. There are already rules that apply to other areas of trade and there are WTO rules which govern the sorts of industry policies that WTO trade members can apply within their own constituencies. Reverting back to the question that Mr Wilkie asked me before about what we are doing about industries who may be suffering, the point I should have made then was that, essentially, the Department of Industry, Tourism and Resources is the government entity which has responsibility for industry policy. Within that framework, they assess how industries are faring and what measures are appropriate for us to take and are consistent with our WTO obligations.

CHAIR—It probably would have been useful for this purpose but the committee might follow up talking to the department. Have you finished, Cameron?

Mr CAMERON THOMPSON—I was interested in this whole question of subsidisation and trends in it. Are there trends?

Ms Greville—I will try to keep it short. In terms of agriculture, which is the area where there is the greatest capacity to subsidise, the effort multilaterally is to reduce the capacity of countries to provide distorting support. The US currently has a significant capacity to support its agriculture industry. It uses most of but not all of that capacity. The US has told us that it is prepared, in the context of the WTO, to look at significantly reducing its domestic support, depending on which kind of deal is done multilaterally to provide increased market access.

We have a much smaller capacity to support our agriculture industry. In fact, we use a very small proportion of that because that has not been government policy. Our farming sector is very largely unsubsidised and is very competitive in world terms. There is no trend in Australia to increase our domestic support, and, to be fair to the US, the trend, hopefully, in the US is for them to decrease their domestic support, but it depends on the outcome that is achieved in the multilateral round.

Senator EGGLESTON—Hamish, you made a comment a minute ago about preparing a document to advise people of changes in the United States. Looking at these trends here, it seems that the trend in the Singapore and US free trade agreements is that our exports have fallen and imports have gone up. To what extent have Australian business people been made aware of the opportunities that exist under these new free trade agreements through the Business Council of Australia and through the chambers of commerce? Is it simply a matter of perhaps increasing the level of awareness of the opportunities that are now available that might change these trends?

Mr McCormick—That is a good question. It is something we continue to look at. We have certainly made an enormous effort and have had a number of major initiatives to get out there into the markets in Australia to tell people about the opportunities and to explain to them what the FTAs are. I can cite you chapter and verse about all the different things we do—the short and long publications and some industry specific seminars. Working with our allies, we have particular mechanisms to try to get out there and touch people and at least to get them interested. We have a whole range of electronic targeted direct mail campaigns. We have electronic brochures. There is a lot of activity out there by a whole range of players to do this. When we have our trade commissioners from overseas come back and do particular seminars, some of them targeting sectors, we try to match up people that we identify as being interested and getting out there. So there is a lot of activity out there.

The government has also set up this FTA advisory panel, which is actually designed to look very much at this issue of what we are doing to implement and maximise the opportunities from the FTAs that we have in place now and how we can all work together to make sure we get the most out of them. This is an issue of that advisory panel that the Minister for Trade, the Deputy Prime Minister, has set up. They had their first meeting about a month ago and they are meeting again. They have major players, including a number of people who are represented around the table here, on that.

We can send out of a lot of material. Whether people actually read it or whether they are touched by it is another issue. In a sense, we are aware that making people have a think about

these FTAs is not a one-off issue. You have to go back again and again. Situations change for companies. They may be in some area and think that that is where they want to stay. It may take them a while to start thinking about new opportunities. So we intend to continue this whole promotional marketing of the FTAs over time. It is not a one-off. I guess that comes back to that question of: to what extent do people know about them? It is hard to make a judgment about that. There are some informal pieces of information coming back saying that some people do not know about them. We are simply trying to work through that to work out how best to target people and get them to think about the opportunities.

Mr Stoler—I want to draw attention to one aspect of this with regard to the US agreement, which is that, as Hamish has said, there is a head-turning effect that comes with these agreements. The committee may be aware of the fact that recently the business visa laws have changed in the United States to provide for an Australian specific business visa, which was not an element of the free trade agreement itself but which would never have been possible without the FTA. This means that instead of getting about 900 business visas a year, which was the case under the old H1B US visa, Australians will now get about 10,500 country specific visas. Since trade in goods and services often follows the movement of people, this is a tremendous new opportunity to expand Australian exports to the US as well.

Mr WILKIE—The FTA provided for ongoing negotiations on visas, didn't it?

Mr Stoler—Yes.

CHAIR—I wonder whether we could come back to Ms Marsden on the question of government procurement. When I visited Washington, Geoff Gray, who is a senior trade commissioner in Washington, said that he saw one of the best opportunities as being the ability to participate in the procurement area. What are the successes and failures, and what is the problem?

Ms Marsden—I will make a couple of comments. The comment that I made before about government procurement and rough patches was specifically to do with how government procurement operates domestically in Australia. So not only have we won gains in the US, which we hope will be taken advantage of—

Mr WILKIE—Potential gains.

Ms Marsden—That is right. We also have to accommodate similar changes domestically. I was using government procurement as example of where there are rough patches on the implementation and operation side, both in the US and Australia. We need to make sure that companies can step through. Our members are very aware that there are government procurement changes. We have made sure that they are conscious that that is probably where one of the largest benefits will be for them. We have not had a lot of excitement about that, to be honest, but with the E3 visa, for example, there have been questions and a great deal of interest. So it depends on what it is, and I think that might be indicative of who our members are. The larger companies, rather than the ACCI companies, might be specifically more interested in that side.

CHAIR—But you said there was a specific problem.

Ms Marsden—Yes, I did. I talked about a specific problem on the domestic side. This is purely anecdotal, second-hand evidence, so please take it as such. The story that I have heard recently is that domestically, because we have had a change in how government procurement operates in Australia, we had 35 bids, including some of our members, for a major contract with the federal government, and almost all of those bids failed because they did not meet the new standards. I think that is an example of where our members are aware of government procurement and how they might take advantage of it in the US but, on the other side, are not aware of what changes they might have to make to their own procedures to make sure that they comply in the future. This is just an example of the operation on the ground. I think that side of it is very important.

The other comment I want to make, related to that, on the operation side, is that we can see a number of benefits from the Australia-US Free Trade Agreement to our members now, and government procurement is one of them, but a number of the key benefits that our members will really get from that are what I would call the side issues or the additional measures that we aim to get out of committees in the future. Dr Brent Davis talked about the agreement not being static and the importance of that. I think that is very true. If it were just a static agreement we would not have been quite so supportive of it. The fact that there are additional measures there is excellent, and we hope to get some great benefits out of that. However, those committees are very easily stalled, blocked or distorted by the other side. So if the US is not interested in providing those gains then there is a lot that it can do to block that. It is very important that we keep a focus on those committees.

We are aware of examples in the past where the US has worked with other countries and managed to stall a committee by, say, not providing the right number of people to be on the committee and, therefore, move forward. That is not happening in Australia—we are moving forward on it—but we are already seeing a lot of hesitancy on, say, the Financial Services Committee from the US side. It is very important from our members' perspective that these types of committees have enough focus, and it is going to require a lot of energy from our side to keep them moving and get those tangible gains on the ground.

CHAIR—Are you aware of any government procurement work that the department were able to secure? According to Geoff Gray, a number of companies participated in a major fair that was in Washington. Are you aware of this?

Mr McCormick—I mentioned the Aerosond example, where we identify specifically the government procurement aspects. If you wish, we can have a look at some others. I do not have specific other ones; I have just tried to give some examples of this. We can have a look at that. This is something that will unfold over time as people have to understand what is quite a complicated government procurement system at federal and state level. That is why we put all these additional, specific resources in there.

CHAIR—As well as putting in specific resources—these 23 new people who have direct interface with potential importers—are we putting more funding in to allow people to participate in specialised trade shows or trade missions et cetera?

Mr McCormick—Yes. We are trying to target them so that we can get the maximum outcome. You can go across the board, but we are trying to match this up so that we have a range

of particular activities for the remainder of this year. The ones that we did at the beginning of this year—I mentioned some of them earlier—are designed specifically to get in there and take advantage of the opportunity.

CHAIR—How much is the increase in budget for participation in trade shows this year?

Mr McCormick—I do not have the figure with me. Some of this is also just matching up our resources more effectively with particular new opportunities. I can have a look at that, if you like.

Ms Greville—I want to make a point on the comment that Freya made about teething problems in domestic government procurement. For the committee's information, the Department of Finance and Administration, which is responsible for federal government procurement guidelines, has produced a guide for doing business with government, to deal with those kinds of domestic transitional issues. We will bring Freya's concerns to their attention as well.

Senator WEBBER—I would like to follow up on Mr Wilkie's concerns. Looking at the figures that we have been given, there is obviously a bit of discussion about which figures are what; but we all seem to be in agreement that, with some of them, our exports have declined and our imports have gone up—which is trade—and that is nice. Whilst it is nice that we all sit around and talk about the benefits, there are obviously some disadvantages too that are coming through with the free trade agreement. It would be nice if there were some sensitivity about that, and we could have a look at where those declines in exports from Australia have been and where the increases in imports have been. Particularly with Singapore and Thailand, say, it would be interesting if the increase in imports from Thailand has been in primary produce, given some of the concerns that have been heard in the last fortnight. There is growing concern within the Australian community about country of origin. What impact is that going to have on our relationships over time?

CHAIR—Do you have any information about primary produce from Thailand?

Mr Grigson—While I have a look at the figures, let me make a point that I would have made before if I had had the opportunity. TCF came up, for instance, in terms of Thailand. There are safeguards built in to the agreement which protect against a surge in imports from Thailand, which has not occurred. The other thing to note about TCF imports from Thailand is that they make up 1.5 per cent of the Australian market, so they were never a serious threat. Chemicals and plastics is the same; there is a series of tariff phasings on both sides that protect our chemicals and plastics industry from a surge in imports from Thailand. Similarly, we have not had any—

CHAIR—What about Singapore?

Mr Grigson—I would have to check on Singapore. As I said to you before we have had no contact at all from the chemical and plastics industry with any concern about imports from Singapore. There is none at all. I have just had that checked. That is why, when you asked that question, I moved to TAFTA, because that is what we have heard about. We have not heard about Singapore.

CHAIR—That is interesting. If there were a problem, you certainly would have heard.

Ms Henderson—As I said before, our exports to the United States have been in gradual decline since 2001. We are confident that this will turn around over time, so that is the backdrop to the figures that have been mentioned this morning. For the first part of this year the figures show that there is a 2.7 per cent year-on-year decline for our exports to the United States. Our largest declines are in relation to confidential items, motor vehicles and crude oil. Crude oil is completely unrelated to the FTA. It has been diverted to East Asia. I have looked at the figures going back over the last seven or so months. They are highly volatile in terms of our exports to the US jumping all over the place. In terms of the US exports to Australia, some of the areas where there have been increases are also completely unrelated to the FTA. I hate to raise a controversial subject but the United States has access to the Australian pork market for the first time as a result of the IRA that is currently under legal challenge and they have taken up some opportunities there. As we all know, trade is a very complicated thing with many factors—some of them are FTA related and some are not.

CHAIR—What about utes? They were supposed to be the big deal. Now that General Motors and Ford are having some serious marketing problems in the US and they have got production capacity, as I understand it, it is unlikely that utes are going to be exported.

Ms Henderson—As you say, the utes were a significant market access with the 25 per cent tariff going to zero. I believe that we have not had our first big ute success story as yet in terms of exports going out. I do not know if you want to add anything else?

Ms Greville—I would only add that my understanding is that while the Australian vehicle manufacturers were very pleased about the 25 per cent tariff reduction they were also very clear that to take advantage of it there would be some significant lead time in terms of gearing up for it. It was never their expectation, as I understand it, that they would start to ship immediately.

CHAIR—But since that time we have had a big downturn in manufacturing by GM in particular.

Ms Greville—And currency fluctuations and all manner of things will impact on what that time will be.

CHAIR—So they are still hopeful that will happen?

Ms Greville—My understanding is that they still see that as a significant opportunity. I guess the question is when to take advantage of it.

Senator FERGUSON—It is a style of vehicle that has never been sold in the United States before. There has to be an acceptance of the style as well.

Ms Greville—My understanding is that they see it as potentially a significant market share especially as pressures increase in the United States for more fuel-efficient vehicles. So with the light pick-up, as opposed to the enormous ones that the Americans currently drive, there is a market share there that can be taken advantage of. Of course, it depends on other financial settings as well as just the tariffs.

Senator FERGUSON—From what I have heard around the table this morning the general view is that seven months is not long enough to tell whether or not a free trade agreement is having a positive effect. I hear what Mr Wilkie has raised about the numbers of industries that might be affected adversely. If we are going to look at that, we also need to keep track of those that are being affected positively—those people who are actually employing more people and where the pluses are. The question is to you, Hamish, and it follows on from Senator Eggleston's: do you think small business firms and those who are potential exporters, small to medium enterprises, are satisfied with the information that is available or the ease of access to information as to how to access the market and what is now open to them?

Everybody says, 'It's a free trade agreement, so let's hop in,' but sometimes they do not know whether the market suits what they produce, how competitive they will be when they get there or what impact the dollar is going to have when it goes up and down. A lot of the downfall in trade has been affected because of the appreciation of our dollar and the resultant gradual decline. I was there for a while in 2000, and I was getting US51c to the Australian dollar—and you could not buy a lot with it, I can tell you. I wish I had been there when our dollar was worth US78c. I am wondering whether small to medium enterprises in particular, which do not have the access to marketers within their group like large enterprises do, are in general terms satisfied with their ability to access information.

Mr McCormick—Our sense is that they are. We have specific programs for new exporters, the majority of which are SMEs. There are many SMEs that have not exported before but clearly have potential. We have the particular program whereby we bring them in to make sure that they are export ready and then we look at what they have and try and match them up to specific opportunities and specific markets. These are free services. There is no charge for these things. And we have a new network, the TradeStart network, whereby we are expanding our reach. We are getting out more into regional areas as well, so that we have more people out there collecting. We have export hubs now which bring together the different federal government services that are available—some of them are export services from Austrade, some of them are competitiveness services through AusIndustry and ITR. We have co-location hubs to make our access to SMEs in particular easier for them.

One of the judgments of our outcomes is about new exporters, again, which are primarily SMEs. We are seeing those numbers grow very significantly and we are seeing the level of interest in the markets grow from these people as well. I think there is always room for more information, and some people do not get the information that they necessarily want. Our sense is that our clients have a very high level of satisfaction. Is there room for more information? I am sure there is always room for more information, and this is why this is a process that we keep looking at. Are we reaching people? Are we getting out the right sorts of information? Are we doing what people want us to do? Some of this is demand driven; some of it is supply driven.

Senator FERGUSON—Earlier we asked the department for a breakdown of the different exports. Could you also include in that the differences that have occurred in these overall figures? Which of those items are simply not affected by the free trade agreement? I think some items are totally outside the boundaries of what was covered in the free trade agreement, and it can distort the figures. You might say, 'We're 16 per cent down,' but if they some of those items are simply not attributable to anything to do with the free trade agreement then we might find that the figures are different. I am wondering if we could get that breakdown.

CHAIR—There would also be a distorting effect if a number of aircraft were imported.

Senator FERGUSON—Yes, the new Boeings.

Mr Pearson—There is a related impact as well. Sometimes the benefits are actually obscured by developments elsewhere in the global market. I will give you a case study—for example, sales of minerals to Thailand. Thailand lowered its tariffs on a number of metals and minerals products, so Australian companies selling to Thailand are now saving a lot of money in tariffs. The overall quantum of sales to Thailand, maybe, has not expanded in reaction, because China has soaked up a lot more of that product. You have to be careful not to associate cause and effect when there is another very powerful impact on the global market.

CHAIR—That is true. We will take a short break now for a few minutes.

Proceedings suspended from 10.54 am to 11.02 am

CHAIR—It is important to have figures that we can all agree on. Somebody was saying to me during the break that I was quoting a figure for five months which shows a small increase, but on a six-monthly basis there was a small decrease, of 2.7. Can I suggest to the media that we all sing from the same hymn book and use Jeannie's figures—ours, I am sure, come from the same source, but it is probably appropriate that we all try and use those figures. Tim Colebatch from the *Age* just passed me the figures he got from the ABS, which yours, Jeannie, are based on too, I presume.

Ms Henderson—Yes, I believe so. They are Department of Foreign Affairs and Trade trade statistics.

CHAIR—The figure to Thailand is a 63 per cent increase and for the US it is minus three per cent. That is curious. Now that you have looked at the figures, can you identify what represents the big increase in the Thai figures?

Mr Grigson—Thai exports have gone up 23 per cent. I am having some figures sent up. The major increase was in non-monetary gold, which is a product not affected by TAFTA. Other increases have been recorded in seafood, airconditioning units and computers.

CHAIR—Is it dramatic in seafood?

Mr Grigson—I will be getting the figures for you.

CHAIR—And gold?

Mr Grigson—Non-monetary gold, which is not a product affected by TAFTA.

Senator FERGUSON—One of the problems we have is that we are talking about the free trade agreements and the effect that the free trade agreements have had, but if we are using overall figures we are using a lot of figures that are not affected by the free trade agreements. So I think we are at cross-purposes a bit unless we can get them disaggregated: increases or

decreases that are a result of the free trade agreements as against those that would have taken place anyway, regardless of whether there were agreements.

Ms Greville—To respond to Senator Ferguson's last comment, I think you are absolutely right: the great danger is that we will look at what comes in and what comes out and make assumptions about what that means.

CHAIR—That is right.

Ms Greville—But to take the point one step further, what we also do not know is what the impact would have been without the tariff changes. So it is not just a question of whether it was a tariff change that affected it; it was also whether, had we not had the tariff change, the impact in these six months would have been different again. Either way it is a very complex, cogitative process to try and determine what the actual impact has been.

Senator FERGUSON—But just looking at raw figures does not tell us a lot, does it.

CHAIR—When I was visiting Washington in April, it was interesting that a US congressman said to me, 'If you see any evidence that this agreement I have voted for has actually resulted in any increase in US exports to Australia, let me know.' So it is a two-way process; we cannot expect it all to be one-sided.

Mr McCormick—By definition, any decrease in exports to an FTA market cannot be as a result of the FTA. There are some peculiar issues in there, which is partly what Virginia was saying. It is quite a complicated process. Brendan gave an example of when something happens in another market that affects it, but there is also the effect of the promotion. Again, you may not be able to say there was a tariff increase that led to it, but, even if there is not a specific example, the very fact that people are looking at the market might in itself result in some additional sales to those markets. Even if there is not a particular tariff result, it does not mean that a positive is not somehow related to the fact that we are doing an agreement and people are focusing on it.

Senator FERGUSON—But, also, an increase in imports could be attributed to a free trade agreement. In the same way that you say an increase or decrease in exports cannot be attributed to the free trade agreement, an increase in imports could be attributed to a free trade agreement because of the opening up of the market.

Senator WEBBER—I want to continue my conversation with Mr Grigson about TAFTA and where the increase has been. From the figures you have just given us, the major increase has been in non-monetary goals, so it has actually been in things that have nothing to do with the free trade agreement.

Mr Grigson—That is right. I acknowledge the point that an increase in imports and exports may be a result of publicity given to markets in both the regions.

Senator WEBBER—Has anything else interesting happened in that relationship?

Mr Grigson—We were talking about seafood, which I think you are interested in.

Senator WEBBER—Yes, being from Western Australia.

Mr Grigson—Seafood has gone up 10½ per cent year on year for 2004-05, but the point to make is that our tariff on seafood was already bound at zero. So the value of imports has gone up, but they are not affected by TAFTA, because the rates were already at zero. I think this is one of those issues where we get to what is directly affected by TAFTA, what is not and what you can attribute to the free trade agreement.

CHAIR—I think we looked at that to a certain extent with Mr McCormick's opening statement around some of the things in the free trade agreement with the US. The committee is interested in those, perhaps as a summary. To be fair, I think we also need to balance it up and ask, 'Where have the Thais, Singaporeans and Americans made some inroads in our market as a result of the agreements?' so we know what we are dealing with on an objective basis, trying to move out those that are not subject to the tariff requirement.

Senator WEBBER—There was some concern from the seafood industry initially—

Mr Grigson—There was, yes.

Senator WEBBER—about the free trade agreement. Is the industry happy and are there any other industries that have raised concerns about the impact of the agreement?

Mr Grigson—I cannot say that they are happy, because we have not heard from them since the—

Senator FERGUSON—Then they are happy!

Senator WEBBER—Or they are busy going through some other readjustment processes.

Mr Grigson—One of the other points I was making to Senator Webber during the break was that on TAFTA we get about 30 emails and about 40 phone calls a week and we use that as a rough guide to what industry is interested in and what it is not.

CHAIR—What are they then—are they complaints?

Mr Grigson—No, there are very few complaints. Mainly they are seeking information. We run a web site and we have printed a large number of a business guide. It is to do with how the certificates of origin system works and what tariff rates are. We think we have a reasonable feel for the interests of industry just on the basis of that, I have to say.

Senator EGGLESTON—What about figures on the other two?

Mr Grigson—I cannot give an answer on the US. On Singapore we have many fewer contacts from industry. They tend to be with big companies with particular access issues, and we help them on a bilateral basis.

Senator EGGLESTON—Service companies?

Mr Grigson—Yes, particularly chasing investment. One of our major goals in setting up SAFTA was to try to encourage more Australian investment.

Mr McCormick—There are a number of surveys of exporters out there and we work with DHL to do an exporter survey every quarter or so. From last year we are seeing that exporters are increasingly identifying the positives in the FTA. It takes time for even current exporters to identify that. For all of the FTAs there has been an increase. I think there has been about a 30 per cent increase in interest in the US market. Also, the number of people who identify this when asked, ‘Do you think there is a positive in these things?’ has been growing quite significantly, by about 25 per cent. Sometimes this reflects that people do not know what is there. There are a lot of businesses that are very busy working away and they are not focusing on some of these issues. So we are trying to reach them. Paul mentioned the web site. We have an fta.gov.au web site, which is a whole-of-government exercise, which is very much focused on these things. Jeannie was going to mention some stats I think on the US.

Ms Henderson—This web site, fta.gov.au, was developed in response to the entry into force of the Thai and the US FTAs. It also covers our other FTAs—ANZCERTA and SAFTA—and was a collaborative effort between DFAT and Austrade, and also bringing in other departments. Since it was launched on 27 April by Mr Vaile it has had over 27,000 hits. I have not broken that down into the different FTAs. Just in relation to the senator’s question, I can advise that on the USFTA my area of the department has responded to 800 inquiries since entry into force—that is emailed inquiries only. We have had other telephone inquiries but we have only just recently started monitoring those numbers. And additionally, of course, there are letters to the minister.

CHAIR—I did say when I was in the United States in April that the trade commissions were a very useful marketing tool.

Mr WILKIE—I want to cover some of the financial aspects, but can I just say with regard to the positives versus the negatives situation that it is really good that we are assessing the positives and promoting people to come and export. I think the department is doing a great job there and is to be commended for it. I am very concerned, as I said before, that we are not doing much about looking at where people have lost out and how we can support them, if not in the country that they are currently dealing with then in trying to find other markets for them so that their businesses are protected. I am rather disappointed that that is not the case—though that is not your job, as you said before. As for the web site, getting a lot of positive hits, I imagine, would be fair enough because the web site is set up to get positive hits. It is not really there to get people who have got concerns about what might be happening with their business.

I have another question specifically in relation to this matter. The Australian government obviously has in place systems to encourage businesses to get out there and export to the United States. What is the US government doing about encouraging their businesses to come here and trade?

Mr McCormick—Responding to the first issue, I had understood the focus of your question initially to be on what we are doing about people who are facing more import competition in Australia. There is another category of people who may be facing more import competition but are actually exporters as well.

Mr WILKIE—That is what I am talking about.

Mr McCormick—Certainly that is one of the things that we as Austrade have a look at. We are involved with people and we are always asking them, basically: ‘If you are not doing so well in one particular market, maybe we could find another market where you are better suited or where you have a better match.’ So we do those sorts of activities designed, again, as part of expanding and maximising export opportunities there. So we do have that sort of impact on people. There was a case raised yesterday which we are having a look at. I might ask Pat to talk about that.

Mr Stortz—By way of introduction, I am the Manager of the International Liaison Unit for South-East Asia, South Asia and the Pacific with Austrade. Yes, a query was raised in the Trade Subcommittee on Wednesday about a Victorian furniture manufacturer and the difficulty it has been having. We have since spoken with our industry specialist, who has had a lot of dealings with the company. The difficulty they are facing is that the US manufacturers, of which I think there are primarily three, are manufacturing components in China, importing those into the US, assembling and then exporting from there; whereas the Australian company is manufacturing entirely in Australia. It has had some success in the US. Our posts in North America are of the view that there are significant opportunities still for that company there, and they are doing a range of things to find additional opportunities in that market. We are also looking at opportunities under SAFTA for government procurement contracts for that company in Singapore.

CHAIR—What about the company that has the components produced in China, has them assembled in the US and exports them to Australia—do they therefore have the benefits of the US free trade agreement?

Mr McCormick—That is a rule of origin issue basically that goes to whether or not, under the rules of origin of the US FTA, there is enough to qualify as a US product.

CHAIR—Would it or not?

Mr McCormick—To be honest, it depends on how much is in there: is there a substantial transformation?

CHAIR—What is the cut-off?

Mr McCormick—I am not an expert on rules of origin.

Mr Arndell—If I could make a couple of comments, the free trade agreements with America and Thailand are based on rules of origin which require basically a change in tariff classification. So the way it works is that you look at the tariff classification of the final product and you look at the tariff classification of all the inputs that go into making that product. Every product has its own particular rule of origin. So it depends on the product. What it requires is that you demonstrate substantial transformation. The way you do that is by showing that the tariff classification of the products you start with is somewhat different from the tariff classification of the finished product. So in the case of furniture, you can have foreign inputs into the manufacture of the final product. As long as you can demonstrate that you have substantially

transformed the Chinese inputs or whatever into the final product, you will qualify. So for most goods it is a simple change in tariff classification rule, which most industries are very supportive of. For some sensitive products you also have a local content requirement as well. But I am not quite sure what the particular rule of origin is for furniture. I would suspect it is just a straight change in tariff classification requirement. So as long as you have elaborately transformed your inputs into the final product, you would qualify for origin and therefore for preference.

Ms Greville—Assuming a preference exists—

CHAIR—That is right.

Ms Greville—Whether it comes from China or whether it comes from the US is irrelevant.

CHAIR—With furniture, do you know what it is into Australia?

Ms Greville—Sorry, not off the top of my head.

CHAIR—It would be interesting. There was an example of one of our members who brought a case of a manufacturer in his area who was complaining and who has been adversely affected by the free trade agreement. So it is interesting that you have had that review. I suppose you have said there are still opportunities for him to sell there. But we are still not sure, to follow up Mr Wilkie's question, as to what extent he is disadvantaged here. I wonder whether we could have a short response from you in writing at some stage in terms of what the tariff is.

Mr McCormick—Our Australian tariff?

CHAIR—Yes.

Mr McCormick—And what happened to that with the US FTA?

CHAIR—Yes.

Ms Greville—It went to zero.

CHAIR—What was it before and, because of being assembled in the US, was it changed in terms of country of origin or not?

Ms Tate—The issue of rules of origin is something that I think we are all pretty sensitive about, in terms of future FTAs—particularly in ASEAN or ASEAN Plus and of course in the China FTA. I wonder if the department might be able to provide an assessment of the enforcement, monitoring or documentation process issues involved with the rules of origin thus far.

Mr Arndell—I would like to make a few comments. The Australian Customs Service received extra funding to implement and administer the free trade agreements with the US and Thailand. The funding was targeted to three branches: our risk identification and intelligence branch, our compliance branch and the trade branch. I work in the trade branch. We received additional funding partly to provide binding origin advices to Australian importers of goods from

America and Thailand and also to American and Thai companies interested in importing products into Australia. We also received extra staffing in our compliance areas that do audits and in our risk identification area. This area looks at trends in trade, at companies that are starting to import from America and Thailand, and at anomalies—for example, surges in imports.

We also have particular profiles in our computer system. We randomly pick companies or we target particular companies or particular countries of supply. We then look for documentary evidence. For example, with Thailand you have to have a certificate of origin issued by the Thai government. When companies start importing from Thailand, we randomly pick companies through our computer system. We will say, ‘Well, you can’t clear your goods until we see the documentary evidence that you need to have.’

We also undertake an annual program of audits. One of the things we look at is companies claiming preference, whether they are claiming preference through New Zealand, Singapore, Thailand or America. We also ran a fairly extensive education program late last year, explaining the nature of the rules of origin and all the documentary evidence you require before you claim preference. We have also got on our Customs web site fairly extensive information on tariff rates, the rules of origin for each and every product, and the evidence you need in order to be in a position to claim preference. We have a range of measures in place.

CHAIR—Do you have much evidence of false claims of country of origin?

Mr Arndell—One thing that has come up is that we receive a large number of inquiries from people who are not sure what the rules are. One of the main problems we have had with Thailand is that companies are attempting to use certificates of origin which are not specifically designed for that free trade agreement. There are a number of other certificates of origin which are used throughout Asia, not always for preferential purposes. We get a lot of inquiries from companies that come to us before they import the goods and say, ‘Is this the form of certificate of origin that will be acceptable to Customs?’

A lot of the examples we have received have not been acceptable. We have on our web site the correct certificate of origin that companies should use. It is not so much that we have found a lot of cases—not that I am aware of, anyway—of people using the wrong form. The problem seems to be that people are not sure what the correct form is. So they come to us in the first place and confirm before they trade in the goods.

Mr Grigson—Certainly we have got no major issue about this.

Mr WILKIE—That is the first part of the question. What are the US doing to support businesses wanting to come here?

Mr McCormick—This is the interesting part. We do not track that per se. I do not know, Jeannie, if you have got any views on this. Our perception is that there it is much harder to attract people’s attention to the Australian market. So I suspect they are not doing very much to take advantage of the opportunities in Australia under the AUSFTA. I do not think that they go out there in the same way. I think they are not quite as proactive as we are in trying to make sure people understand. Maybe that just reflects the size and complexity of the economy.

Senator FERGUSON—We probably are such a small section of their export market that we do not figure.

Mr WILKIE—I suppose the other comment I have is not really to Austrade. It is about the importance of getting these things right. We have done four and we are negotiating others, and the impact for Australia has the potential to be quite dramatic. I am concerned that at the moment, as I said before, we have Singapore, where our exports are dropping and our imports are growing, and the same is happening with the United States. If you look at Australia's position in the world at the moment, we are currently experiencing our worst trade performance since the end of the Second World War. We have had 44 months of trade deficits in a row, with a record trade deficit last year of \$25.5 billion and a record current account deficit in the March quarter of 7.2 per cent of GDP—and if you took out WA's outstanding performance it would be worse.

Given that at the present time we have gone backwards in those others, if we are looking at future free trade agreements we need to look at the impact they are likely to have on our trade performance. When you consider the impact that China might have on us, it is really important that we get that right. What we are hearing today is: 'Yes, we're hoping it is going to get better. We're confident that it will. All these other factors are in place as to why we have this trade imbalance at the moment.' But I do not know if anyone has done a whole lot of work on what the problems and the issues really are—are FTAs affecting that trade imbalance, and which aspects of them are if it is occurring?

Mr Stoler—I just want to make the observation that, so far, our conversation about the operation of these agreements has focused almost exclusively on imports and exports of goods. We have not said much about services and we have not said anything about investment. Unfortunately, I did not do any research into investment figures before coming here, but you will remember that at the time the economic studies were being done—and I was not a big fan of those studies—a large part of the benefit to Australia was seen as being in the investment area. If the committee is going to have follow-on meetings at some point in the future, it might be worth having a look at what happens with investment.

The other thing I want to say is that there also has been a perception in the discussion this morning that exports are good and imports are bad. From a big-picture standpoint, that is not really right. If you take the trade deficit figures, for example, and go to the back of the *Economist* magazine where they have major countries' performance in various economic areas and compare the economic performance of Australia and the US—both of which have sizeable trade deficits—with the economic performance of Germany, which runs a huge export surplus all the time, you see that Germany has 10 per cent unemployment and a GDP growth that is half of ours. So we need to take a big-picture standpoint on these things sometimes.

Ms Marsden—I want to make a broad-picture comment on that issue. Australia's economy is going quite well now, but we cannot afford to ride on that wave forever. There is a whole range of areas where we should be looking at reform, and we need to do that now, not when we find ourselves in trouble in the future. Trade reform is actually an important part of that, and we have benefited from that in the past, back in the 1980s when we made a range of changes to tariffs et cetera. Going forward, it will be important to make sure that these free trade agreements actually work, but I do not think criticising or saying that the free trade agreement is actually at fault is what is going on. There is a whole range of other factors that are going on.

Making sure that those agreements are implemented well, that we do get real gains on the ground, that it is not just an agreement on paper and that we do get results in the US and in the future in China will be very important. But it is only one factor. There is also the issue of reforming our taxation system so that it works effectively, making sure that we increase the mobility of capital and labour into Australia instead of losing it, and keeping the skilled labourers that we do have. There is the issue of making sure that our infrastructure is effective and making sure that workplace relations are effective and flexible. Basically, right across the board we should be making sure that business does not run into overregulation in the future. All of these sorts of areas are areas where we need to push on. Trade is an important factor in that, but it is not a case of one trade agreement causing a downturn at the moment; it is about looking long term and at a much broader picture.

Mr WILKIE—As I said, there is a whole range of factors and this is one of them.

CHAIR—When the question was put at the economics committee about the current account deficit, the governor said that he did not see it as a problem.

Mr Stortz—I wonder if I could complement the two previous speakers in terms of taking a big-picture and a long-term view. We touched on the CER between New Zealand and Australia this morning, but in 1983 the bilateral FTA was signed between Australia and New Zealand and I understand it was very controversial at the time. Who would have thought that it would be so successful: just last year, our chief economist did some statistics on where Australian companies were exporting to most, and New Zealand was the No. 1 country by far.

The figures that I have here are that 13,726 Australian companies were exporting to New Zealand, compared with the next highest market, which is the US with 7,929, and Singapore with just over 6,000. It drops away quite significantly then. This is 22 years ago. That agreement was nowhere near perfect at the time it was negotiated. There have been a number of adjustments to it since that original agreement.

Senator FERGUSON—Was that 1983 when it was negotiated?

Mr Stortz—Yes. It is now perceived as the Rolls Royce of free trade agreements anywhere in the world but it did not start off like that. No-one would have thought that, the two economies being essentially competitive, particularly given the agricultural base of both, 22 years later you would find that there were so many Australian companies exporting to New Zealand.

CHAIR—It is obviously to the great benefit of free trade. Are there further questions and comments from my colleagues?

Senator FERGUSON—I just want to make one comment. Mr Wilkie raised the issue of overall trade—the state of our trade imports versus exports. I would have thought that today the important thing for us to look at is the effect of the FTAs, not the overall trading arrangement, because that is basically what we are here for. I take Hamish's comments about the fact that if you have a free trade agreement it cannot be a detriment to exports, because all it is doing is opening up markets that might otherwise not have existed. It can have an effect on imports. As was said before, a lot of factors are influencing our balance of trade figures. If Mr Wilkie wanted to fly back to Perth on a Yak-40 instead of a new 737 then that would help our balance of trade,

but I am sure that none of us would want to do that because of the state of our economy. Our current account deficit is not seen as a problem by those who are independent judges, not just us.

In what I have heard this morning, I cannot detect from anybody at the table any downsides currently to the effect of the FTAs. There might have been a downturn in trade in some areas; I cannot see the effect of the FTAs as a downside, unless it is perhaps the fact that we do not know what impact imports have had on some people who might be in business in Australia in furniture manufacture and other areas that I think we need to look at. We need more figures for that. I cannot expect that in any free trade agreement anywhere in the world 100 per cent of the people involved are going to be winners; it is just not possible. Where there is a change in your import and export arrangements, there has to be somebody who is affected; it cannot be helped. I am not sure that it is the role of the department or anybody else to go out asking people: 'Are you badly affected by the FTA?' Half of them would probably say yes anyway. I think that it is up to those people who are badly affected to make contact through the web sites or others so that it can be followed up from there.

CHAIR—Although members of the committee should not feel bound by the constraints of how we have divided it up, in the last half-hour we might consider the questions of lessons for the future: what have we learnt to date, both positively and negatively, in planning for the future? Undoubtedly China is going to be a part of it. Again, I refer to my recent visit to the US and what every congressman I saw and every think tank I spoke to said. Rather interestingly, the comment from the think tanks was very similar to yours: 'Show me an economy which is going strong and I'll show you one with a current account deficit.'

I think the whole question that we would see as important is the lessons for the future. Everyone there was raising China with me. Every congressman said that he had had lots of phone calls from his constituents about the impact, particularly in the area that you would be familiar with: textiles and clothing. They finished the end of their quota and it was suddenly flooding through. Manufacturers were concerned. Sometimes, they were saying, it was perception. When I asked what they were saying, it was all fairly similar. Mr Wells will certainly be at the centre of a very interesting discussion. Also, the focus for the think tanks there is what is happening in China. It is important that, in these discussions today, we look at what we have learnt in going forward. What do we need to be careful of? Ms Marsden, do you want to kick it off?

Ms Marsden—I want to raise one success story as something that members have raised that has been very beneficial in terms of implementation of FTAs and helping members get through all the hoops and changes. DFAT set up a specific unit for the implementation side. That unit has been very helpful. I am aware of a couple of examples specifically where members have come up against a block where they thought the agreement was going to work this way. They had set up their mechanisms to go down that path and then came across major issues in that specific country where the officials in the country were not aware of the changes or did not read the changes in the same way as Australia was, which is often the case with free trade agreements. Because they have a number of very good experts in that area who can operate quickly and effectively, it is one point of contact for our members. Instead of having to trawl through the vast Department of Foreign Affairs, they know where to go to, they can get outcomes quickly and they have confidence in having one person in particular to talk to. That one person can then go and sort out who they need to speak to to come up with a solution. These solutions are often

fairly innovative and flexible, which is often very important in these sorts of agreements. When you are dealing with business and something has arrived at port, is ready to go and you cannot get it through, time is of the essence.

CHAIR—Would you call that a one-stop shop situation?

Ms Marsden—I think it is a one-stop shop. It is part of building up confidence.

CHAIR—Is this DFAT or Austrade?

Ms Marsden—In this case it was DFAT.

CHAIR—Congratulations to the department.

Ms Marsden—It is an example of the sort of thing we would like to see expanded.

CHAIR—I think it is always very helpful.

Ms Marsden—I think it is something that should never be underresourced. It is a very important part of free trade agreements, and it is important for us to make sure that our members know about this one-stop shop more and more so they are not fishing around for answers when they come up against trouble.

CHAIR—We will reinforce that. We have also been doing that with various departments for us as members. They have been instituting this one-stop shop for us too because we often find it just as hard working through, so I think that is important.

Ms Greville—I appreciate what Freya has said and the department has worked very hard. I want to make the point that implementation of big, sophisticated, complex free trade agreements, especially like the US but also like Thailand and Singapore, is a whole of government responsibility. One of the things that DFAT has done since those agreements entered into force is to continue to reinforce to other government agencies that we all have an ongoing obligation in terms of how it works. I appreciate that business wants a point of contact, but it has to be a kind of virtual one-stop shop in the sense that the responsibility is much broader than just DFAT. One of reasons we established the fta.gov.au web site was so that there was a place for business to go, which then had links to all the myriad of government agencies that have responsibilities. I think, in the instance that Freya was talking about, DFAT was able to intervene and use our post in Bangkok—if it is the one I am thinking about—but there were a lot of people in the department who were involved in making that happen. It was not just the implementation area; it was also the geographic desk and the post in Bangkok. It is a virtual one-stop shop. I am mindful that, whatever recommendations the committee makes, I would be keen for them to reflect the fact that implementation is a whole of government responsibility.

CHAIR—I understand that, but I appreciate being able to go to one place and get answers.

Ms Marsden—We are very conscious that solving those sorts of problems requires a whole range of resources and may involve a whole range of departments. But if you are a business who has come across an issue in another country, the last thing you want to be doing is scratching

your head trying to work out exactly which department and which person in which department you should be chasing up.

CHAIR—That is true.

Ms Marsden—Time is often a real issue. One of the things that I do not think is always understood in these agreements is that it is a lot about business confidence, and that is very important for China as well. If you are big enough and ugly enough, which a number of our members are, you may already be in the country and you may have already started to work out things and added gains will be taken advantage of. But for many other businesses it is about building the right environment so that they feel they can take the first step and start exporting to that country in the first place. I think the confidence side is a very important factor in that.

CHAIR—We will now hear briefly from the industry representatives about lessons for the future and then we will have a few questions before we wind up.

Mr Pearson—Our overall perception is that now, after we have done three or four of these on the go, there is a recognition that they have both strengths and limits. One of the things that was around the place a few years ago was a great deal of euphoria about what FTAs might produce. I think some of the flaws that are apparent in each of the agreements show that these are very useful, and we support them, but that they are only one small part of an overall trade liberalisation picture. I know we are now confronting this with China and, to a lesser degree, with ASEAN and Malaysia and even the UAE.

As long as business and the community have a reasonable expectation of what these agreements can achieve, I think the public will retain confidence in the endeavour. It is when those expectations are not matched by reality that we have problems with trade policy, particular the business community, which at the moment, for example, is very disillusioned by the multilateral process because of the time delay between successful conclusion of rounds. So the one simply message from the membership that the Minerals Council represents is: as long as we can contain expectations as to the outcome, people will retain confidence in the policy approach. When there was a debate a few years ago about whether the Australian government should do this at all, it was clear and sensible that we should take these opportunities, however incomplete they are, when they present themselves. I think the negotiators have done a good job at doing that.

Mr Mitchell—I essentially agree with most of what Brendan has said. One of the things that we now recognise is what these things can do and what they cannot do. In going forward with FTAs, a lot of our members are very keen to see a lot of behind or at the border issues addressed in the Chinese FTA negotiations. Clearly, though, FTA negotiations cannot change a country's system of government or the way it does things. We have heard a bit about subsidies and other things this morning but, again, some of these issues cannot be addressed in FTAs as they are really market access agreements which, we acknowledge, provide new and additional market access that we would not get any other way. I also think we have learnt a lot and that, going forward, we will get better at working with government in identifying both our offensive and defensive interests so that we can be much clearer in articulating arguments for why we want what we want and why it is important that we get what we want.

Mr Stoler—I am not sure I have much to add to ‘lessons learned’ other than to go back to the point that I made at the beginning of this meeting, and that is that we are learning the value of including in these FTAs the ongoing provisions so that issues can be revisited or problems can be solved over time or the agreements can be improved over time. To cite one example, there is a provision in the agreement with Singapore having to do with recognition of certain Australian law schools as places where Singaporeans can get law degrees. That is not a perfectly operating provision but it is one which we can go back to and talk to the Singaporeans about and expand over time. It is the same with the quarantine provisions in the US agreement. So if there is a lesson for the future it is that future FTAs should have similar provisions in them that help them improve over time.

CHAIR—We have done the Business Council. Ms Tate, would you like to make comment?

Ms Tate—Yes, I would. In terms of looking to the future, there are three points I would like to make in conclusion. One relates to services, which we have not focused on terribly much in this discussion, but—

CHAIR—No, that is true.

Ms Tate—the ACTU remains convinced that a positive list approach on services is preferred to a negative list, which was the example in the Thai free trade agreement and indeed in the GATS model. Secondly, in terms of future development and industry policy options, it is a concern that this not be circumscribed in FTAs, especially in regard to procurement policy—the extent to which government through taxation and other concessions can specify performance requirements as a part of foreign direct investment and, indeed, in the context of the need for research and development particularly.

Thirdly, you will be a little surprised to hear our concern in regard to linking workers’ rights and trade agreements. The inclusion in future trade agreements of a labour clause is something that we remain committed to and will continue to advocate for, based on core labour standards. Linking social and economic progress is something that we see as a very important underlying principle, and that relates to free trade actually being fair trade also. The context of internationally established core labour standards is something that we believe should be included in bilaterals as well as in the multilateral framework.

This is particularly important in Australia’s relations within the region on the ASEAN plus and China agreements that I noted earlier. I would like to specifically make mention of some of the concerns. Particularly in ASEAN we will all be aware of Burma—Myanmar—as a member of ASEAN. Issues of freedom of association, the right to organise and the right to strike and, in the case of Burma specifically, the issue of forced labour are going to be important issues for us to come to terms with around issues of rules of origin. So they are particular concerns for future FTA development.

CHAIR—Do our government departments—Austrade, DFAT et cetera—have comments that you might want to make at this stage before we proceed to a few questions in our remaining 10 minutes?

Mr Grigson—Just on the Singapore and Thailand FTAs, which are the two for which I am responsible for implementation, I think the most important thing—and the point has been made several times, but I would like to underline it again—is that there are ongoing reviews of those agreements. The forward work programs for both are very different, but they are quite detailed. Without opportunities to take up most particular issues and broader market access issues, I think it would be much more difficult, so I think that is worth highlighting, certainly from our perspective as well as from external clients' perspectives.

CHAIR—That is worth while. Hamish or Pat, did you want to say anything?

Mr McCormick—Only to the extent of something that has not been mentioned here but I think is the case—that is, often we assume that we are implementing our obligations under free trade agreements and we are interested to the extent to which others are implementing theirs. But I think some of the experience has been that sometimes we are forced to go further than that. We have to go around and encourage people to understand their systems. It is not as though there are people who are seeking to avoid their obligations, but sometimes they just do not have the resources, for example. So there are activities there, and I know I mentioned one before, where we are going into the United States market with respect to customs agents, to ensure that they understand it. But I think there are examples in Thailand as well where we as a government have had to put in resources to make sure that they have the capacity to implement it. So I think that is a lesson that has come out of some of these agreements there—that not only do we have to focus on promoting and making sure that people are implementing the letter of the law but we also often have to go one step further to make sure that there is a broader understanding in the other market about their obligations and the opportunities that result from that.

Mr Grigson—I will just add to that very briefly. I think it is important to understand that often a refusal to allow entry to a product, for example, in a first instance is often just misunderstanding. I think the point Hamish makes about working with other countries to make sure they understand their system is important. More often than not, it is not a political willingness to allow entry; it is simply the wrong form or a misunderstanding of what is required. I think it would be a shame if in too many instances we jumped to the conclusion that other countries are not willing to give the access. More often than not it is just working out the teething problems.

Senator EGGLESTON—I have a short question. As Ms Tate said, not a lot has been said about services, and that was supposed to be the key feature of the Singapore agreement. Do we have any disappointments, perhaps particularly with services in Singapore but also with the other agreements, and how do you propose to address them in future free trade agreements, particularly with the ASEAN countries?

Mr Grigson—In the case of Singapore, services and investment were two of the big focuses for that. On the investment front, we are working with several companies trying to gain access to particular activities. We think that their attention has probably been drawn as much by the opportunity in Singapore as SAFTA, but SAFTA provides a good umbrella to assist them. In the forward work program we are looking at improving the rules on investment; looking at increasing cooperation on regulatory issues such as competition policy; looking at ecommerce and telecommunications and what might be possible there; looking at mutual recognition agreements, which would help with both services and investment as well as those other issues

such as access of foreign lawyers, which I think has been discussed with various committees before; looking at including additional entities under government procurement; and looking at broader regional issues of access. So I think services and investment are very much at the front of our minds in terms of Singapore. I cannot think of any particular issue that has come to us as a major problem on the services front, apart from the assistance with access for individual companies.

CHAIR—In some of the Asian countries—I do not think in Singapore but perhaps in the Thailand agreement—there was a question of accreditation of tour operators et cetera. That has been a real issue for the tourism industry. Have you had any questions about that?

Mr Grigson—It is not in the Thai FTA.

CHAIR—It is something you might look at in the future. The issue is rife in tour groups in the Chinese market and has an impact. I do not want to labour it.

Mr Wells—We are aware of concerns raised by the tourism industry and we will be taking those up with the Chinese.

CHAIR—Fran Bailey has just been up there talking about that.

Senator WEBBER—My question is also more about the future and about the China free trade agreement. I want to follow on from comments made earlier by Mr Pearson about the value that economic modelling places on the overall value of a free trade agreement, when it is going to kick in—the precise date that we are going to declare that we have free trade—and what it is worth. Obviously I come from a party that had some concerns about the US free trade agreement. I agree with Mr Pearson's view that that modelling and those values did help create a lot of the disharmony within the community about the agreement. Does the department intend to take exactly the same approach with the China free trade agreement? My friends in the ACTU and I will have even greater concerns about this one coming up.

Mr Wells—I must say I have a lot of time for Brendan Pearson and I think he was 100 per cent wrong on that. Frankly, when you contemplate the implications of undertaking a free trade agreement negotiation with a country like China, I do not see how any responsible government could not do some econometric modelling at the start to allow people to realise in a very broad sense what the costs and the benefits might be of removing all barriers to trade and investment. Of course, we all know—and we can say this right now—that a free trade agreement with China will not result in the removal of all barriers to trade and investment in Australia and China. It simply will not happen, and it certainly will not happen in the year 2006, which was the basis on which the modelling was done.

But I really do think, with respect, that that is not the point. What the headline figure of a \$24 billion increase in GDP in 2015 gave to people was a very rough outline of the sorts of benefits that might flow from an agreement. That figure does not represent a negotiated outcome. But at the very least it allowed people to focus on the magnitude that might result from an agreement with China. I think it was an entirely appropriate, proper and responsible thing for the government to do, even though personally I have big problems with the actual modelling itself. But that is another question—that is for the econometricians to answer.

CHAIR—I am sure in that last statement is probably the agreement between yourself and Mr Pearson. Mr Wilkie will ask the last question of the morning and then I want to spend two minutes on who else we should be inviting when we revisit this in 12 months time, because I am a little concerned that we have no representatives of small business here.

Mr WILKIE—I will just touch on the modelling. I am not going to go down the path of whether we should have it or not, but certainly the Joint Standing Committee on Treaties received a lot of evidence that the department and the government had followed a very wrong path in not getting the Productivity Commission to do the modelling on the agreements, because they are set up to do this sort of thing. It was very disappointing that other companies that were involved to do the modelling did not necessarily have the expertise, in my view and certainly in the view of others, to do it. Any future review should be undertaken by the Productivity Commission, particularly given that there is a long lead-in time now in what we are doing with China as opposed to what was happening with the US. One of the reasons for going down the private path with the US agreement was the view that there was not enough time to get a full study done by the Productivity Commission. My personal view is that we need to get them involved in any future modelling. We do have a fairly long lead-in time with China and there is no reason we should not do that.

CHAIR—Are there any comments on Mr Wilkie's comments?

Mr WILKIE—If anyone would like to comment on that, I would be happy, and then I want to cover a few more things.

Mr Stoler—I agree with you. I think it would be normal for the government to have the Productivity Commission do this study.

Mr WILKIE—A number of speakers made the comment that there was this whole idea of raising expectations that at some stage needed to be managed and that there were higher expectations generated than should have been the case. To put that into perspective, I remember Mark Vaile coming into the House and talking about how even the Jones Act would be on the table. Of course, we know now that the Jones Act was never going to be on the table. I do have concerns about that. I know the NFF had great concerns about beef and sugar. I remember meeting a chap from Queensland—a peanut farmer from Kingaroy; Joh Bjelke-Petersen country. He came down. They had been promised so many thousand tonnes of peanuts in the agreement and ended up getting a few hundred. His view was that it was better than a poke in the eye with a blunt stick, so he would take it, but it was a lot less than they really wanted. There were also problems to do with degree recognition—that it was not going to happen because it was far too complicated. There was a general view that the expectation was that we were going to get free trade, in particular with the US, when in actual fact free trade was never on the table. The only thing we were going to get with the US was actually a decent preferential trade agreement.

CHAIR—Is it a question, Kim, or is this a second reading speech?

Mr WILKIE—Would some people agree that what we ended up with there in particular was more a preferential trade agreement than a free trade agreement? I know the department would think it is a free trade agreement—they have to—but what about business? I know the NFF put that in their submission, for example.

CHAIR—Why don't we ask Ms Marsden what she thinks and then perhaps Mr Stoler?

Ms Marsden—If you asked us what we missed out on and what we would have liked, I can give you a very long list of all the extra things we would have liked. We would have liked access and zero tariffs, better access in services and a whole range of things. We now have the E3 visa, but we would have liked better access for individuals. But I do not think that that is actually the point. What we have got is really good.

Mr WILKIE—The question is about raising expectations rather than whether the agreement is all right.

Ms Marsden—I do think that greater clarity and transparency in how we are going about the agreements would help overall. I think there is an issue about that to some degree. The difficulty with these agreements is that there is always politics involved as well as the reality of the economics. We are very interested in the economics and actually getting real gains. In terms of actually proceeding with the agreement, expectations or not, we were very pleased with what we did get. We are very glad that there are doors open. We are now interested in making sure that those doors actually result in real outcomes in the future—in the US one, in particular.

Mr Stoler—I would say that as free trade agreements go the Australia-US trade agreement is one of the best ones I have seen. It is true that certain things like sugar were not included or the US Jones act, but nor was audiovisual or the AWB on the Australian side, so there were limited aspirations from both parties. I would make the comment that I do not think there is a single free trade agreement anywhere, including the CER, that has led to totally free trade. If you ask the New Zealanders about selling apples into Australia they will give you some views on that. But overall as measured against others I would say it is a pretty good agreement.

Mr McCormick—I would come back to the issue of expectations—it is obviously something people are thinking about. This is more about my former employment; I was in DFAT before. There is another issue: as negotiators of agreements you can have something that some people say is more realistic but you are actually negotiating something with another country and you want them to be under pressure to address a whole range of issues. There is a balance to be had in there about domestic expectations but also about the expectations in your negotiating partner's country.

Mr WILKIE—The problem is that a lot of your people who were involved in the negotiations from industry were actually expecting to get what was in the original negotiating position rather than accepting that they might have to compromise.

CHAIR—What I found when I was there was the congressmen telling me it was the biggest ever vote recorded for a free trade agreement. I think Morocco might have overshadowed it subsequently. The CAFTA—the agreement with Central America—was struggling to get the numbers. I do not know whether it has gone through or not.

Ms Greville—It has gone through by two votes.

CHAIR—So there is an enormous amount of goodwill which we should be able to capitalise on in terms of the market. Finally, suggestions for who else we should include when we do this

in 12 months time. Obviously some of the smaller manufacturing groups rather than just the big boys would be helpful.

Senator EGGLESTON—ACCI?

Mr Stortz—Somebody from the Coalition of Service Industries.

Ms Marsden—It would be good to get a better picture on services.

CHAIR—COSBOA?

Ms Marsden—I do not know how much involved they have been in trade but it would certainly be useful to get their opinion.

Mr Mitchell—We also suggest that it would be good to get in one or two other agricultural industries that are actually involved in exporting: Dairy Australia or Meat and Livestock Australia—a bit closer to the coalface.

CHAIR—That would be great. I think it was very beneficial and thanks for the professionalism of your input. It was much appreciated and congratulations to those who did the hard work on these agreements. I know it is not easy. I was impressed because it seemed like the whole of the embassy had been focused on it in Washington, negotiating that huge task, so well done. Nothing is perfect but we will continue to monitor how it progresses. Thank you all very much.

Subcommittee adjourned at 12.03 pm