

Coalition Building, Economic and Regional Considerations

Coalition Building

The Cairns Group and APEC

- 3.1 The Cairns Group of Agricultural Fair Traders is recognised as a successful and enduring issue-specific coalition within the multilateral trading system.¹ The Cairns Group has been a most successful coalition building group comprising 15 agricultural exporting countries that includes Argentina, Australia, Brazil, Canada, Chile, Colombia, Fiji, Indonesia, Malaysia, New Zealand, Paraguay, the Philippines, South Africa, Thailand and Uruguay. Of the 15 countries a third are from South America.
- 3.2 The Trade Sub-Committee visited Brazil, Chile, Colombia and Uruguay in March 2000 and the value of the Cairns Group and the benefits through such an association in terms of greater knowledge of a country was recognised by ministers and officials alike. The South American members are committed even more so to pushing through an agricultural agenda in the WTO given the scuttling of the WTO meeting in Seattle in November 1999.
- 3.3 APEC is at the centre of Australia's regional efforts. The first meeting of APEC heads of government was convened in November 1993 in Seattle, USA. There are 21 APEC members including Chile and Peru.

1 TOOS'99, p. 53.

3.4 The realisation of the importance of APEC as a mechanism supporting global trade liberalisation is evident in the following facts. The combined GDP of APEC members is more than half of world GDP, APEC members account for more than half of world trade and nearly three-quarters of APEC's trade is directed to or sourced from other APEC members.²

3.5 It is pointed out in TOOS'99 that APEC has recently entered a more difficult stage of its evolution and these difficulties remain:

Ambitious visions of free and open trade and investment in the Asia-Pacific region must be translated into practical programmes that show progress toward goals of free and open trade and investment. At the same time, the climate for liberalisation has become more difficult in the wake of the financial and economic turmoil in East Asia. Although it is proving difficult to push the pace of market opening, Australia is convinced that the key to renewed prosperity in the region is to 'stay the course' on economic reform and liberalisation.³

3.6 In 1998-99 DFAT had two main objectives in relation to APEC. The first was to strengthen APEC as the pre-eminent forum for economic cooperation and trade liberalisation in the Asia-Pacific region, including through the development of cooperative working relationships with other key APEC members. The second objective was to broaden and deepen APEC's economic agenda (particularly in the area of trade and investment), enhance the operational efficiency of the organisation, and foster an environment conducive to regional business activity.⁴

3.7 As a member of APEC, Chile has committed itself to the year 2010 liberalisation target for developed countries rather than the year 2020 target set for developing economies. Peru formally took up APEC membership in November 1998.

3.8 In examining Chile's and Peru's membership of APEC, DFAT comments that it is in contrast to the regional preferential arrangements that both countries have entered into:

APEC emphasises open regionalism and non-discriminatory approaches to trade and investment. It is hoped that APEC developments will continue to exert a positive influence on the future direction of regional policy developments, particularly as South America's ties with the Asia Pacific region grow.⁵

2 *ibid.* p. 43.

3 *ibid.*

4 DFAT, *Annual Report 1998-1999*, Commonwealth of Australia, 1999, p. 115.

5 DFAT, Submission, pp. 312-313.

3.9 The APEC trade ministers met in Darwin in early June 2000. The Australian Financial Review (AFR) reported⁶ that the Australian Trade Minister, the Hon Mark Vaile, MP had set two laudable objectives; a push for an early start to a new global round of trade talks, and APEC quality control on East Asia's rush towards regional trade agreements. The AFR says that APEC is incapable of delivering either:

Firstly, most – if not all – of the 135 WTO members who showed up in Seattle were rhetorically committed to a new round.

The problem is not the concept of a broad-based WTO round, but the dispute is over contents – a subject carefully avoided this week. Even WTO chief Mike Moore said it was unrealistic to expect anything more than “modest” momentum from this week's meeting.

Secondly, the rush to free-trade pacts is, itself, a function of East Asia's assessment of APEC's impotence.⁷

CER-Mercosur

3.10 CER-Mercosur is a dialogue that explores linkages between CER⁸ and Mercosur member countries.⁹ Initiated in 1994 Australia has sought to strengthen relations with the Mercosur countries through the CER-Mercosur dialogue. The main objectives are:

- To consolidate and broaden Australia's cooperation with Mercosur on global trade policy issues such as in the WTO and Cairns Group; and
- To strengthen trade and investment flows and to focus Australian companies on areas of potential opportunity.¹⁰

3.11 Besides aiming to encourage inter-regional trade and investment flows and coordinate positions on international trade policy issues, DFAT sees other benefits in the dialogue. It has provided an opportunity to influence the evolution of Mercosur by promoting CER-style approaches and to develop new areas of coalition activity in the multilateral sphere in addition to established areas such as the Cairns Group.¹¹

6 *The Australian Financial Review*, 'Just another entry in the drinks diary', 8 June 2000.

7 *ibid.*

8 Australia New Zealand Closer Economic Relations Trade Agreement – ANZCERTA, usually shortened to CER.

9 TOOS'97, p. 189.

10 TOOS'98, p. 137.

11 DFAT, Submission, p. 311.

3.12 Mercosur was identified as an important emerging market in the Australian Government's first Trade Outcomes and Objectives Statement in 1997. Mercosur was established in 1991 with the signing of the Treaty of Asunción and the final agreement on implementation was signed in 1994 in Buenos Aires. The region's premier regional trading agreement, Mercosur has a combined population of over 215 million people with a combined GDP in 1998 of US\$1,132 billion. It therefore has particular significance as a market for Australia.

3.13 TOOS'97 set out two priority objectives, the first covered the CER-Mercosur dialogue and the second actual assistance in the Mercosur market for Australian exporters. The priority objectives were to:

- Achieve substantial progress on measures to facilitate trade and investment between Australia and Mercosur;

With the desired outcome being:

⇒ Early agreement with NZ on a CER customs compendium for circulation to Mercosur government and business.

- Assist Australian exporters in the Mercosur market with a focus on the infrastructure, mining, agribusiness, information technology and telecommunications and marine sectors;

With the desired outcome being, amongst others:

⇒ Australian engineering or related companies introduced to the South American infrastructure market;

⇒ New suppliers introduced to the mining industry and established suppliers taken into new markets in South America;

⇒ New business in Brazil for Australian information technology/telecommunications companies;

⇒ Agribusiness companies recruited to participate in the Austrade pavilion at EXPOCHACRA,¹² Argentina, March 1997 and other agribusiness shows in Brazil; and

⇒ Increased sales of catamaran ferries.¹³

3.14 The first ministerial-level meeting was held in June 1997. Initially there was progress through the dialogue with the one Ministerial and four Senior Officials' Meetings held to date under the CER-Mercosur framework. Ministers approved a work program to facilitate trade and investment links, including three new areas of cooperation, namely

12 See Chapter 5 - Argentina for Committee comments on the Austrade promotion at EXPOCHACRA 2000.

13 TOOS'97, p. 154.

investment, business involvement and tourism. Outcomes of the various meetings included:

- Finalisation of the Joint CER-Mercosur Customs Compendium;¹⁴
- A Declaration of Investment Principles signed on 14 June 1999;
- The exchange of information on the recognition of qualifications and standards; and
- Collaboration on science and technology matters.¹⁵

- 3.15 It is only recently that CER-Mercosur has met to discuss ways to progress the science and technology relationship (SANDT) including ways to initiate collaboration in key technology sectors. There is a desire to initiate a program of collaboration and it was proposed to hold a workshop in the first part of 2001 in Brazil with two topics nominated for the workshop – agriculture and food production, and biotechnology. A final decision on workshop topics is expected by the end of September 2000. At the meeting CER proposed the development of a joint website to promote the possible benefits of and opportunities for cooperation in SANDT. This proposal will be explored.
- 3.16 The Committee is disappointed that overall the CER-Mercosur dialogue has reached a flat spot. Having put a lot of effort into trying to develop the relationship between CER and Mercosur through the dialogue process, DFAT acknowledges that it:
- ... has gone about as far as we can push it right at the moment, but we have done some valuable work there.¹⁶
- 3.17 Although the expectations of the dialogue have been kept to a modest level by both sides, Mercosur is preoccupied with developing its Common Market. In addition to this focus, Mercosur is holding free trade talks with the EU¹⁷ and working towards economic integration through the Free Trade Area of the Americas. To this end there has been virtually no discussion between Mercosur and CER until recently over the last one and a half years.
- 3.18 The Trade Sub-Committee visited Mercosur headquarters in Montevideo, Uruguay and it was evident in discussions with the Mercosur Secretariat that there was little incentive for dialogue with Australia at present as issues of greater importance lie with the EU and FTAA negotiations.

14 This can be viewed on the DFAT website <http://www.dfat.gov.au>

15 TOOS'97, op cit.

16 DFAT, Transcript, 13 August 1999, p. 4.

17 A framework agreement was signed with the EU in 1996.

- 3.19 The CER-Mercosur dialogue needs to be reinvigorated. The Committee maintains that the dialogue is an important process for Australia – it is the only process we have. Ministers and government officials of Mercosur countries expressed to the Trade Sub-Committee, during its recent visit to South America, their desire to strengthen trading relations with Australia and the CER-Mercosur dialogue is a vehicle to do this.

Recommendation 1

The Committee recommends that the Australian Government, along with the New Zealand Government, urge the Mercosur countries to reinvigorate the CER-Mercosur dialogue.

Brazilian Financial Difficulties, 1998

- 3.20 The financial difficulties that Brazil experienced through 1998 and flowing into 1999 did not provide a bright outlook for the countries of South America. Brazil is the largest economy in South America and any hiccup in its economic development impacts on the other South American economies. The economic well-being of Brazil is a key indicator of South America's economic prospects and the 1998 financial difficulties dampened investor confidence and it looked like recovery was going to take some time.
- 3.21 In late 1998 international financial markets became concerned about economic fundamentals and the unsuitability in exchange rate policy in Brazil. With capital outflows of US\$1 billion per day and rapid dwindling foreign reserves the Brazilian Government decided to float the national currency in January 1999. As DFAT noted:
- A sharp decline in currency values and prospects of a severe recession threatened Brazil's stability. Economic problems also looked likely to spill over into neighbouring markets with the potential for region-wide economic crisis.¹⁸
- 3.22 Australia was concerned about Brazil's financial difficulties and the impact such financial instability would have on Australia's trade and investment interests in the region. In evidence to the Committee, DFAT provided a chronology of the events of Brazil's financial instability that is set out in succeeding paragraphs.

Brazil – Chronology of a Crisis¹⁹

- 3.23 In October 1997, the Government of Fernando Henrique Cardoso was forced to take dramatic measures to curb the domestic impact of the Asian financial crisis. It introduced a package of austerity measures including tax increases and the axing of thousands of public sector jobs. Interest rates were doubled to 43 per cent per annum to attract capital inflows, provide a safeguard against speculative currency attacks and promote market stability. This was an effective short-term policy that insulated Brazil from the Asian economic downturn.
- 3.24 In 1998, the Government's inability to make headway in reducing debt continued to cause concern among foreign investors. Strong external pressures developed after the Russian devaluation in mid-August 1998. The crisis of confidence in the Brazilian economy led to massive capital flight. The following chronology charts the rapidly moving events that in early 1999 plunged Brazil into crisis and led to the devaluation of the currency, the *real*.

1998	
11 September	Interest rates hiked to 49.75 per cent.
23 September	IMF prepared to provide financing in support of Brazilian fiscal reform.
30 September	Brazil's reserves down to US\$45.3bn (April peak-US\$74bn).
4 October	President Cardoso re-elected for a four-year term.
8 October	Joint Statement of Understanding released by IMF and Brazil recognising Brazil will put into place a strong and sustained fiscal adjustment.
28 October	Brazil announces fiscal adjustment package, including a R\$8.7bn cut to government spending aimed at reducing the government deficit by R\$28bn in 1999.
2 December	US\$41.5bn IMF financial assistance package for Brazil approved and the first tranche of funds released.
2 December	Brazilian Congress votes against a crucial element of the Government's fiscal adjustment plan, involving reforms to public servants' pensions, adding to fears that the Government will be unable to put into place all elements of the plan.

19 *ibid.* pp. 305-306.

1999	
6 January	Announcement of a debt moratorium in Minas Gerais state sparks fears the Federal Government will not honour its debt.
13 January	Central Bank President Franco resigns replaced by Francisco Lopes. <i>Real's</i> floating band-width against the dollar is widened. The <i>real</i> moves immediately to the top of band, while reserves continue to fall.
15 January	Decision to float the <i>real</i> against the dollar due to continued capital flight, and the unsustainability of the currency's defence. It falls in the day's trading to 1.60 against the US dollar.
2 February	Central Bank President Lopes resigns replaced by Arminio Fraga Neto. Value of the <i>real</i> continues to fall throughout January and February.
2 March	<i>Real</i> reached its low point in trading, falling to 2.25 against the dollar. The <i>real</i> commences a steady recovery throughout April and May.
4 March	Central Bank introduces a single rate system, and lifts interest rates to 45 percent.
8 March	Revised agreement between Brazil and IMF announced. Takes into account the effects of the devaluation on the Government's fiscal reforms.
19 March	Congress passes final measure from the Government's fiscal adjustment package, the CPMF cheque tax.
30 March	IMF agrees to release second tranche of assistance funds (around US\$9.8bn).
May	Brazilian economy records 1 per cent growth in the first quarter of 1999 and better than expected inflation, prompting hopes of a faster recovery for Brazil.

- 3.25 The Brazilian financial difficulties were not the only effect on economic development in South America. Two other factors impacted on the region, namely the economic crisis in Asia that spilled over into the Brazilian financial instability and the effects of El Niño.
- 3.26 DFAT's recent estimates show that 'most' regional economies in South America experienced recession in 1999...however...the largest regional economy and the largest market in the region, Brazil, was able to record

positive although modest economic growth.²⁰ An estimated 0.8 per cent growth.

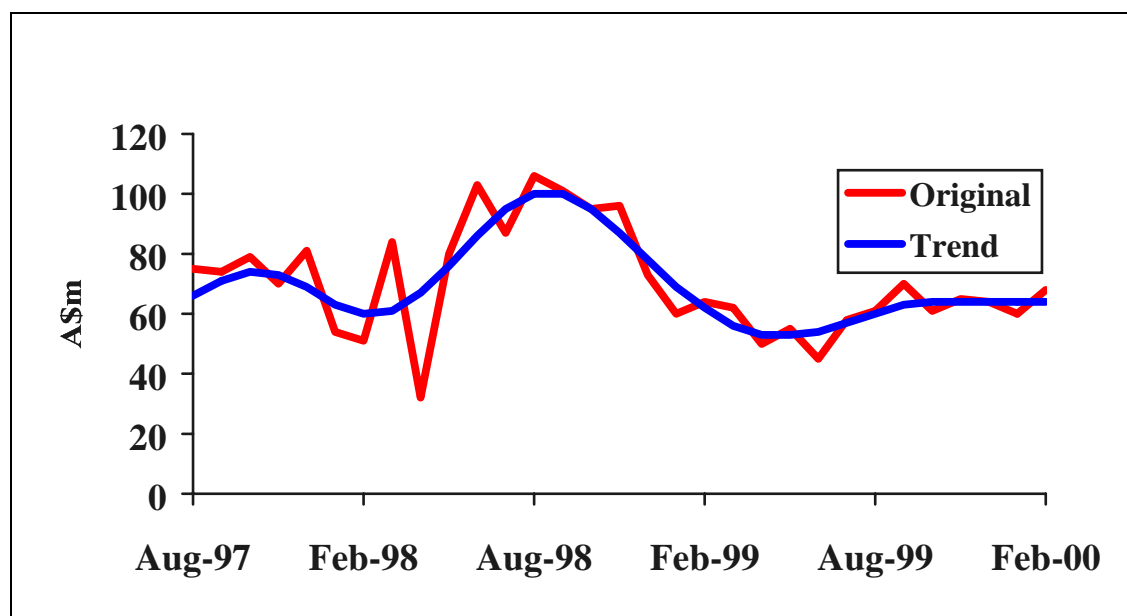
3.27 The outlook this year is for a return to solid economic growth and 'with all of the economies in the region to record positive growth.'²¹ Brazil is expected to make quite a strong recovery with GDP growth estimated to be 3.3 per cent in 2000 and about 3.8 per cent in 2001.²²

3.28 The strong economic downturn in South America in 1999 had a significant impact on Australia's exports to the region with exports falling by about 26 per cent. In elaborating on the fall in Australian exports, DFAT noted that:

By country, the largest declines were in Chile, Brazil, Argentina and Peru and by commodity, the commodities most affected were iron and steel, petroleum, road vehicles, coal, electrical machinery and telecommunications equipment – all of which are the types of economies that are affected by lower domestic demand and production in their target markets.²³

3.29 Figure 3.1 shows the fluctuations in value of Australian exports to South America for the period August 1997 to February 2000.

Figure 3.1 Exports to South America



Source DFAT, Exhibit No 41.

20 DFAT, Transcript, 8 May 2000, p. 615.

21 *ibid.*

22 *ibid.*

23 *ibid.*

- 3.30 Australia's export performance in 1999 is not consistent with its medium term performance in South America. 'For example, 1999 was the first calendar decline in our exports since 1994 and trend growth in the last five years averaged five per cent... . It has been 10 per cent for the last decade and that is even taking into account the very poor outcome in 1999.'²⁴
- 3.31 DFAT considers there are good prospects for return to growth in Australia's trade with South America in the medium term:
- The reason for this, as we have seen, is that the outlook for regional economies is improving. Nominal GDP, for example, is expected to grow by six per cent or more in each of the next two years. Import growth is expected to be even stronger at around 10 per cent or perhaps a little bit more. Regional currencies should stabilise after some quite heavy falls in 1999 so that that increase in import prices should start to stabilise also.²⁵
- 3.32 Although Australia's export sector is expected to improve over the next year or two, DFAT identified some potentially offsetting factors – the ongoing recovery in Australia's largest export markets in East Asia and the regional trend within South America to negotiate free trade agreements.

Regional Trade Agreements

- 3.33 The importance of regional trade agreements has grown in the past decade. Regional trade is increasingly conducted on a preferential or free trade basis. Important arrangements such as Mercosur, the LAIA – ALADI,²⁶ the Andean Community and the G3 (Colombia, Venezuela and Mexico) all provide preferential or free trade access for members. These arrangements discriminate against other trade partners, including Australia, and have the potential to seriously distort trade flows. On the other hand, investors have taken advantage of the fact that they can tap into common markets, notably Mercosur's market of 215 million people, by investing in one location within that grouping.
- 3.34 As DFAT points out South American governments argue that regional trade agreements play a role in reinforcing the trend towards trade liberalisation in the region.²⁷ These agreements are set out in Table 3.1.

24 *ibid.* p. 616.

25 *ibid.*

26 ALADI – the Latin American Integration Association.

27 DFAT, Submission, p. 310.

Table 3.1 South American Regional Preferential/Free Trade Agreements

Grouping	Members
Latin American Integration Association	All South American Countries
Southern Cone Common Market (Mercosur)	Argentina, Brazil, Paraguay, Uruguay*
Group of Three	Colombia, Mexico, Venezuela
Andean Community	Bolivia, Colombia, Ecuador, Peru, Venezuela

* Bolivia and Chile are associate members

Table 3.2 South American Bilateral Free Trade Agreements

Chile – Colombia	Colombia - Venezuela
Chile – Ecuador	Colombia - Ecuador
Chile – Mexico	Ecuador - Venezuela
Chile – Peru	Bolivia - Peru
Chile – Venezuela	

Source DFAT, *Submission*, p. 310.

- 3.35 South America's web of RTAs is set to expand, with the Free Trade Area of the Americas - an Americas-wide free trade zone - being the most ambitious. Other potential arrangements include linkages between Western Hemisphere countries and the EU. The continuing proliferation of discriminatory RTAs pose considerable challenges to the multilateral trading system.
- 3.36 Chile, as Table 3.2 shows, has been the main exponent in the negotiation of trade liberalisation agreements as part of its three-fold approach to trade. Most of the bilateral agreements that Chile has reached with Latin American countries are free trade agreements negotiated under the umbrella of ALADI. These agreements, known as Economic Complementation Agreements (ECAs), have as their main goal the achievement at some point, of total liberalisation of trade in goods.²⁸ It is interesting to note the 1990s, with the opening up of the South American economies, saw the implementation of the Chilean bilateral agreements, the details of which are:

28 *Chile Facing the Year 2000*, Ministerio de Relaciones Exteriores, Chile.

- Mexico: The ECA with Mexico was signed in 1991. In 1998, a comprehensive agreement, which includes services, investment and dispute settlement among other matters was signed and is now in effect.
- Colombia: The ECA with Colombia took effect January 1, 1994.
- Ecuador: The ECA with Ecuador took effect January 1, 1995.
- Venezuela: The ECA with Venezuela took effect July 1, 1993.
- Argentina: An ECA was signed in August 1991. The new Mercosur-Chile Association has mostly superseded the Argentina-Chile agreement.
- Bolivia: and Chile signed an ECA in July 1993. Chile is currently negotiating a more enhanced trade agreement with Bolivia.
- Peru: An ECA was signed and took effect in 1998.
- Canada: A NAFTA-like trade agreement between Chile and Canada went into effect on July 5, 1997, eliminating tariffs on a broad range of goods. Tariffs on the majority of products will be eliminated within a six-year period. The agreement also covers services, trade remedies, and dispute settlement.²⁹

3.37 Not only does the proliferation of discriminatory RTAs pose considerable challenges to the multilateral trading system, so too the bilateral free trade agreements can pose problems for Australian exporters resulting from substantial tariff discrimination. The Chile-Canada free trade agreement has placed the major Australian export, coal, at risk.

3.38 AIG cites the example where an Australian supplier to the mining industry in the South American market was on the receiving end of the effects of RTAs in that:

... it was competing successfully against Canada, US and local suppliers of equivalent product and enjoyed steady growth in market share until 1997. In early 1997, a series of taxes were imposed on imports in Argentina, Bolivia, Brazil, Chile, Colombia, Ecuador and Mexico. These taxes did not apply to imports from Canada and the US. Further when the trade agreement between Chile and Canada became effective, duties and taxes on goods and services traded between the two countries were removed. This was subsequently extended to other South American countries and reciprocated by the US. This completely eroded the competitiveness of the Australian supplier.³⁰

3.39 The issue of free trade agreements is now receiving wider coverage in the Australian media. According to *The Australian Financial Review* 'Australia has also indicated its willingness to explore the possibility of a free-trade

29 *ibid.*

30 AIG, Submission, p. 61.

area involving Chile, New Zealand, Singapore and the US – the P5.³¹ This FTA idea has been discussed in the past but given the events on the multilateral stage Australia is more disposed now to revisit the idea.

Mercosur

- 3.40 The CER-Mercosur dialogue is the central mechanism for progressing Australia's trade and economic relationship with Mercosur. As we have seen, the dialogue has lost much of its impetus and needs to be reinvigorated as a matter of urgency.
- 3.41 What is evident for the long term though is the need to engage Mercosur at another level. **It is clear that if Australia is serious about increasing its trade and investment relationship with South America then it must go beyond the promotional rhetoric and take positive action as its competitors are doing in the region.** One initiative that was being explored, as an area of cooperation under the dialogue, was the creation of a CER-Mercosur Business Forum to encourage greater contact between the business communities of Australia, New Zealand and the Mercosur countries³² but this has gone no further.
- 3.42 However such a forum is not enough in the face of the American push for the FTAA and Mercosur's negotiations with the EU for preferential trade ties. Moreover Mercosur has shown an increasing willingness to engage Asia in trading arrangements. The Common Market of the Mercosur commits its members to free trade in goods, the free circulation of productive factors – capital and labour – and a common external trade policy.³³ Furthermore the Common External Tariff (CET) of up to 23 per cent applies to around 85 per cent of all goods imported into Mercosur, and as DFAT points out other items, such as sugar and automotive products, are deemed to be sensitive and due for inclusion by 2006.³⁴
- 3.43 Australia needs to move with the times. With Mercosur pursuing the expansion of its preferential trade ties then no amount of CER-Mercosur dialogue will place Australian business on a competitive footing on exports into the Mercosur market. Moreover Mercosur aims to establish a free trade zone with Andean Community members, already having a preferential agreement with Bolivia. As the South American markets continue to expand and require product and expertise that Australia is capable of supplying, then the regional preferences and wider trade

31 *The Australian Financial Review*, 'The risks in free-trade agreements', 5 July 2000.

32 TOOS'98, p. 137.

33 DFAT, Submission, p. 310.

34 *ibid.*

agreements with Mercosur will kick in and Australian business will not be able to compete.

- 3.44 To move with the times and put teeth behind the Australian Government's identification of Mercosur as an important emerging market for Australia, Australia needs to move from a trade facilitation approach to one of trade liberalisation with the regional grouping. Australia has adopted a multilateral approach to trade liberalisation through the WTO. Mr Cobban, the First Assistant Secretary, Americas and Europe Division in DFAT told the Committee that:

I do not think that we are too keen on the concept of trade agreements unless they have some really significant attributes that do not cut across our efforts in either APEC or the WTO.³⁵

- 3.45 The Prime Ministers of Australia and New Zealand, in a joint Prime Ministerial communique, dated 4 August 1999, said that:

New Zealand and Australia are willing to consider free trade arrangements with other significant individual economies or regional groupings where they would deliver faster and deeper liberalisation than the multilateral process with the objective of gaining better market access for our exporters, faster economic growth and stronger employment growth. Such arrangements would need to reflect the principles underpinning the CER, including WTO consistency.³⁶

- 3.46 The WTO meeting in Seattle in November 1999 failed to set in train a new round of negotiations. As DFAT noted in its submission to the inquiry when examining regional economic integration in South America:

... a faltering in WTO negotiations would most likely be a catalyst for renewed interest in regional options.³⁷

- 3.47 Since the WTO meeting in Seattle, the Prime Minister of Australia has now signalled a willingness to consider bilateral trading agreements following a visit to South Korea. In his address to the Korean Business Lunch in Seoul on 19 May 2000, the Prime Minister said:

... that as part of the ongoing dialogue in the area of trade we would explore whether there is any scope over time for the development of a free trade association... And we have agreed to do that because, whilst both of us remain committed to and focused upon the achievement of a new World Trade Organisation

35 DFAT, Transcript, 13 August 1999, p. 27.

36 *ibid.* See Joint Prime Ministerial Communique, Joint Prime Ministerial Task Force on Australia New Zealand Bilateral Economic Relations, 4 August 1999.

37 DFAT, Submission, p. 310.

round, we need to take every opportunity we can between now and when that might occur to energise trade initiatives and trade activities...³⁸

- 3.48 Furthermore the WTO's dispute settlement system is at risk of losing public and political support as it is used by big countries for political leverage and it does not apply equally to agriculture.³⁹ The Committee takes the view that Australia needs to 'energise trade initiatives and trade activities' with Mercosur by taking a trade liberalisation approach rather than a trade facilitation one in the long term. This approach is essential in the face of Mercosur's preoccupation with further developing its Common Market and its negotiations with other larger trading entities.

Recommendation 2

The Committee recommends that the Australian Government pursue as a priority the development of an Australia-Mercosur free trade agreement.

Andean Community

- 3.49 The objective of this significant regional free trade agreement is 'to create a common market between the states of Bolivia, Colombia, Ecuador, Peru and Venezuela.'⁴⁰ With a population of 109 million, it aims to establish a directly elected parliament and a genuine customs union by 2001, although DFAT comments that this would appear unlikely. A common external tariff of 5 to 20 per cent took effect in 1995.⁴¹
- 3.50 The organisation was established in 1969 and was officially known as the Acuerdo de Cartagena (the Cartagena Agreement) but was also known as the Grupo Andino (Andean Group) or the Pacto Andino (Andean Pact). In March 1996 member countries signed a reform Protocol of the Cartagena Agreement in which the Group⁴² was superseded by the Andean Community of Nations in order to promote greater economic, commercial and political integration under a new Andean Integration System.⁴³ The headquarters of the community is in Lima, Peru and the

38 See transcript of the Prime Minister, the Hon John Howard MP, *Address to the Korean Business Lunch*, Hyatt Hotel, Seoul, 19 May 2000.

39 *The Australian Financial Review*, 'Political use of WTO rued', 28 June 2000.

40 DFAT, Submission, p. 311.

41 *ibid.*

42 Chile withdrew from the Group in 1976 and Panama has observer status with the Community.

43 *The Europa World Year Book*, 1999, Volume I, p. 112.

Trade Sub-Committee visited the headquarters and met with the Director General of the Andean Community and the Adviser to the Andean Community General Secretariat, during their visit to Peru in March 2000.

- 3.51 In April 1998 the Community signed a framework agreement with Mercosur on the establishment of a free trade accord with the process of extending trade preferences to commence in October 1998. However negotiations were delayed due to differences regarding tariff reductions and the items to be covered by the accord.⁴⁴ In January 1999 there was a pledge by representatives of the Community and Mercosur to pursue the completion of the first stage of negotiations by the end of March 1999. Brazil frustrated by the lack of progress negotiated its own agreement with the Andean Community⁴⁵ with the accord coming into force in August 1999 and valid for two years.
- 3.52 In the discussions at Andean Community headquarters in Lima, the Trade Sub-Committee was advised the Community wished to develop relations with the EU and has been exploring the possibility of establishing a 'fourth generation agreement' covering free trade, cooperation and political dialogue. The Andean Community currently enjoys a general system of preferences in the EU – linked to efforts to solve drug problems – and the current preferences extend to 2004 and will be renewed in a new agreement. Furthermore the Sub-Committee was told that it has hoped to have a free trade agreement between the Andean Community and the EU by 2005.
- 3.53 What is particularly interesting is that the Andean Community aims to strengthen ties with the Asia Pacific countries. There are expectations, the Trade Sub-Committee was told, that some sort of consultative/cooperative mechanism would eventually be established between the Andean Community and Asia Pacific countries, either bilaterally or as blocs.
- 3.54 The Committee recognises the importance of the Andean Community and its place as a significant regional body. Australia has yet to build formal links with the countries of the Community and as an important first step in this process the Committee would like to see the establishment of links at a parliamentary level. Although the Australian Parliament has a parliamentary group with one of the Andean countries, Venezuela, under the Inter-Parliamentary Union, the Committee would like to see the establishment of an Australia/Andean Parliamentary Group covering all of the members of the Community.

44 *ibid.* p. 113.

45 Bolivia is excluded as it is an associate member of Mercosur.

Recommendation 3

The Committee recommends that the Australian Parliament, under the Inter-Parliamentary Union, establish an Australia/Andean Community Parliamentary Group.

Latin America Integration Association (ALADI)

3.55 The Latin American Integration Association (LAIA or ALADI in Spanish) was established in 1980. Its objectives are the reduction of intra-regional trade barriers and industrial cooperation.⁴⁶ DFAT pointed out that under the auspices of the Treaty of Montevideo, regional and sub-regional mechanisms are incorporated to foster trade, including tariff reductions on a wide variety of ALADI sourced goods.

Group of Three

3.56 The group of three comprises Colombia, Mexico and Venezuela. This free trade area came into force in 1995 with the objectives of removing tariff and non-tariff barriers, unifying customs procedures and putting in place cooperation accords in various non-trade areas. The aim is to eliminate internal trade barriers within 10 years.

Free Trade Area of the Americas (FTAA)

3.57 The FTAA is a comprehensive trade negotiation process embracing the 34 democratic nations of the Western Hemisphere. The negotiations hold the potential for creating the world's largest free trade area, with 800 million people and a combined GDP of nearly US\$11 trillion.

3.58 The FTAA is seen by DFAT as the most important prospect in economic integration. In December 1994, at the First Summit of the Americas, the 43 leaders of the Western Hemisphere agreed to negotiate the creation of a free trade area not later than June 2005:⁴⁷

In order to prepare the groundwork for the negotiations, working groups on different areas were created. The FTAA negotiations were officially launched at the Second Summit of the Americas, held in Santiago in April 1998.

Nine negotiating groups were established on market access, agriculture, investment, subsidies, anti-dumping and

46 DFAT, Submission, p. 311.

47 *Chile Facing the Year 2000*, Ministerio de Relaciones Exteriores, Chile.

countervailing duties, intellectual property rights, government procurement, services, and competition and dispute settlement.⁴⁸

- 3.59 It is interesting to note that the Andean Community negotiated as a bloc to obtain chairmanship of three of the nine negotiating groups: Colombia - on market access; Peru - on competition policy and Venezuela - on intellectual property. Moreover the Community insisted that the final declaration of the Second Summit include recognition that the varying levels of development of the participating countries had to be taken into consideration throughout the negotiating process.⁴⁹ Chile chairs the dispute settlement group.
- 3.60 In commenting on the FTAA, DFAT said that the 'complexities and political difficulties will make this a slow process, which will probably continue in parallel with sub-regional agreements.'⁵⁰
- 3.61 The US seems to have lost interest in the project and with President Clinton not securing a 'fast-track' mandate from Congress, so the impetus from the US has been removed. The likelihood of any significant achievements in the near future is very low.

North American Free Trade Agreement (NAFTA)

- 3.62 The profound influence of NAFTA on the global trading environment has spread into South America. The NAFTA agreement between Canada, Mexico and the US came into effect on 1 January 1994.
- 3.63 In an overview of the most significant free trade agreement since the formation of the European Economic Community in 1957 shortly after it came into effect in 1994 and its implications for Australia, it was observed that:

NAFTA has influenced and will continue to influence the global trading environment, both through its approach to and coverage of issues, and through its possible extension beyond the three existing signatories. It is a path-breaking agreement in areas such as the environment and labour issues (its provisions go significantly further than any previous trade agreement including the possibility of fines and/or trade sanctions for repeated violations), and trade-related investment measures. It is also

48 *ibid.*

49 The Europa World Year Book, 1999, Volume I, p. 113.

50 DFAT, Submission, p. 312.

significant as the first major and complex regional trade agreement between developed countries and a developing country.⁵¹

- 3.64 Under the US legislation to implement NAFTA, there is an expansion clause whereby other countries are identified as prospects for negotiating free trade arrangements. At the outset the focus was on Chile and other countries in Latin America.
- 3.65 In December 1994 Chile was invited to join NAFTA. Negotiations between NAFTA and Chile were suspended in 1995 due to the absence of a 'fast track' authority for the US Administration. However Chile has signed comprehensive NAFTA - like free trade agreements with the other two NAFTA members, Mexico and Canada.⁵²

Australia – A Bridge to Asia

- 3.66 The Australia-Chile Chamber of Commerce (ACCC) in its evidence put the concept that Australia could be an APEC hub – that is a hub between South America, through the Chilean gateway, and Asia. With the advent of direct flights between Australia and South America the concept of Australia as a bridge to Asia is now feasible.
- 3.67 The chamber pointed out it now:
- ... does not kill you to get on a plane and go to Buenos Aires or Santiago. The trend is going to be that Australia is not going to be an end game; it will be a transit point to somewhere else. As soon as it becomes a transit point, it will develop all those services necessary to service the people coming through, going between the regions. You have to realise that Australia, with 18 million people, does not really count but, if it can get a bit of the action between Asia and its billions of people and Latin America with its billion-odd people, you have half a chance of actually capturing a little bit of wealth. But you have got to position yourself to want it and you have got to get the people to want to travel in your direction rather than going in someone else's direction.⁵³
- 3.68 It is interesting to note that 80 per cent of Chilean business within Asia is done with Japan, Korea and China. As the ACCC notes most of these businessmen travel from Santiago to Miami, Miami to San Francisco or

51 DFAT, *The North American Free Trade Agreement, (NAFTA) – Implications for Australia*, May 1994, p. 1.

52 *Chile Facing the Year 2000*, Ministerio de Relaciones Exteriores, Chile.

53 ACCC, Transcript, 1 October 1999, p. 247.

Los Angeles and get to Tokyo or Beijing in 2½ days. The Chamber maintains that if you improve the link between Sydney and Santiago then this very large flow of businessmen would come through Sydney and up into Asia.⁵⁴ 'The opportunity today is to convert what were effectively end games, or ends of the transport link, into a link between regions.'⁵⁵ This is further boosted by the fact that Chile is in APEC and Australia is a substantial member of APEC. The Committee agrees with the ACCC's observation.

3.69 The Ambassador for Ecuador sees significant merit in Australia, through Brisbane, being the hub into Asia for its flower exports - a major export industry for Ecuador.

3.70 KPMG does not underestimate the importance of Australia becoming an integral part of the future of the economies of Latin America. Australia has a very critical link that is of significant value to South American countries and that is 'our Asia link'.⁵⁶ KPMG says that Australia should be trying to show how the nexus between Asia and Latin America is building and:

The way we see it Australia has a fundamental part to play in establishing this linkage between the two major trading blocs. They are coming together. There was a setback last year, as we all know, but a lot of Asian product has gone into Latin America. With Asian product going in, Asian investment has gone in, and the Latin Americans see Asian countries as prime markets for their exports. There are many different industries which are crying out for assistance of the type which Australia can provide.⁵⁷

3.71 The Chilean Trade Commissioner, Mr Bournas, told the Committee that the Chilean government has tried to position itself as a gateway to Latin America and this has been successful in generating a great deal of commerce with China and Korea. He says that Chile looks upon Australia as an ally in the task of opening up markets in Asia as we have Asian regional know-how and they have the regional know-how in South America.⁵⁸

3.72 Qantas provided the Committee with a very interesting piece of information regarding its South America – Asia traffic carried on its Buenos Aires - Sydney and vv flights. Passenger traffic is averaging 42 per

54 *ibid.* p. 250.

55 *ibid.* p. 241.

56 KPMG, Transcript, 17 November 1999, p. 382.

57 *ibid.* p. 383.

58 ACCC, Transcript, 1 October 1999, p. 245.

cent higher per month than that averaged over the first six months since the introduction of the direct air services with South America.⁵⁹

- 3.73 The Committee sees as an integral part of the building of linkages the promotion and development of Australia as a bridge to Asia and the Pacific for the economies of South America. The multiplier effect of Australia as a hub would be significant. Clearly the hub concept needs to be explored and is a concept that is big enough for government to take seriously as an initiative. To this end the Committee recommends that a strategy be developed to establish Australia as a bridge to Asia for the economies of South America.

Recommendation 4

The Committee recommends that the Department of Foreign Affairs and Trade, along with its portfolio partner Austrade, develop a strategy to establish Australia as a bridge to Asia for the economies of South America.

59 Qantas, Exhibit, No 53.

