



COMMONWEALTH OF AUSTRALIA

# Official Committee Hansard

## **SENATE**

FOREIGN AFFAIRS, DEFENCE AND TRADE LEGISLATION  
COMMITTEE

ESTIMATES

**(Additional Estimates)**

FRIDAY, 20 FEBRUARY 2004

CANBERRA

BY AUTHORITY OF THE SENATE



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**SENATE****FOREIGN AFFAIRS, DEFENCE AND TRADE LEGISLATION COMMITTEE****Friday, 20 February 2004**

**Members:** Senator Sandy Macdonald (*Chair*), Senator Hogg (*Deputy Chair*), Senators Chris Evans, Ferguson, Payne and Ridgeway

**Senators in attendance:** Senator Payne (*Acting Chair*), Senators Conroy, Hogg and McGauran

**Committee met at 9.07 a.m.**

**TRADE PORTFOLIO**

Consideration resumed from 19 February 2004.

**In Attendance****Department of Foreign Affairs and Trade****Portfolio overview**

Mr Doug Chester, Deputy Secretary

Ms Penny Williams, Acting First Assistant Secretary, Corporate Management Division

Ms Anne Hazell, Chief Finance Officer, Assistant Secretary, Finance Management Branch

**Output 1.1 Protection and advocacy of Australia's international interests through the provision of policy advice to ministers and overseas diplomatic activity.****1.1.1—North Asia (including Australia–China Council, Australia–Korea Foundation)**

Mr Murray McLean, OAM, First Assistant Secretary, North Asia Division

Mr Bruce Miller, Assistant Secretary, North Asia Branch

Mr David Holly, Assistant Secretary, China FTA Study Task Force

**1.1.2—South and South–East Asia (including Australia–India Council, Australia–Indonesia Institute)**

Mr Bill Paterson, PSM, First Assistant Secretary, South and South East Asia Division

**1.1.3—Americas and Europe**

Mr David A Ritchie, First Assistant Secretary, Americas and Europe Division

**1.1.4—South Pacific, Africa and the Middle East**

Mr Ric Wells, First Assistant Secretary, South Pacific, Africa and Middle East Division

Mr John Quinn, Assistant Secretary, Iraq Task Force

**1.1.5—Bilateral, regional and multi-lateral trade negotiations**

Mr Bruce Gosper, First Assistant Secretary, Office of Trade Negotiations

Mr Stephen Deady, Special Negotiator—Free Trade Agreements

Mr Justin Brown, First Assistant Secretary, Asia Trade Taskforce

**1.1.6—Trade development/policy coordination and APEC**

Mr Ralph Hillman, First Assistant Secretary, Trade Development Division

Mr Justin Brown, First Assistant Secretary, Asia Trade Taskforce

Mr Nicholas Brown, Assistant Secretary, Trade and Economic Analysis Branch

Mr Phil Sparkes

Mr Allan McKinnon, Special Negotiator, Trade

**1.1.7—International organisations, legal and environment**

Ms Caroline Millar, First Assistant Secretary, International Organisations and Legal Division, and Ambassador for People Smuggling Issues

Mr Chris Moraitis, Senior Legal Adviser

Mr Christopher Langman, Ambassador for the Environment

**1.1.8—Security, nuclear, disarmament and non-proliferation.**

Mr David Stuart, First Assistant Secretary, International Security Division

Mr Les Luck, Ambassador for Counter-Terrorism

Mr Andrew Leask, Assistant Secretary, Australian Safeguards and Non-Proliferation Office

**Output 1.2—Secure government communications and security of overseas missions.**

Mr Paul Tighe, First Assistant Secretary, Diplomatic Security, Information Management, and Services Division

**Output 1.3—International services to other agencies in Australia and overseas (including Parliament, state representatives, business and other organisations).**

**1.3.1—Parliament in Australia**

**1.3.2—Services to attached agencies**

**1.3.3—Services to business**

**1.3.4—Services to state governments and other agencies overseas and in Australia.**

Mr Ian Kemish, AM, First Assistant Secretary, Public Diplomacy, Consular and Passports Division

Mr Ralph Hillman, First Assistant Secretary, Trade Development Division

Ms Zorica McCarthy, Assistant Secretary, Executive, Planning and Evaluation Branch

Ms Glenda Gauci, Executive Director, Aichi Expo Unit

**Output 1.4—Services to diplomatic and consular representatives in Australia.**

**1.4.1—Services to the diplomatic and consular corps**

**1.4.2—Provision of protection advice through liaison with the Protective Security Coordination**

Ms Louise Hand, Chief of Protocol, Assistant Secretary, Protocol Branch

**Output 2.1—Consular and passport services.**

**2.1.1—Consular services**

**2.1.2—Passport services.**

Mr Ian Kemish, AM, First Assistant Secretary, Public Diplomacy, Consular and Passports Division

Mr Bob Nash, Assistant Secretary, Passports Branch

**Output 3.1—Public information services and public diplomacy.**

**3.1.1—Public information and media services on Australia's foreign and trade policy**

**3.1.2—Projecting a positive image of Australia internationally**

**3.1.3—Freedom of information and archival research and clearance.**

Mr Ian Kemish, AM, First Assistant Secretary, Public Diplomacy, Consular and Passports Division

**Output 4.1—Property management.**

**Output 4.2—Contract management.**

Mr Peter Davin, Executive Director, Overseas Property Office

**Enabling services**

**Items—General corporate support; human resource management and overseas conditions of service; financial and budget management; national non-secure (communication system) information technology and information management; records management; property management; executive support; training and development; evaluation and audit; internal legal and statistical services; security services.**

Ms Penny Williams, Acting First Assistant Secretary, Corporate Management Division

Ms Zorica McCarthy, Assistant Secretary, Executive, Planning and Evaluation Branch

Ms Anne Hazell, Chief Finance Officer, Assistant Secretary, Finance Management Branch

**Australian Trade Commission (Austrade)****Portfolio overview**

**Outcome 1: Australians succeeding in international business with widespread community support.**

**1.1—Awareness raising**

**1.2—Government advice and coordination**

**1.3—Services and opportunities**

**1.4—Inward investment and attraction services**

**1.5—Austrade administered grants.**

**Outcome 2: Australians informed about and provided access to consular, passport and immigration services in specific locations overseas.**

**2.1—Consular, passport and immigration services.**

Ms Margaret Lyons, Corporate Services Director

Mr Lindsay Collins, Acting General Manager, Export Finance Assistance Program

Mr Tim Harcourt, Senior Economist.

**ACTING CHAIR**—I declare open this hearing and welcome officers of the Department of Foreign Affairs and Trade. Today the committee will examine output 1.1.6, Trade development/policy coordination and APEC. As noted yesterday, the committee will meet during the sitting week beginning 1 March to conclude its examination of Trade output 1.1.5. That will conclude the Foreign Affairs and Trade portfolio.

When written questions on notice are received the chair will state for the record the name of the senator who submitted the questions, and those questions will be forwarded to the department for answer. As you are aware, Mr Chester, the committee has resolved that the deadline for provision of answers to questions taken on notice at these hearings is Thursday, 1 April 2004. Witnesses are reminded that the evidence given to the committee is protected by parliamentary privilege. I also remind witnesses that the giving of false or misleading evidence to the committee may constitute a contempt of the Senate.

The Senate has resolved that there are no areas in connection with the expenditure of public funds where any person has a discretion to withhold details or explanations from the parliament or its committees unless the parliament has expressly provided otherwise. An officer of a department of the Commonwealth shall not be asked to give opinions on matters of policy. However, you may be asked to explain government policy, describe how it differs from alternative policies and provide information on the process by which a particular policy was selected. An officer shall be given reasonable opportunity to refer questions asked of the

officer to superior officers or to a minister. We do not have a minister present this morning. Mr Chester, do you wish to make an opening statement?

**Mr Chester**—No, I have no opening statement.

[9.09 a.m.]

**ACTING CHAIR**—We will go straight to questions on output 1.1.6.

**Senator CONROY**—I want to ask generally about Australia's trade reforms. Could you give me an overview of Australia's performance over the last three calendar years?

**Mr Hillman**—The performance of Australia's exports over the last few years has been heavily influenced by a number of external factors plus a number of domestic factors. In 2003—we will deal with calendar years—the exports had fallen by 7.6 per cent in value terms. This followed a fall of 1.8 per cent in 2002 following a period of quite strong growth in our exports in 2001 and previous years. I will get someone to give me the figure for 2001.

Among the key factors impacting exports in the last two years was the drought, which led to a very substantial fall in rural export volumes. Farm production was down 21 per cent in 2002-03 to its lowest level since 1994-95. That was the worst drought in the last 100 years. Rural export volumes fell by 17 per cent in the four quarters to the September quarter 2003. Another very important factor affecting our export numbers has been the appreciation of the Australian dollar, particularly against the United States dollar. It has affected revenues received by Australian exporters. During 2003 the Australian dollar rose 33 per cent against the United States dollar and 23 per cent against the trade weighted index. The average price for all Australian commodities fell by 14 per cent in Australian dollar terms between December 2002 and December 2003.

The third set of influences that have had a negative impact on our export performance in the last couple of years has been the weak performance in the global economy compounded by global security concerns and a weak performance in the regional economy except for China—although even it hesitated during the SARS epidemic. This has fed through into our trade numbers for East Asia. I can run through what has happened to some of the key components of exports but I should say that, while, as I said before, our exports fell by 7.6 per cent in 2003 and 1.8 per cent in 2002, volumes have declined much less. We do not have complete volume figures for 2003 but, to give you an idea, in the four quarters to the September quarter 2003 they fell 1.3 per cent. This fall is more than accounted for by the 17 per cent fall in rural export volumes. In 2002 export volumes actually rose by 0.3 per cent from the previous year.

I mentioned the fall in rural exports of 22.5 per cent in 2003 from the previous year on the back of the drought. In 2003 non-rural exports, including services, fell by five per cent. Resource exports fell by nine per cent although their volumes have increased by 6.1 per cent in the four quarters to the September quarter 2003. Manufacturing exports fell by 9.2 per cent in 2002 from the previous year although volumes, once again, increased by 0.2 per cent in the four quarters to the September quarter 2003. Services exports fell by 1.2 per cent in 2003 from the previous year and there was a fall in volume there of 1.6 per cent.



The external circumstances that impact on our export performance have, we believe, begun to turn around and we think there are already signs of growth in Australia's export performance as the global economic outlook picks up and regional economies also start to pick up. The SARS thing now appears to be pretty well behind us although there are some potential risks from the bird flu currently in Asia. Global security has also improved since the period we have been discussing, although there is still the risk of terrorism. The big imponderable of course, in terms of export values, will be the impact of the Australian dollar.

**Senator McGAURAN**—I have some questions of clarification on that before you get rolling—they may be self-evident but I just want to be sure anyway. You spoke of the trade performance being affected by security matters. Is that only tourism you are talking about or is it product?

**Mr Hillman**—I think security issues impact in a number of ways on trade performance. Obviously tourism receives an immediate impact. However, uncertainty about where the world is going in a security sense, such as the period in the lead-up to the Iraq conflict, has an inhibiting effect on investors and tends to dampen global growth, and of course Australia's exports are very heavily influenced by global growth basically.

**Senator McGAURAN**—So it affects product also?

**Mr Hillman**—Yes.

**Senator McGAURAN**—You mentioned that volumes have actually increased over the last three years, yet of course dollar value has—

**Mr Hillman**—Dollar value has fallen. Volumes have fallen but only marginally in the last two years.

**Senator McGAURAN**—Right. Obviously as the dollar has risen our exporters, rather than reducing the volume, take the price cut—is that the nuts and bolts of it? They have directly absorbed the Australian dollar—

**Mr Hillman**—Let me just describe the process. Many of our commodities and almost all our resource exports are priced in US dollars. That is how the world market works, just as it does for oil—in US dollars. So when the Australian dollar appreciates for a given US dollar price of a commodity, you are just receiving fewer Australian dollars. When you bring the cash back—you sell the coal to Japan, you receive a bag of US dollars—

**Senator McGAURAN**—It has been appreciating.

**Mr Hillman**—As the Australian dollar appreciates, yes, you receive fewer dollars to put into your bank account. So your actual Australian dollar value of exports falls.

**Senator McGAURAN**—You were speaking of expectations of increased trade performance. I am trying to get the effect of the increase in the Australian dollar breaking through the 80c mark. The increased performance—is that in volume?

**Mr Hillman**—The expectation is that global economic growth and regional growth—for example, the very rapid growth that is taking place in China—will lead to an increase in the volume of Australian—

**Senator McGAURAN**—Volume, but not necessarily in dollars.

**Mr Hillman**—That will depend on what happens to—

**Senator McGAURAN**—That is the bottom line for any exporter—the dollar. Export as much volume as you like; it is the return that is important.

**Mr Hillman**—Of course movements in the Australian dollar do affect the bottom line for the exporter. You can see it in the company results for mineral exporters over the last year. As they have received fewer Australian dollars that has been manifested in their profits and dividends.

**Senator McGAURAN**—And you spoke of the SARS effect receding—that is for tourism only, isn't it? It could not possibly be product.

**Mr Hillman**—That was tourism but—

**Senator McGAURAN**—How does it flow over into product?

**Mr Hillman**—It flows over into product because fewer tourists go to restaurants in Hong Kong and fewer Hong Kong Chinese go out and have a restaurant meal which might include Australian crustaceans, seafood, fresh fruit and vegetables. That actually had an impact on those particular exports.

**Senator McGAURAN**—Quite right. Thank you for pointing that out.

**Senator CONROY**—You mentioned a 7.6 per cent drop. That equates to \$12 billion, it has been suggested to me. Have there been any other drops of that magnitude in recent history, in the last 10 or 20 years, that you are aware of?

**Mr N. Brown**—No. That is the largest drop in dollar terms in recent history, but it needs to be put in perspective against a very strong increase earlier in the decade. In 2001 exports rose by something like 25 per cent.

**Senator CONROY**—But, as you said, it is the biggest drop in, basically, recent history.

**Mr N. Brown**—In recent history in dollar terms, but, as Mr Hillman was saying, the volume of this performance really indicated that exports did hold up.

**Senator CONROY**—So it was our worst export performance. My understanding is that exports increased by 8.8 per cent in 2001, not 25 per cent.

**Mr N. Brown**—I beg your pardon, I will correct that. It was 25 per cent in 2000 and 8.7 per cent in 2001.

**Senator CONROY**—Thanks. That could be described as our worst trading performance on record, just on the bald statistic.

**Mr Hillman**—I do not think you make a judgment like that on the bald statistics. You look at the number and you look at the circumstances. Exports fell in the face of very difficult circumstances. I do not think I would make a value judgment. In fact I would say they held up pretty well in very difficult global circumstances, the drought and a very strong Australian dollar.

**Senator CONROY**—We will chat about that now. Even during the Asian economic crisis our exports still grew by two per cent in 1998. Would you have expected the Asian economic

crisis to have had a bigger impact on our trading performance? It was a pretty hefty slump but our exports held up during the Asian economic crisis.

**Mr Hillman**—As I indicated in my introductory remarks, the two big factors in the fall in the dollar value of Australian exports have been the drought and the appreciation of the Australian dollar—

**Senator CONROY**—We will have to have a chat about that.

**Mr Hillman**—more so than the regional circumstances.

**Senator CONROY**—Let us talk about the drought. Would you say Japan, Korea, the US, China and New Zealand are some of our biggest markets?

**Mr N. Brown**—Yes. Japan, the United States—

**Senator CONROY**—Japan, Korea, the US, China and New Zealand.

**Mr Hillman**—The UK is in there, too, if you are talking about the top five. It is Japan, USA, UK, New Zealand and Korea.

**Senator CONROY**—I was just saying that they are some of our big ones. In terms of our exports to Japan, Korea, the US, China and New Zealand—our top five export markets—were there any agricultural products that might have been affected by the drought?

**Mr N. Brown**—Yes, there were agricultural exports to China—

**Senator CONROY**—Yes, wool.

**Mr N. Brown**—My recollection—

**Senator CONROY**—I think wool is up there as the second largest export to China.

**Mr N. Brown**—Yes. My recollection is that there was a fall in demand for wool within China.

**Senator CONROY**—It was nothing to do with the drought, though.

**Mr Hillman**—Well—

**Senator CONROY**—The fall in demand—

**ACTING CHAIR**—Perhaps you could let Mr Brown respond to your first question before you ask another one, Senator Conroy.

**Senator CONROY**—I am just trying to help clarify so he can give me the correct answer.

**ACTING CHAIR**—I actually do not think Mr Brown needs your help.

**Mr N. Brown**—My understanding is that sheep numbers fell right back during the drought, of course, and there was some softening of demand in China. Nonetheless, we did sell all the wool we could produce elsewhere. I should also point out that export growth to China has been quite strong in recent quarters.

**Senator CONROY**—That is my very point.

**Mr N. Brown**—In the last two quarters, exports have grown very strongly, particularly in the area of—

**Senator CONROY**—Let us stick with China just for the moment. I understand that our largest export there is iron ore. Was that affected by the drought?

**Mr N. Brown**—No.

**Senator CONROY**—We have agreed that potentially the drought had an effect on wool, but actually the effect was from a fall in demand rather than the drought.

**Mr N. Brown**—There was a softening in demand. Nonetheless, worldwide we certainly sold all the wool that we could.

**Senator CONROY**—Would crude petroleum have been affected by the drought?

**Mr N. Brown**—Of course not.

**Senator CONROY**—Coal?

**Mr N. Brown**—Of course not.

**Senator CONROY**—Iron ore we have mentioned already.

**Mr N. Brown**—Coal revenues did decrease, but real coal production rose by about six per cent.

**Senator CONROY**—My point is that you have highlighted two issues: the drought and the dollar. I am just going through the drought. Our top export to Japan is coal. Would that have been affected by the drought?

**Mr N. Brown**—No.

**Senator CONROY**—Iron ore?

**Mr N. Brown**—No.

**Senator CONROY**—Aluminium?

**Mr N. Brown**—No.

**Senator CONROY**—Bovine meat—that might have been affected by the drought. That is No. 4.

**ACTING CHAIR**—You do know what that is, do you, Senator Conroy?

**Senator CONROY**—I haven't a clue, but it is written: bovine meat.

**ACTING CHAIR**—I think it is produced by cow growers.

**Senator CONROY**—Excellent! Julian will know all about it! Crude petroleum: was that affected by the drought?

**Mr N. Brown**—No.

**Senator CONROY**—So four of our top five exports to Japan would not have been affected by the drought. Exports to Korea—crude petroleum: affected by the drought?

**Mr N. Brown**—No.

**Senator CONROY**—No. 1 coal—no? Non-monetary gold?

**Mr N. Brown**—No.

**Senator CONROY**—Iron ore?

**Mr N. Brown**—No.

**Senator CONROY**—Aluminium?

**Mr N. Brown**—No.

**ACTING CHAIR**—I think you can assume these are rhetorical, Mr Brown.

**Senator CONROY**—Now to the US. We are back to bovine meat—that is something that Senator Payne has a big interest in, apparently. We can agree that may have been affected. Alcoholic beverages: affected by the drought?

**Mr N. Brown**—Inversely, it might have had some effect.

**Senator CONROY**—We might have created a bigger demand over in the US. Crude petroleum—no? Meat, excluding bovine? It might have been affected. Aircraft and parts? Big impact from the drought?

**ACTING CHAIR**—They are rhetorical; there is no need to respond.

**Senator CONROY**—I am asking a straightforward question.

**ACTING CHAIR**—I wish you would.

**Senator CONROY**—The officials have said that drought has a big impact on our export performance. I am just trying to isolate which part of the export performance is affected by the drought.

**ACTING CHAIR**—I got the point, thank you.

**Senator CONROY**—Now to New Zealand. Petroleum—no? Office machines: big impact from the drought?

**Senator McGAURAN**—Possibly.

**Senator CONROY**—Thank you for the expertise from the Nationals.

**ACTING CHAIR**—Thanks for that help, Senator McGauran.

**Senator CONROY**—Motor vehicles to New Zealand—no drought effect? Paper products—no drought effect? Medical products—no drought effect? There was not a lot of drought effect on the top five exports to most of our major markets, so drought does not seem to have been such a big factor. Maybe we will go to the Australian dollar. That might help explain it.

**Mr N. Brown**—At the margin, the drought did have an impact. Rural production decreased by 18 per cent and that fed through into total export values.

**Senator CONROY**—And if that was what we were exporting to our major markets, then you would be able to identify that as a major impact. ‘Marginal’ is right.

**Mr N. Brown**—At the margin the effect was quite strong.

**Mr Hillman**—We were also talking about our global trade performance; we were not talking about major markets. The fact is that the drought diminished our rural exports by a volume of about 18 per cent. I have got the number here—no! Rural exports fell by 22.5 per cent in value terms. Rural export volumes fell by 17 per cent. Our rural exports go all over the world. Our wheat goes to the Middle East, it goes to Pakistan, it goes all over the place; it

does not just go to our major markets in East Asia, which are very heavily mineral and energy markets more so than rural markets. Although we could go through it market by market if you wish. I have the East Asian market data here.

**Senator CONROY**—I appreciate the point you are making. I just wanted to identify what are fundamentally our biggest markets—

**Mr Hillman**—I think it is a safe assumption that only rural exports were affected by the drought.

**Senator CONROY**—Sure.

**Mr Hillman**—Commodity, energy and mineral exports had a dollar value that was very heavily impacted by the appreciation of the Australian dollar, although their volumes have not changed.

**Senator CONROY**—I have not got to the Australian dollar yet. Those five countries I talked about account for 40 per cent of our exports. That is big.

**Mr Hillman**—They are important markets.

**Senator CONROY**—They account for 40 per cent of our exports and the drought had not a lot of impact on 40 per cent of our exports just to those five. I appreciate the point you are making that obviously we export to lots of other places and the drought did have an effect. But, in terms of the biggies, it is not as big an impact. It was at the margins but it was not as big an impact. The Australian dollar has hit 80c this week, although it dropped a little bit below that. I will ask in a tick what your thoughts are on that. What has been our long-term average of the dollar?

**Mr N. Brown**—The long-term average is a little above 70c.

**Senator CONROY**—That is what I thought. When did we hit 70c?

**Mr N. Brown**—In the course of last year.

**Senator CONROY**—When about in the course?

**Mr N. Brown**—From memory, it would have been late in the first half of last year.

**Senator CONROY**—Let us say October. So, for the two calendar years that you have just been describing, we were below a long-term average for 20 or 21 of the 24 months in the period that you are saying the dollars' appreciation had a major impact on our export performance? It would be 20 of the 24 months.

**Mr N. Brown**—It needs to be seen in the context or the floor from which the dollar came. It has been rising since early 2002, which is having a natural impact on export values. I should also point out that not only did rural production fall back but commodity prices in the rural sector did not rise in line with the Australian dollar. I should also point out that commodity prices for resources did hold up reasonably well and indeed have become quite strong in recent months.

**Senator CONROY**—There is no question that 80c in the dollar is going to have an impact. I have said that I will seek your views on that in a moment. The two issues that you identified as being possibly responsible for our poor performance—or the worst ever performance in

recent history—were the drought and the Australian dollar. You have identified them, we have worked our way through exports to our major markets and drought has not had as big an impact as perhaps we earlier thought and the Australian dollar has been below a long-term average for almost all of the period that we were talking about. I wanted to make that point. I am interested, if the Australian dollar continues to rise above 80c, what would your thoughts be on the impact on our economy, our exports and those sorts of things?

**Mr N. Brown**—The first point I would make is that the higher dollar needs to be seen in the context of a strong Australian economy. Company profits have stayed high. There is a positive business outlook with Australian growth, from all the evidence available, strengthening somewhat. Commodity prices have indeed come up, as I indicated a moment ago, and of course, there is a recovery in the world economy, which is going to boost demand for Australian exports. You need to seat it in the context of all these factors.

**Senator CONROY**—Sure. They are the upsides. But the dollar is a downside in terms of export performance—how do you think it is going to balance out?

**Mr N. Brown**—It depends on the way prices move in relation to the Australian dollar.

**Senator CONROY**—Some people have suggested this week that it could hit parity with the US dollar—a dollar for a dollar.

**Mr N. Brown**—I cannot comment on that.

**Senator CONROY**—What would be the impact if that were the case?

**Mr N. Brown**—It depends upon the circumstances under which the dollar rises or falls and the commodity prices and the prices for our goods received. I should also point out that our terms of trade are at a 25-year high and this means that Australian businesses do have an opportunity, for example, to re-equip. Of course, consumer welfare has been considerably enhanced by the fact that they do have access to these goods.

**Senator CONROY**—Part of this seems to be that the US interest rates are so historically low and that is helping to drive some of this. That is a completely external factor.

**Mr N. Brown**—It is just one of the factors that feeds into exchange rate determination.

**Senator CONROY**—At some point, hopefully soon, the Americans will actually start to increase their interest rates, because it is an unsustainable position to continue with them as low as they are. They are trying to get their economy kick-started. Bush has an election coming up; Greenspan knows that he has an election coming up. So we are probably stuck with it for another 12 months, but hopefully we will see a more historical norm return.

**Mr McGAURAN**—Or the Australian interest rates might not be so high.

**Senator CONROY**—Yes, that would be good. You would agree, Senator McGauran, that having our dollar heading towards dollar parity with the US would not be a good thing.

**ACTING CHAIR**—I do not think a good thing is engaging in foreign exchange speculation across the committee table so, Senator Conroy, if you have more questions—

**Senator CONROY**—Senator McGauran jumped right in. I am just inviting him to keep going.

**ACTING CHAIR**—I do not need your help on this, Senator Conroy. If you have questions for the officials that is a different matter.

**Senator CONROY**—If you want to engage Senator McGauran, that is fine.

**ACTING CHAIR**—What part of ‘Conroy’ did you hear as ‘McGauran’?

**Senator CONROY**—Australia has recorded about 20 consecutive months of trade deficits—is that correct?

**Mr N. Brown**—Yes, I believe that is the case.

**Senator CONROY**—When do you expect the run of trade deficits to come to an end?

**Mr N. Brown**—Once again it is not something that I can comment on.

**Senator CONROY**—You do not have a view at all?

**Mr N. Brown**—I will just point to the fact that the level of imports feeds of the level of domestic demand, which is quite strong, and also point to the fact that exports have been trending up in the last six months or so.

**Senator CONROY**—Do you think that might push us over into a positive in the near future? Do you think that is enough to get us there?

**Mr N. Brown**—Also, the trade deficit has been trending down over the last half, last year.

**Senator CONROY**—Are you optimistic that we might go into the black? You are the department of trade, so you must have some view about how our exports might happen.

**Mr Hillman**—We just gave you a view on where we thought exports were going and where the current account deficit was trending at the moment. All we can do is state those facts. We cannot speculate about where it might be in the future.

**Senator CONROY**—I was talking about our balance of trade. I was talking about our trade deficit, not our current account deficit. You are the department of trade, after all!

**Mr Hillman**—I am sorry, I should not have mentioned the current account deficit. That is a matter for the Treasury.

**Senator CONROY**—I have not asked that. Senator Payne, did you notice that I did not ask him about the current account deficit?

**ACTING CHAIR**—We are all grateful for small mercies.

**Senator HOGG**—You are on the ball this morning, Senator Conroy.

**Senator CONROY**—Always.

**ACTING CHAIR**—That is a matter of opinion.

**Senator CONROY**—So the department of trade has no view on whether or not we may get into a positive in the near future?

**ACTING CHAIR**—The officers answered that question several times, Senator Conroy.

**Senator CONROY**—So there is no view at all from the department of trade?

**ACTING CHAIR**—The officers have answered the question, Senator Conroy.



**Mr N. Brown**—Beyond our comments on the outlook for exports, there are indications.

**Senator CONROY**—We must have a view on an outlook for imports.

**Mr N. Brown**—Once again, as I said, imports feed off domestic demand, and that is not really our area.

**Senator CONROY**—The department of trade has no view?

**Mr N. Brown**—Imports are driven by domestic demand.

**ACTING CHAIR**—Perhaps you would like to lend them your crystal ball, Senator Conroy.

**Senator CONROY**—Well, that is what we pay them for: to do modelling. So you do not have any modelling at all?

**Mr Hillman**—No.

**Senator CONROY**—So Trade does not do anything at all: it just looks at numbers generated by the bureau of stats?

**Mr Hillman**—In this area we analyse the data from the Bureau of Statistics and from other—international—sources to look at how our trade is performing, and we look at trends. We do no modelling on this.

**Senator CONROY**—I am asking you to give me a view on the trend.

**ACTING CHAIR**—You mean the same question that you asked before.

**Mr Hillman**—We have indicated what the trend in the trade balance is up till now, but we do not have a forward view.

**Senator CONROY**—I offered you a view on what had historically happened and I was hoping our experts in the department of trade may have some view about the future trend.

**Mr Hillman**—We have no view.

**Senator CONROY**—How have our exports to our major markets performed? We did talk about products, but how have they gone to our major markets—Japan, Korea and the US? I talked about individual products. I am now looking at the exports.

**Mr Hillman**—We will be starting with Japan. Your question, Senator, was how we performed in particular markets—is that correct?

**Senator CONROY**—Yes.

**Mr Hillman**—In 2003 Australia's total merchandise exports to Japan declined by 11.2 per cent to \$A19.7 billion. The fall in merchandise exports was driven by large falls in the values of mineral and fuel exports, which declined by 3.8 per cent and 17.9 per cent respectively in 2003. Coal exports declined by 19 per cent but volumes increased by four per cent. Iron ore declined by eight per cent, aluminium fell by 12 per cent and crude petroleum exports declined by 32 per cent. While Australian export volumes of coal, crude oil, iron ore and aluminium actually increased in 2003, the increases were more than offset by depreciation of the Australian dollar, which led to lower unit price in Australian dollar terms.

Copper exports to Japan increased by 19 per cent against Japanese copper consumption growth of 11 per cent in the first eight months. Total agricultural exports to Japan fell by 8.5 per cent to \$4.8 billion. There were large falls in fish and crustacean exports. Cotton and barley fell 27 per cent and 55.6 per cent, respectively, mainly due to the impact of the drought. Exports of bovine meat to Japan increased by 11 per cent to \$1.4 billion. Australian exports of beef to Japan reached almost 29,000 tonnes in October, the highest level since the discovery of BSE in September 2001.

**Senator CONROY**—Thank you. The figures for last couple of years show that in 2003 exports to Japan, Korea and the US all declined by double-digit figures. You mention that Japan fell by 11 per cent, Korea by 19 per cent and the US by 18.3 per cent, and you did mention a couple of possible factors just then when you were talking about it. The drought may have been behind the bovine meat issue in the US, because that is the biggest fall at 18.3 per cent. I am confused about Japan, though. Last year the Japanese economy seemed to start to turn the corner, driven by strong export growth. Finally after 10 years we were seeing exports turning the corner and hopefully it is sustainable, but it did not seem to pay off for us. They are exporting more, they are producing more, but it did not seem to pay off for us. Are we losing market share?

**Mr Hillman**—I will not comment on market share, because I do not have that data here, but our volumes rose as the Japanese economy picked up. As I said, while coal exports declined by 19 per cent in value terms, their volumes increased by four per cent. There were also volume increases in crude oil, iron ore and aluminium. Copper also increased, as I mentioned. So that is logical.

**Senator CONROY**—So you put that down entirely to a price issue?

**Mr Hillman**—The fall in the value is certainly heavily accounted for by the appreciation of the Australian dollar. I am not sure what other price effects were in there in US dollar prices, because we do not have that data in front of us.

**Senator CONROY**—So you do not think we have been losing market share? I know you were cautious, but intuitively I look at it and I think, ‘They are growing and our contribution, in value terms at least, is declining.’

**Mr Hillman**—But our contribution in volume terms is going up. If you calculate market share in volume terms or in US dollar terms, intuitively, looking at this—and that is all we are doing—I would say we have probably maintained share, marginally increased it or it has marginally fallen. I do not see anything dramatic in those volume numbers which would indicate any problem or loss of market share.

**Senator CONROY**—I want to turn to the Korean economy. It is a bit the same—it has grown relatively strongly at around 3 per cent last year, again driven by a faster export growth over the past four years. I think export growth has been around 33 per cent. Again, if Korea has had such export growth, why aren’t we being pulled along in the wake?

**Mr N. Brown**—Indeed our exports to Korea did decline in 2003. They declined very steeply in particular in the first half and started to rebound strongly in the last two quarters.

**Senator CONROY**—If they rebounded in the last two quarters, there must have been a collapse in the first six months.

**Mr N. Brown**—They went down quite steeply in the first two quarters of the year and then they came back strongly in the subsequent quarters. The key factor behind this outcome was the appreciation of the dollar, which had a fairly strong effect on the revenues received for commodities exports, particularly coal and iron ore, the contracts for which are written in US dollar terms.

**Senator CONROY**—Just on coal and iron ore—and this is the same for Japan—we are not losing contracts to China?

**Mr N. Brown**—I cannot comment on that. I can say that, although coal exports did decrease by 16 per cent, volumes did increase by five per cent, so we would be maintaining market share, particularly in the area of coke and coal.

**Senator CONROY**—I appreciate that Mr Hillman may have just gone to get some statistics on this, but if their growth is 10 per cent and our growth is only two per cent that does not necessarily imply that we have kept market share. If their economy is growing at a rate and we are not growing at the same rate, that is not necessarily the case. Those are not the figures, but I am saying just because our volumes have grown that does not mean we have not necessarily lost market share.

**Mr N. Brown**—That is right, but it does not necessarily mean that we have lost market share.

**Senator CONROY**—No, but you were confident there that we—

**Mr N. Brown**—Nonetheless, coal volumes did rise. I have not got the profile of the coal exports through the year in front of me, but I would imagine that, with the Korean economy becoming progressively stronger and its export performance becoming much stronger, the demand for our exports, which are predominantly inputs into their industry, would be quite strong.

**Senator CONROY**—I am happy for you to take it on notice if you like. If we could get some figures on market share in Japan and Korea, that would be great.

**Mr N. Brown**—Right. Would you like me to comment further on—

**Senator CONROY**—I am sorry, yes. I did not mean to cut you off. I would not want to be accused by the chair of deliberately cutting you off.

**Mr N. Brown**—Petroleum exports fell quite sharply, reflecting the softer economy earlier in the year. They fell in volume terms as well. Beef exports fell in line with the effects of the drought, but we did increase sales of Australian beef to other markets as well. Just as an illustration, I think beef exports fell by about 21 per cent, but in volume terms exports both to Japan and to China rose. There were some positives in our export performance with Korea last year. There were increases in exports of auto engines and parts and some metals, particularly copper, nickel and pig-iron. For example, the increased auto sales reflected the expansion of Ssangyong Motors in purchasing Australian gearboxes and the recovery of GM Daewoo, which was purchasing engines from Holden. All in all, the export performance with Korea did reflect softness in the economy, particularly in the first part of the year, but as we

know it is coming back now, so the outlook is quite positive. Indeed, growth in Korea is forecast to rise to around four to six per cent this year. Korean exports are also rising very strongly, and we of course provide important inputs into their export industry.

**Senator CONROY**—Thank you, Mr Brown. At the risk of hazarding the wrath of the chair, I did want to have a chat with you about our current account deficit. Is that okay?

**Mr Hillman**—The current account deficit is really a matter for the Treasurer and the Treasury.

**Senator CONROY**—So the department of trade would have no ability to answer any questions on the current account deficit?

**Mr Hillman**—No, we would not answer questions on the current account deficit.

**Senator CONROY**—Quite extraordinary.

**ACTING CHAIR**—The portfolio arrangements? Yes, they can be, Senator.

**Senator CONROY**—Most people who know anything about the area would probably think that Trade had some views on our current account deficit.

**CHAIR**—There you go—we learn something every day.

**Senator CONROY**—Where it was going, how we are performing, foreign debt.

**ACTING CHAIR**—Even you learn something every day, Senator.

**Senator CONROY**—Our trade performance has been driving the current account. I think Mr Hillman accidentally conceded that point when he mentioned it to us. I just thought he had opened up the opportunity for me to ask him a question about it.

**ACTING CHAIR**—I do not think it is dangerous.

**Senator CONROY**—You are flatly refusing to take any questions on the current account?

**ACTING CHAIR**—Mr Hillman has answered the question, Senator Conroy.

**Senator CONROY**—You are refusing to answer any questions on it.

**ACTING CHAIR**—Senator Conroy, Mr Hillman has answered your question—several times, in fact.

**Senator CONROY**—I want to make sure it is on the record that the department of trade has refused to answer questions about the current account deficit.

**ACTING CHAIR**—The department of trade has indicated that it is a matter for the Department of the Treasury, Senator Conroy.

**Senator CONROY**—I will turn now to the Australian-Thailand FTA.

**ACTING CHAIR**—Thank you, Mr Hillman and Mr Brown.

**Senator CONROY**—The negotiations for the Australia-Thailand FTA were concluded last October. Where is the text of the agreement? Have you lost it?

**Mr J. Brown**—No, we have not lost it, Senator. When the prime ministers announced the completion of the negotiations last October they said that the signature would take place in the first part of this year to coincide with a visit to Australia by the Thai Prime Minister.

**Senator CONROY**—When is that?

**Mr J. Brown**—Discussions are under way with the Thais to try to reach a mutually agreeable date. I cannot speculate as to when that might be but it will be in the first half of this year. Work has been under way since October to finalise the text and it is now very close to finalisation. The work that has been under way involves both the technical checking of the text as well as the legal scrubbing. There have also been a small number of substantive issues that we have needed to resolve in that period since October. The situation of course is rather different from that with the US. There is no legislative time frame on the Thai side for resolving the text. Quite frankly, there have also been some resourcing problems on the Thai side. In the last three months Thailand has also been pursuing and initiating trade negotiations with a number of countries which have involved negotiating personnel dealing with our exercise as well.

**Senator CONROY**—You would be aware that the text of the US FTA is going to be released before the signing. Last night it was explained that there was no signing at the press conference. We were confused because we thought we had seen something, but Mr Chester explained that it was old footage. The US FTA is being released before the signing. What is the problem? Is there a policy issue about not being able to release it until the signing? If so, how come the US FTA is being released before the signing?

**Mr J. Brown**—It certainly can be released before the signing. If the government takes the decision to release it before the signing then that will certainly occur. As I have explained, the situation is that the text is not yet finalised. When it is finalised, subject to a decision by the government, then it will be released. Whether that coincides with the signing or whether it is in advance of the signing is a decision for government.

**Senator CONROY**—You mentioned a small number of substantive issues. What are they?

**Mr J. Brown**—They fall into two groups. Firstly, there are a number of issues with the rules of origin annex. As you would be aware, the approach we have taken with Thailand is a US-style product-specific rules of origin. That has involved a tremendous amount of work in finalising each of the individual rules that will apply to all of the 5,000 products. There are a couple of issues which we have been seeking to resolve. There are about two or three issues—products, in fact—where we have been seeking to resolve differences with the Thai side. That is the first set of issues. The second set of issues is in the area of special safeguards to apply to a range of agricultural products. Work has been under way since October to finalise the volume triggers that would apply to a range of agricultural products on both sides.

**Senator CONROY**—Quarantine?

**Mr J. Brown**—Quarantine is resolved.

**Senator CONROY**—Resolved now?

**Mr J. Brown**—There are no outstanding issues in quarantine.

**Senator CONROY**—Was it resolved when it was signed?

**Mr J. Brown**—Yes.

**Senator CONROY**—Really.

**Mr J. Brown**—Correct. The text is being scrubbed, but there are no outstanding substantive issues on the quarantine agenda.

**Senator CONROY**—Quarantine was actually agreed—the quarantine text was agreed—before the signing?

**Mr J. Brown**—No, no.

**Senator CONROY**—Sorry, before the announcement.

**Mr J. Brown**—The quarantine text was agreed at the time the prime ministers made the announcement on 19 October. What has been occurring since then is a scrubbing and checking of the text. But if your question is ‘Are there any substantive issues in the quarantine chapter that are outstanding?’ the answer is no.

**Senator CONROY**—What I am wanting to make absolutely sure is that quarantine was resolved, as you said, before the agreement was announced.

**Mr J. Brown**—Dealing with the Thais, of course, is very different from dealing with the Americans, to be quite frank. Some of the chapters have required more effort on the part of both countries since October to get them into a shape where they are clean texts. But quarantine was a chapter which obviously both sides spent a tremendous amount of time negotiating. And as of 19 October the text was agreed. All that has been going on since then is the scrubbing and checking of that quarantine chapter, which is actually called the sanitary and phytosanitary measures chapter.

**Senator CONROY**—Allow me my shorthand description of it, please. What is the local content for rules of origin for Thailand?

**Mr J. Brown**—It is a product specific rule of origin. It depends on the product as to what the RVC—regional value content—is. In general terms, what we have done is apply the US-Singapore model across the board and made a number of variations and amendments depending on the interests of the two countries. In some cases, the US-Singapore model did suit both Australia and Thailand; in other cases it did not; and we have negotiated changes to various commodities along the way. The three or so issues that I mentioned earlier that were outstanding were in that basket of products where there are variations—deviations—from the US-Singapore, NAFTA style, approach, which we are still seeking to resolve with Thailand.

**Senator CONROY**—The rules of origin were agreed prior to the announcement of the US FTA but they were not agreed prior to the announcement of the Thai FTA. Is that fair?

**Mr J. Brown**—I am not sure of the situation with the US agreement, of course, but as regards Thailand the most contentious rules of origin, if I can put it that way, were agreed in advance of the 19 October announcement. They were in the areas of textiles, clothing and footwear and automotive products. The areas where we are continuing to have discussions are non-contentious, but there are a range of methodological challenges, if I can put it that way, which we are seeking to overcome. However, the commercial significance of these issues is very small.

**Senator CONROY**—So the Thais have not been paying attention because they have been distracted by other things.

**Mr J. Brown**—I would not characterise it that way. I simply would make the comment that the senior Thai negotiator, my counterpart, is also going to be taking up a significant role on their side in their forthcoming FTA negotiations with the United States. That has meant that she has become drawn into that, particularly in the period between November and January. But now that the notification has been made to Congress on that, there will be a 90-day period during which it is in front of the Congress and we expect her full-time attention once again.

**Senator CONROY**—You mentioned that we were using the US-Singapore model except in a couple of areas. Are there any unique rules of origin that perhaps have not been seen before? Textiles perhaps?

**Mr J. Brown**—I am not sure what you mean by ‘unique’.

**Senator CONROY**—No-one else has ever come up with them. ‘Hybrid’ is the word that occurs to me. ‘Hybrid’ equals ‘unique’. Are there any unique features to the rules of origin?

**Mr J. Brown**—I am not a rules of origin expert. I think there are unique features in every rules of origin regime in FTAs to reflect the particular characteristics of the two markets. I am not au fait with all of the rules of origin provisions in every FTA that has been negotiated. All I can say is that with Thailand essentially we have had to reach a compromise between the kinds of rules of origin that we apply with New Zealand and the kinds of rules of origin that Thailand applies within the ASEAN free trade agreement. In reaching that compromise we have had to draw on the US-Singapore and NAFTA style rules of origin. We have also had to come up with some solutions of our own in particular sectors. I am not sure whether any of them is unique but I can say with some certainty that they all suit the circumstances of Australia and Thailand and will enable trade to flow in both directions consistent with the objectives of the agreement.

**Senator CONROY**—I have an article from the *Bangkok Post*. Of course, you cannot always believe what you read in newspapers so I am just trying to get to the bottom of this local content issue which was commented on at some length. It says:

Rules of origin on garment products topped the sensitive issues discussed during the premiers’ negotiations before they settled on a requirement of 30% local content in garment products for the first 20 years.

Australia initially requested at least 50% local content ... but Thai negotiators pushed for a lower figure.

“The 30% local content in garment products is acceptable and practical,” said Mr Suchart.

I apologise if I have mispronounced his name. The article goes on:

“Some 40% or higher is deemed to be an obstacle to Thai garment exports.”

What is our local content rule for Thailand, for textiles?

**Mr J. Brown**—The best way that I can explain it is to say that it is akin to the former rules of origin regime that we applied to developing countries. I will explain that a little bit. You will see from the tariff phasing arrangements we have agreed with Thailand that we have given Thailand essentially a five per cent tariff preference on all textiles, clothing and footwear products. So, as the general rate declines over the period between 2005 and 2015, the Thai preference also declines. But at no stage does the preference exceed five per cent.

In the past the rule of origin that has applied to developing country imports under the developing country preference scheme has enabled developing countries to have 30 per cent local content and to be able to draw on 25 per cent of content from any other developing country to meet the 55 per cent local content rule. That has, in very broad terms, been the agreement that we have reached with Thailand on textiles, clothing and footwear products.

I know the automotive area is not mentioned in that article but that is an area where there is a great deal of complementarity between the two economies. We have agreed in broad terms on an RVC—a regional value content—for most automotive products, of 40 per cent. So in general the rule of origin requires products to undergo both a change of tariff classification and then a value added on top of that—a regional value content. In the automotive case we have agreed to an RVC of 40 per cent. In the case of textiles and clothing it is a more complex arrangement but it essentially allows Thailand to claim a preference for products where the Thai content is 30 per cent and the additional 25 per cent, up to the 55 per cent threshold, is made up from content from another developing country.

**Senator CONROY**—Is Mr Suchart a Thai government official?

**Mr J. Brown**—If it is the Suchart I think it is, he is the finance minister.

**Senator CONROY**—Given that he announced what the local content rule is, I am confused as to why I have to read the *Bangkok Post* to find out about that. I appreciate that you are here now, but it has been four months and the only way for Australians in the textile and garment industry to be able to find out what the rules of origin are is to read the *Bangkok Post*. Would it be helpful for you to get them up so people could look at them?

**Mr J. Brown**—We have put some explanatory material on the web site and as soon as the rules of origin issues that I have mentioned are finalised—

**Senator CONROY**—But I thought these contentious forms were finalised—

**Mr J. Brown**—They are finalised.

**Senator CONROY**—You said the contentious rules of origin—which is textile garments—were finalised back in October.

**Mr J. Brown**—That is correct.

**Senator CONROY**—And the only way for an Australian to find out about them is to read the *Bangkok Post* because you will not put them up on the web site.

**Mr J. Brown**—I do not think that is correct. We have also put up a lot of material on our web site explaining the outcome in its entirety. Of course it would be completely impractical to put up the entire rules of origin annex to the web site, so what we have tried to do—

**Senator CONROY**—Why would it be impractical?

**Mr J. Brown**—Because there are more than 5,000 tariff lines, and I think it would be very difficult for exporters to understand that material if it were put up in a completely unvarnished state. What we are trying to do is explain the outcome in broad terms, and then when the text of the agreement is released we will release more material to explain exactly what the provisions are, in plain English.



**Senator CONROY**—You mentioned Thailand is a developing nation. Isn't Thailand moving to be a nation with developed country status?

**Mr J. Brown**—Thailand's aspirations are on the record. Prime Minister Thaksin would like to take Thailand into the OECD.

**Senator CONROY**—Are they close?

**Mr J. Brown**—I am not an expert on the Thai economy. From what I have seen I would say that membership of the OECD is some way off, but Dr Thaksin is a very impatient man and would like to move quickly.

**Senator CONROY**—You said if you just put up the raw data on rules of origin it would be very confusing. I thought we were trying to make trade easier?

**Mr J. Brown**—Excuse me?

**Senator CONROY**—You said it would be impractical to put it up on the web because the raw data would be very confusing and hard to understand and that you are looking for plain English. I thought we were trying to come up with a freer, simpler trade system. These rules of origin seem extraordinarily complicated if they require such explaining because, as you have described it, exporters and importers would not be able to understand them in their raw state.

**Mr J. Brown**—No, what I am saying is that if we put up the rules of origin annex from the agreement onto the web site it would be very difficult for exporters to understand that. Indeed, if we put up the tariff elimination schedule it would also be quite difficult to understand. What I am saying is that we will of course post that material to individuals who are interested. What we are planning to do is to explain that material in some sort of plain English form so that people do understand it. I hope it is clear from what I said that the rule of origin that we have agreed on textiles and clothing does have a history in the Australian system, so I am confident that once the details are known to exporters and the exporting community in general they will be comfortable with it and they will understand it. I am simply making the point—maybe it is a technical point—that if we posted the rules of origin annex people would not understand it.

**Senator CONROY**—It sounds like we are really freeing up trade! No-one has got a clue what it means.

**ACTING CHAIR**—I do not think that is what the officer said, Senator Conroy. In fact, if you were being honest, you would say you do not think that is what he said either.

**Senator CONROY**—Thanks for your opinion, Chair. I always appreciate your opinion.

**ACTING CHAIR**—I know you do; that is why I am ever so eager to give it to you.

**Senator CONROY**—So the rules of origin annex is so complicated nobody would understand it, and even the person who negotiated it says they do not understand it.

**Mr J. Brown**—Of course it is understandable. What I am trying to grapple with is how to make it clearer for the exporting community. That is what we will be doing once we post more information on the site.

**Senator CONROY**—We all look forward to that. I appreciate it is a government decision so at this stage you are unsure of the date. We do not know when the Thai official is coming—did you say it was the Prime Minister who was hoping to come?

**Mr J. Brown**—Yes, the Prime Minister is planning to visit, with a number of other Thai ministers, I believe, and that is when the signing will take place.

**Senator CONROY**—In the first half of the year?

**Mr J. Brown**—Yes.

**Senator CONROY**—Have we finished negotiations on the safeguards chapter? You mentioned safeguards were still a matter of some discussion.

**Mr J. Brown**—That is correct—we are still discussing the safeguards issues.

**Senator CONROY**—What about the investments chapter—has that been finalised?

**Mr J. Brown**—It has been finalised. There is a process of technical checking and legal scrubbing under way on that chapter.

**Senator CONROY**—Thailand have agreed to it?

**Mr J. Brown**—In large terms Thailand have agreed to it, yes.

**Senator CONROY**—‘In large terms’ does not sound like they have agreed to it.

**Mr J. Brown**—They have agreed to it, yes. It is difficult for me to explain this but negotiating with Thailand—this is their first FTA with a developed country—is quite a protracted process in going from agreement on the issues and the principles to a final legal text.

**Senator CONROY**—I will not draw you any further on that. What about the movement of natural persons chapter? Is that agreed?

**Mr J. Brown**—That chapter is agreed.

**Senator CONROY**—Not largely?

**Mr J. Brown**—And scrubbed.

**Senator CONROY**—More than largely? Wholly?

**Mr J. Brown**—I am choosing my words carefully. The investment chapter is largely agreed. The movement of business personnel chapter is agreed.

**Senator CONROY**—E-commerce? Agreed? Wholly? Largely? Small-ly? Meagrely? Minutely? I have given you a range of options there to help you choose your words carefully.

**Mr J. Brown**—It is agreed.

**Senator CONROY**—Consultations and disputes settlement chapter?

**Mr J. Brown**—There is one outstanding issue there which is a very minor one, but it is agreed apart from that. I am happy to explain what that is, but it is a minor issue.

**Senator CONROY**—I might pursue it on another day. It does seem as though there are an awful lot of things that have not been finalised or that do not sound as though they were finalised in October when it was signed.

**Mr J. Brown**—Perhaps I could just comment on that.

**Senator CONROY**—Sorry, announced that it had been agreed to.

**Mr J. Brown**—The prime ministers announced that the negotiations had concluded. That is obviously perfectly accurate. There was agreement with the Thais across the board. But, as I am trying to explain, in moving from agreement to finalisation of the text with Thailand, bearing in mind that this is their first FTA with a developed country, we are dealing in English language text and it is slow going in some areas. That is for a variety of reasons. But I do not take a step back from the fact that we have agreement with Thailand. Translating that into a legal text is taking some time, but we are very close now.

**Senator CONROY**—I am sure that you were not the only person in charge—the only person working on this. Did you have resources assisting you—half a dozen people, two people?

**Mr J. Brown**—I was not the only person working on it. The staff of the Asia Trade Task Force, which I head, was dedicated to this exercise for the five to six months leading up to October, and there were also resources from other agencies involved in the negotiations.

**Senator CONROY**—Did you lose any resources as the US FTA kicked into its final stages in the last couple of months?

**Mr J. Brown**—No, we did not lose any resources.

**Senator CONROY**—No personnel from elsewhere? You mentioned that outside your unit you had resources. Did you lose those? Perhaps they were transferred across to the US FTA.

**Mr J. Brown**—Other agencies would be better placed to comment on that than I am. Our Asia Trade Taskforce was dedicated to the Thai exercise, and I have no complaints about the degree of support we received from other agencies. The range of issues that we were dealing with with Thailand was more narrow than that for the United States. In a nutshell, the agreement with Thailand is very largely a tariff agreement; it is focused on tariffs. The range of agencies involved is much smaller than was the case in the major developed country style agreement between the US and Australia.

**Senator CONROY**—You have made the point that the quarantine was agreed prior to the announcement in October.

**Mr J. Brown**—Yes.

**Senator CONROY**—All the arrangements—the legal text—have all been agreed?

**Mr J. Brown**—The legal text is, I believe, now scrubbed and ready.

**Senator CONROY**—Have our respective quarantine agencies been meeting regularly to work their way through this in the last few weeks?

**Mr J. Brown**—To work their way through the text, you mean?

**Senator CONROY**—Yes, to make sure it was all—

**Mr J. Brown**—Yes, that is correct.

**Senator CONROY**—But there are no more meetings needed, because it is finished.

**Mr J. Brown**—That is correct.

**Senator CONROY**—Are you able to explain to us what the quarantine arrangements are? I appreciate that is a big call. Are there substantive changes to our processes? I know with the negotiations for the US FTA there are ongoing discussions and working groups have been set up. What is involved in the quarantine chapter?

**Mr J. Brown**—I think there is quite a bit of material on our web site on the precise outcome on SPS and food standards. In essence, the chapter does two things. It reiterates the commitments that Australia and Thailand have under the WTO SPS agreement. That is the first thing it does. And the second thing it does, which is more of a processed based outcome, is to establish a bilateral expert group on SPS and food standards.

The intention of the expert group is set out in some detail on the web site, and let me just mention one or two of the key aims of the expert group. The first is to enhance the mutual understanding of both countries' SPS agricultural and food standards. Another objective is to consult on matters related to the development or application of SPS measures as well as food standard issues. There is also the aim of consulting on the request for recognition of equivalence of SPS measures. That is of course a right that both countries have under the WTO agreement so it is a simple reiteration and codification of that right. The two countries have also agreed to consult on matters relating to harmonisation of standards in the area of SPS and food and also to strengthen cooperation in relevant international fora such as the WTO, the Codex Alimentarius Commission and other relevant areas.

**Senator CONROY**—Who will be on the group?

**Mr J. Brown**—Who will be represented?

**Senator CONROY**—Yes.

**Mr J. Brown**—I am sure it specifies in the text of the chapter that agricultural department and ministry officials from both sides will be on this expert group.

**Senator CONROY**—So there will be more than scientific people on this group?

**Mr J. Brown**—There will be a range of both scientific and policy officers but they are from the agricultural ministries of the two countries.

**Senator CONROY**—As you would be aware, there is a great deal of concern in Australia's chicken industry about chicken flu and the outbreak in East Asia. There was an outbreak in Thailand or something? Was it major?

**Mr J. Brown**—It is not my area of expertise but I have read the media reports like everybody else.

**Senator CONROY**—Are there any implications for the SPS arrangement for Australia's chicken industry—the Thai FTA, the quarantine chapter?

**Mr J. Brown**—The SPS outcome from the FTA does not in any way compromise Australia's quarantine regime. So the short answer to your question is no.

**Senator CONROY**—Will Thailand be given approval to export raw and cooked chicken meat to Australia?

**Mr J. Brown**—Senator, that depends on the outcome from the import risk assessment that is currently under way. The FTA does not in any way constrain Australia's IRA process. As in the past, the IRA will be the basis on which the government makes decisions about the import of these products.

**Senator CONROY**—So there is a process under way at the moment?

**Mr J. Brown**—It is obviously for Biosecurity Australia to answer the question. The point I am trying to make—

**Senator CONROY**—Is that being assessed by the existing committee or would it be assessed by the new committee?

**Mr J. Brown**—I assume you are referring here to the expert group established under the FTA. As I have explained, the expert group is not examining import risk assessments. They are, and remain, the responsibility of the two countries. The purpose of the expert group—and I should say that there is a long history of consultation at official level between Australia and Thailand on these kinds of issues—is to improve the flow of information between Australia and Thailand. An important additional point, if I may, is that this is not one-way traffic. Australia has had a history of quarantine problems with our exports into Thailand, most recently with citrus, and there is a lot to be gained for Australia in improving the responsiveness of the Thai officials to some of the scientific material that we have on products of export interest to Australia. I want to be quite clear about this—and you will obviously have a sense of it in detail when the text is released—the expert group is not in any way interfering in the import risk assessment process. It is designed to improve the flow of information. The Thai bureaucracy in this area is extremely complex and there are many competing areas within the Thai system. Drawing those strands of the bureaucracy together, we think, is to Australia's advantage, and the expert group will hopefully achieve that objective.

**Senator CONROY**—We will all just hold our breath until the announcement of when we are going to get a look at it, which is out of your hands, Mr Brown, as you have indicated. Thank you for that.

**ACTING CHAIR**—Thank you, Mr Brown.

**Senator CONROY**—I just have a few more questions on Doha, which are probably for Mr Gosper again.

**CHAIR**—For your information, Mr Chester, I think once we have concluded on the Doha Round that will bring us to the end of our deliberations this morning.

**Senator CONROY**—I think that is encouraging you to be brief, Mr Gosper.

**CHAIR**—Not at all. I just like to make sure the officers are well informed when I am in the chair, Senator Conroy.

**Senator CONROY**—But you get the hint, Mr Gosper! Could you give me a brief overview of where you think things are at with WTO, Doha, Zoellick's tour of the world and those sorts of things. What is your latest intelligence?

**Mr Gosper**—To briefly recap, since the breakdown of the Cancun meeting there has been a process, largely and initially centred in Geneva, involving consultations by the chair of the general council and the director general of the WTO, to establish a basis to resume negotiations. That concluded in a sense with the 15 December general council meeting, which I think helped resolve a number of issues and which was generally well received by members. Since then there have been two important developments. One has been the process leading up to last week's announcement of appointments for a new chair of the general council and, perhaps more importantly, specific chairs for the WTO negotiating groups. That was an important process because it had some capacity to go off the rails if members were, for instance, determined to bulk things down with a procedural dispute. It did not. It was not the easiest of processes, but it was successful and it concluded more or less on schedule.

The other significant development has been the letter that was provided by Ambassador Zoellick, the US Trade Representative, a month or so ago to all of his colleagues, all WTO members. That set out an important signal of US engagement in the round and a commitment to make this year a productive year. That was an important signal because many had assumed, or had been too ready to assume, that the US would basically pull down the shutters early, given that a presidential election is occurring later this year. But Zoellick has said that that is not the case, that they want to move forward this year and see if it is possible to reach agreements on frameworks for the negotiations by mid-year, focusing of course most importantly on the initial issue of agriculture. I think most members agree that that is the issue that has to be resolved or at least progressed before the rest of the round and before the rest of the negotiating issues can move forward.

So that letter from Zoellick was, I think, well received by members. It did not itself indicate, beyond a sense of positive engagement and commitment, further areas of specific flexibility on the US part. It did do one thing which was quite important: reaffirm the US commitment, as part of the agriculture negotiations, to the elimination of export subsidies. That is something that, unfortunately, the US-EU paper last year raised some doubt over. So it is a good signal. With the appointment of negotiating chairs, they are now moving to the process of actually establishing the meeting schedule of the negotiating groups over the next few months. Of course it is a very tight time frame to actually undertake this task of framework agreements, particularly for agriculture, within the space of a few months. But again members seem to be engaging constructively. How much flexibility there is and how sustainable the positive signals are is as yet uncertain. But certainly members are engaging. I think next week at the Cairns Group meeting, which will be attended by USTR Zoellick, by the new chair of the agricultural negotiating group—

**Senator CONROY**—Who is that?

**Mr Gosper**—The new chair of the agriculture negotiating group is the New Zealand ambassador in Geneva, Tim Groser. Also attending are the Director General of the WTO, Dr Supachai; at his own request, the chair of the Cancun ministerial conference, Luis Derbez; and the Mexican foreign affairs minister, together with the Mexican agriculture minister. Next week should be a useful occasion for some progress on those sorts of issues.

**Senator CONROY**—That is just the existing Cairns Group members?

**Mr Gosper**—Yes, it is the Cairns Group that is meeting next week, so all members are represented and we have a number of special guests.

**Senator CONROY**—You outlined the special guests. Are there any other countries represented? I understand we have occasionally invited China or India, or a couple of other countries have nibbled at the edges and possibly been interested. Have we invited anyone other than the ones you have identified?

**Mr Gosper**—There may be a couple of other countries from the neighbourhood that attend the meeting but I think the group decided at this point that we should be very carefully targeted as to special guests for this meeting, because we really want to get down to business. Certainly, the group was keen that USTR Zoellick go along. I think responding to the positive tone of the US letter is an opportunity to engage with him. Then the others, Supachai and the chair of the agriculture negotiating group, are quite important, as is Mexico particularly given Derbez's involvement of recent times.

**Senator CONROY**—In closing the meeting.

**Mr Gosper**—He is a committed part of the round. He has been involved in not just the Cancun meeting but, if I can put it this way, he is one of the more senior ministers who have been involved in a series of ministerial meetings over the past couple of years on the round. He has been a facilitator, for instance, at previous meetings such as Doha. He has hosted meetings of one sort or another to talk about progressing the Doha round as well as Cancun. He is a well-informed, influential and committed member of the WTO and certainly an important minister to have involved in this process. Mexico is a key player, including of course in the G20.

**Senator CONROY**—Sure. You mentioned that the letter has been relatively positively received. Have Japan and the EU indicated a positive view towards it?

**Mr Gosper**—Yes, I think that is one of the positive parts of the letter. Certainly, the EU responded positively to the signal of engagement and have themselves made similar signals—perhaps not quite as specific, but positive signals, nevertheless. The Japanese reaction, in the broad, has also been positive.

**Senator CONROY**—So things are moving again?

**Mr Gosper**—It is important that we do have this climate of engagement and commitment. It does perhaps does not sound like much, but when you are dealing with a negotiation that involves 148 members, unless there is such a climate, it is very hard to move anything along. Of course, the most important thing is that this is a signal from the US—from the major economy and one of the major players in the negotiations.

**Senator CONROY**—Now the Zoellick letter proposed a ministerial meeting before the end of the year possibly in Hong Kong. What are your thoughts—will that take place?

**Mr Gosper**—It is unclear. Members have not made a final decision on this. It was discussed to some extent in the general council meeting last week. I think most members want to see how things progress over the next few months before they make a final decision on the timing of that meeting or, indeed, on whether there is the need for an earlier meeting of

ministers of some form or another, particularly if these sorts of framework agreements on areas like agriculture can be progressed.

**Senator CONROY**—Is it true that Hong Kong indicated the only available date at the most likely venue is the week between Christmas and New Year?

**Mr Gosper**—I think earlier on there was one suggestion. I think, indeed, that was the only date within those few weeks of the year, precisely at the end, that they could host it. The more recent signs are that Hong Kong has a bit more flexibility than that either side of the end of the year.

**Senator CONROY**—Because that would not be a realistic offer, would it? No-one from the rest of the developed world is going to turn up between Christmas and New Year?

**Mr Gosper**—I do not think too many of us would be looking forward to it, Senator.

**Senator CONROY**—I do not think it would happen. You believe they are now a bit more flexible? Is that flexible earlier in December or flexible in January?

**Mr Gosper**—Perhaps I do not have enough information to be precise about that, but the key issues are, firstly, that members have not made a final decision on the timing and, secondly, that Hong Kong has said it has various options.

**Senator CONROY**—It is not locked into that Christmas-New Year meeting period yet?

**Mr Gosper**—No.

**Senator CONROY**—Boxing Day in Hong Kong?

**Mr Gosper**—No. I do not know, Senator.

**Senator CONROY**—Isn't that suggestion for a meeting a bit ambitious given not only the US election cycle but also elections in other countries this year including India, Indonesia and even us. I am sure the world is hanging on our results. That is going to make it a bit tough; they are some of the major players.

**Mr Gosper**—Any timing always raises complications of this sort. You might remember the Doha meeting, for instance. It coincided pretty much with an election here in Australia. The main point is the US presidential election. Of course, USTR's Zoellick has made this proposal for the meeting by the end of the year. Zoellick is well aware of the difficulties imposed by transition to a new administration whatever the outcome of the election, having himself been involved in the transition team at the last election, so I am sure the US has thought through those sorts of issues.

**Senator CONROY**—He said that members have not really finalised their thinking on it. But if we do not have a ministerial this year the round is going to struggle to meet the 2005 deadline. Is that a fair call?

**Mr Gosper**—The most important thing is reaching some agreement on agriculture. If we do not reach agreement on agriculture then there is not going to be an end to the round or anything like that. The first step over the next few months is to do something on agriculture. If we do not do that then the timing of any meeting is probably in a sense moot.



**Senator CONROY**—On that issue, the sticking point there is the phasing out of subsidies. I was not in Cancun, as you know. Is that the nub?

**Mr Gosper**—No, Senator, in fact—

**Senator CONROY**—On agriculture, I mean. I know there were Singapore issues as well but in terms of agriculture, which you identified as the key point, is the phasing out of subsidies the issue?

**Mr Gosper**—On agriculture there is a range of key issues. Under the three legs of the agriculture agreement negotiated as part of the Uruguay Round, the framework we established there, which is now the subject of the Doha mandate, in broad calls for three things. It calls for the phasing out of, with a view to eliminating, export subsidies. That is a subject of great contention because the EU is finding it difficult to agree to an end date for all export subsidies. Its current approach is to suggest that it could make certain commitments on products of interest to developing countries. In large part, other members are intent to see as part of this round of negotiations a firm date—whenever that might be; and that is a subject for negotiation, of course—for the elimination of all export subsidies.

**Senator CONROY**—The end date of all export subsidies?

**Mr Gosper**—To explain a little bit, from our perspective the sorts of products that are of particular interest—

**Senator CONROY**—Would 18 years as the end date be a reasonable phase-out period?

**Mr Gosper**—That is a matter for negotiation so I could not say what is or is not reasonable. There will be, I am sure, a timetable for phasing out some of these subsidies, as is common in these sorts of negotiations. Beef, dairy and sugar account for more than 80 per cent of EU export subsidies and of course they are all items that are very important for us. Export subsidies is a subject on which there is not consensus. The major user of export subsidies in the global trading environment—that is, the EU—has not yet accepted the position that other members are putting forward. This is why it is so important in Zoellick's letter—he has made it clear that the US is committed indeed to the elimination of all export subsidies.

Then of course there is domestic support; that is—what happens to the domestic subsidy arrangements that are in place, in particular in the large subsidisers, the EU and the US. The EU in some ways are well-positioned for these negotiations because they have undertaken a reform of the CAP, the Common Agricultural Policy, recently.

**Senator CONROY**—A modest reform.

**Mr Gosper**—A modest reform, but it is certainly moving in the right direction and will give them some flexibility to make cuts to what we call 'amber box' support. It is a little unclear what particular flexibility the US brings to these negotiations at this point on cuts in domestic support. They have faced a particular problem: the difficulty in getting political support within the US for cutting domestic support when it has a problem which it calls 'harmonisation'.

**Senator CONROY**—I thought its problem was called 'Florida'.

**Mr Gosper**—The EU roughly subsidises three times as much as the US. So congress is very reluctant to cut domestic support unless it sees even larger cuts by the EU to reduce this gap between EU and US levels of support. There is also tied up in this the question of what particular caps or reductions can be agreed on ‘blue box’ payments—the special category of payments that was put in place for production-limiting programs as part of Uruguay Round. Most members, including Australia, want a cap put on the blue box and some commitment to reducing it over a course of time. So there is disagreement about the depth and the nature of the cuts that the major subsidisers will make on domestic support. Then there is perhaps technically and maybe even politically the most difficult area, and that is market access. It is difficult because developing countries—

**Senator CONROY**—I think we have recently discovered why it is difficult.

**Mr Gosper**—Yes, that is one of the difficulties I was going to allude to. It is a difficult environment for any market access improvements at the moment. To further elaborate, there has been a discussion about the particular approach to cuts in market access centred on what formula based approach to take—whether we use, to use the jargon, a formula that will deliver just some sort of straight line cut across the board or something that will cut higher tariffs more than lower tariffs so we can get rid of some of the tariff peaks. That is still the subject of considerable disagreement. The EU is looking to protect a number of sectors of TRQ areas. Developing countries are not looking to make any commitments at all. They are looking for carve-outs for many of their lines, and this is, of course, something we see reflected in the G-20 position. The US is making clear that commitments by developing countries on market access are a key ingredient for it to go forward. It says it is prepared to go forward with an ambitious agriculture market access package but only for something which will deliver for its farmers significant improvements. For it that mostly means developing country markets. So that is a technically quite complex and also politically difficult process at the moment. Like domestic support and export subsidies, it will need to be addressed over the next few months.

**Senator CONROY**—Thank you for that. I note Ambassador Zoellick’s suggests in his letter that WTO members appoint a new chair of the WTO General Council from a developing country, even though the rotating chair for this year would normally be chosen from a developed country. I see that Ambassador Oshima from Japan is the new chair of the council. Did they just decide to ignore Ambassador Zoellick?

**Mr Gosper**—Not many members agreed with the US on this point.

**Senator CONROY**—It was not a great start.

**Mr Gosper**—It was one particular proposal, but we have got past that. There is no strict procedure for selecting the chair of the general council. Practice over recent years has generally been that there is a sort of pecking order. The chair of the dispute settlement body, which is one of the more significant bodies in the WTO, generally becomes the general council chair the following year. In one year it is a developing country; in the other year it is a developed country. For instance, this year Ambassador Oshima of Japan, a developed country, will chair the general council. The chair of the dispute settlement body is the ambassador from Kenya, I believe. If the normal practice were to be followed, she would probably be the

chair of the general council next year. That is a matter of practice; it is not an ironclad or in any sense formal agreement. Zoellick's proposal would have changed that a bit, and most members saw no need to do that. The justification Zoellick offered was that, because of the particular interest in developing country issues for the round, it might be appropriate to have a developing country chair. The approach of many members, and our own approach, was that all members have an interest in the development dimension of the round—no one group has a monopoly on that particular issue—and there was no need for any real change to recent practice.

**Senator CONROY**—Putting Japan in charge of the final year of negotiations on a free trade agreement, or advancing the Doha Round, does not fill me with a lot of confidence.

**Mr Gosper**—Japan is one of the large subsidisers on agriculture and its position has not been what we would call a very flash position, but Ambassador Oshima is a well-credentialed and very able representative of his country.

**Senator CONROY**—Did Australia support the appointment.

**Mr Gosper**—Yes, we joined the consensus on the appointment.

**Senator CONROY**—‘Joined the consensus’—that is a great phrase; I like that. Moving on to the Cairns Group, are we still claiming to be the third force in multilateral negotiations on agriculture?

**Mr Gosper**—I think we would claim to be the third force in these negotiations. We are fortunate to have been joined by another coalition of countries committed to agricultural liberalisation which has taken up and reflects most of the positions that were developed by the Cairns Group over many years. My recollection is that it includes nine of the Cairns Group members. It will be very useful next week when we have a meeting of the full complement of the Cairns Group—including, of course, those members who are also G-20 members—and we are joined by Mexico, another member of the G-20, to talk about our shared commitment to moving the agriculture negotiations forward.

**Senator CONROY**—Is there any indication as to who the replacement for EU Commissioner Lamy will be or when that will be announced?

**Mr Gosper**—I cannot tell you the specific timing. It will be sometime later this year. It is very unclear to me, at least, precisely when that would be or who the replacement would be.

**Senator CONROY**—Will all Cairns Group members be there next week in Costa Rica?

**Mr Gosper**—As is usual, not all are represented at ministerial level. For instance, a couple of the ASEAN countries do not have ministers there.

**Senator CONROY**—But it is a pretty good turn-up?

**Mr Gosper**—It is a good turn-up and it is entirely standard—

**Senator CONROY**—It is consistent?

**Mr Gosper**—Yes.

**Senator CONROY**—You would never get 100 per cent of ministers.

**Mr Gosper**—We have the Brazilian agriculture minister and so forth. I think the key players are all represented.

**Senator CONROY**—Do we intend to produce a new text on agriculture to feed into the Doha negotiations?

**Mr Gosper**—It is not really at that stage at the moment. We have a body of work, as you know. We have the text that Stuart Harbinson produced some time ago. We have various texts that were produced before Cancun and the text that was put on the table then by the chair of the meeting. I think most members are committed to working from that to produce outcomes.

The real point now is that we do not need the specific text; what we need is the agreement over the specific issues. I outlined some of them when we talked about export subsidies. It is not hard to imagine the text on export subsidies. There is a square bracket: ‘We agree to [X] as an end date for the elimination of all export subsidies.’ That is the specific commitment we are seeking now. Similarly, on market access, it is not particularly complex. At least, the text is not complex; what is complex is the issues and the sorts of bargains that will need to be made by members. The process now will need to involve a quite intensive process of small group, informal meetings amongst the key players which will basically nut out these key issues and reach consensus. Then that, as appropriate, will be reflected in specific text.

**Senator CONROY**—Did you see the piece by Mike Moore—the former WTO director and New Zealand politician?

**Mr Gosper**—I might have glanced at it.

**Senator CONROY**—It was on 11 February, about the US trade deal and implications for Doha and the Cairns Group. You may recall that Mr Moore wrote:

But the big loser of the Doha round so far is the Cairns group of agricultural exporters. This group, led by Australia, has not provided the leadership, the compromises, the ministerial papers or the political momentum that was so vital in the last round.

That is pretty full-on criticism. Is it fair criticism?

**Mr Gosper**—No, I completely disagree with it.

**Senator CONROY**—Mr Moore is a bit of an expert in some of these areas. He would have been a participant in the Cairns Group in the past himself, I guess.

**Mr Gosper**—I think he might have been when he was Director General of the WTO. We might have invited him to a meeting or two. I cannot recall any particular attendance. Nothing stands out in my memory.

**Senator CONROY**—But New Zealand was—

**Mr Gosper**—And is.

**Senator CONROY**—and is and has been a member of the Cairns Group, so he would understand some of the inner workings of the Cairns Group.

**Mr Gosper**—He may well.

**Senator CONROY**—He is well credentialled at both a Cairns Group level and a WTO level.

**Mr Gosper**—He is a former representative—

**Senator CONROY**—Was he Treasurer?

**Mr Gosper**—He is a former representative of his country and a former Director General of the WTO, so in that sense he is well credentialled. His view on the Cairns Group is entirely wrong.

**Senator CONROY**—So the Cairns Group did propose some compromises in the lead-up to Cancun or at Cancun?

**Mr Gosper**—The Cairns Group was constantly part of the process. All the texts that had been agreed reflected contributions made by the Cairns Group. We went over a lot of this last time, I think.

**Senator CONROY**—But my recollection of our discussion last time is that the Cairns Group took a position in March of last year and then did not meet again until Cancun.

**Mr Gosper**—That is not at all true.

**Senator CONROY**—As in the ministers?

**Mr Gosper**—The ministers are all in contact, I think I said.

**Senator CONROY**—But no new text.

**Mr Gosper**—They only met formally—

**Senator CONROY**—Let me refine the question. There was no new text put forward by us between the meeting early that year, February-March, and Cancun.

**Mr Gosper**—There was no specific text, but of course we contributed to the process and the development of other texts. Anyone can bring forward a piece of paper. You seem to be suggesting—I am not sure whether you are—that there was some magic set of papers. We could cover this desk with proposals that were put forward by groups. Most of them are just irrelevant documents that clog up the negotiating process.

**Senator CONROY**—I do not think the EU-US texts were an irrelevant document.

**Mr Gosper**—I did not say that; I said most of them were. The real point is, of course, how you are influencing the real process, the real discussion about issues that are reflected in the negotiating rooms.

**Senator CONROY**—Mr Moore has criticised our leadership of the Cairns Group. The reason I am drawing on this is that he had experience of the previous round. He said:

... the leadership, the compromises, the ministerial papers or the political momentum that was so vital in the last round.

He suggests that we were absolutely critical in helping achieve an outcome previously and the sense he had is that in that push—that leadership, that drive for compromise—we just were not there.

**Mr Gosper**—I think he probably does not really understand the sorts of processes that are involved in these groups. The Cairns Group was a very different thing in the Uruguay Round. In the Uruguay Round, the environment—

**Senator CONROY**—We were relevant then.

**Mr Gosper**—In the Uruguay Round the environment was quite different. There was an environment in which we had the EU not wishing to make reforms, the US with an ultra-ambitious proposal and the Cairns Group as a bridging mechanism: it sought to bridge the gap between the two extreme positions. In this round, of course, the Cairns Group is at the far edge. The Cairns Group is the most ambitious part of the negotiations; the EU is still resisting reform, by and large; and the US is somewhere in between. So it is a quite different environment for the Cairns Group and an inherently more difficult environment for a coalition of 17 countries where you have to take that much more ambitious position. The reality is that the Cairns Group, notwithstanding that change in circumstance—and it is not a change in circumstance that is appreciated by many of the so-called pundits and observers of Cairns Group developments—has been managed very well, because it is the Cairns Group which has made the bulk of the proposals that have been relevant to the negotiations as part of the last few years. It is still the Cairns Group that commands the attention of key players. The G20 is, of course, part of the environment now—how could it not be when it includes so many large, important developing countries? But the crossover between ideas and membership and commitment of the G20 and the Cairns Group is a positive thing and should not be held to reflect on either the role of the Cairns Group or the leadership of Australia.

**Senator CONROY**—You mentioned earlier that coalition countries joined us in advocating various things. Are we the equal third force, the joint third force, in world trade politics now?

**Mr Gosper**—I do not frankly see the sense in setting that sort of environment. We are a very significant group of countries arguing for agricultural trade reform. The most important thing is not whether you are the first or second or third; it is the persuasiveness of your views. I think the capacity of the Cairns Group members, the countries that make up the Cairns Group, to achieve agricultural reform is only enhanced by the fact that the group of countries seeking agricultural trade reform has been widened, by courtesy of the creation of the G-20.

**Senator CONROY**—Are you able to tell us what the current membership of the G-20 is?

**Mr Gosper**—There are 19 members.

**Senator CONROY**—Does the G-20 select 20?

**Mr Gosper**—There are 19 members. At one point it was 23, it went down to 17 and now I think it is back up to 19. The current members are Argentina, Bolivia, Brazil, Chile, China, Cuba, Egypt, India, Indonesia, Mexico, Nigeria, Pakistan, Paraguay, the Philippines, South Africa, Thailand, Venezuela, Tanzania and Zimbabwe. The members who have left the group more recently include El Salvador, Colombia, Peru, Costa Rica, Ecuador and Guatemala. The two recent signatories have been Tanzania and Zimbabwe. Nine of the G-20 members are Cairns Group members: Argentina, Bolivia, Brazil, Chile, Indonesia, Paraguay, the Philippines, South Africa and Thailand. I think all of those numbers match up.

**Senator CONROY**—I will take your word for it. Will the two groups meet? Are there any proposals to host a combined meeting to see if we can thrash out any differences?

**Mr Gosper**—We have thought about that but it has not really happened thus far. In Geneva there is discussion that involves the key players of the two groups, and you would expect that because nine members of the Cairns Group are also members of the G-20. I think on this occasion, at the Cairns Group meeting that is being held in Costa Rica next week, there will be a further elaboration of that because Mexico, which is a quite significant country and one of the key countries in the G-20, is coming, at its own request, to the Cairns Group meeting to talk about the negotiations. We keep contact with them: the G-20 members debrief us on the various meetings they have with others and vice versa, so I think it works quite well in Geneva.

**Senator CONROY**—So there is no real joint meeting proposed at this stage?

**Mr Gosper**—There is no formal joint meeting proposal at this point.

**Senator CONROY**—Would we propose that at Cairns?

**Mr Gosper**—It is open.

**Senator CONROY**—Would we see what the colleagues at Cairns think?

**Mr Gosper**—If ministers felt there was a need for such a meeting, they would discuss it. But at this point—bearing in mind, as I have said, that we have quite a lot of overlap and quite a lot of exchange in the group at official and technical level—ministers, if they see some desirability for such a meeting, will decide it. At this point there is no specific proposal and, in my assessment, no particular need.

**Senator CONROY**—It is three months since we last talked about G-20. Back then, we were not sure if it was going to be around. We were not sure if it was going to hang together. Three months down the track, it seems to be hanging okay?

**Mr Gosper**—It does.

**Senator CONROY**—It is not going to go away in the near future?

**Mr Gosper**—No, I do not think it is going to go away. It is part of the landscape now. With most groups of this sort, there are the more active members and the less active members. Clearly, Brazil attaches a lot of importance to this group. President Lula has travelled to a number of parts of the globe to talk about shared interests—not just in the Doha agricultural negotiations but in international economic and other affairs generally, I think. It is part of this broader development perspective the new Brazilian administration has brought with it. India has been quite closely involved in the meetings. But with other members it is very hard to see what sort of profile there is. For instance, some of them, when they have ministerial meetings, do not get a full complement of ministers by any means. As you would expect, as I said, with groups of this sort, the degree of commitment varies. But our assessment is that the group is part of the landscape. It is going to be there. It seems to be focused purely on agriculture at this point. We will need to work with it.

**Senator CONROY**—Good luck for Costa Rica next week. Are you being dragged along, Mr Gosper?

**Mr Gosper**—No, I am not being dragged along this time.

**Senator CONROY**—Mr Chester?

**Mr Chester**—No, I am not.

**Mr Gosper**—We will be represented by our senior trade official, Joanna Hewitt, and our Geneva ambassador, David Spencer.

**Senator CONROY**—Thank you.

[10.57 a.m.]

**Mr Chester**—Before we conclude, I would like to clarify some answers to questions that I gave yesterday if that is okay.

**ACTING CHAIR**—Yes, thank you.

**Mr Chester**—As I said, I would like to make a point of clarification to answers I gave yesterday in relation to the code of conduct investigation into Mr Trent Smith. The reason I wish to do this is to rebut any suggestion that I or the department have abused parliamentary privilege by suggesting that the independent code of conduct investigation by—

**Senator CONROY**—Just before you go on, is this in response to questions that Senator Faulkner was asking?

**Mr Chester**—They were general questions asked yesterday in relation to that code of conduct investigation.

**Senator CONROY**—By Senator Faulkner?

**Mr Chester**—I am not sure.

**ACTING CHAIR**—There were a number of senators here in the morning. This issue was canvassed broadly.

**Senator CONROY**—I was just wondering if we could let them know that you are going to give a response. They may like to come back and ask you questions. That is the only reason I am suggesting we might want to let those senators know. If they are in the building and have tuned in, they might want to come.

**Mr Chester**—I just want to clarify some of the answers that were given yesterday.

**Senator CONROY**—I was just wondering if we can just let Senator Faulkner's office know, or whoever else was asking those questions. That was all.

**ACTING CHAIR**—We can certainly make an indication to their office, but I do not want to detain Mr Chester from making his statement.

**Senator CONROY**—It is just that, if Senator Faulkner is in the building, he might want to come.

**ACTING CHAIR**—You continue. We might call at the same time.

**Mr Chester**—Thank you. As I said, I wish to do this to rebut any suggestion that I or the department have abused parliamentary privilege by suggesting that the independent code of conduct investigation by Peter Kennedy relates to the leak of the so-called Lackey record of conversation. We have never suggested this and we have been at pains to avoid such a suggestion. In answers yesterday, and indeed on previous occasions in this committee over the past nine months, we have sought to make the distinction between the now concluded AFP



investigation into the leak of the Lackey record of conversation and the Peter Kennedy code of conduct investigation which relates to entirely unrelated matters. Let me say that again: it relates to entirely unrelated matters. Peter Kennedy is investigating allegations that Mr Smith failed to uphold the APS values, in particular that the APS is apolitical, performing its functions in an impartial and professional manner, and that he behaved in a way which did not uphold the integrity and good reputation of the APS. The allegations against Mr Smith relate to him providing assistance to the opposition in the preparation of Senate estimates questions. Mr Kennedy's independent investigation will determine whether these allegations are well founded or not. Thank you.

**ACTING CHAIR**—Thank you very much, Mr Chester. Did you wish to resume, Senator Conroy?

**Senator CONROY**—As I said, unfortunately I was not here, so I am not in a position to ask any questions as follow-up to that.

**Mr Chester**—I am sure Senator Faulkner will next time.

**Senator CONROY**—I think he is still in the building. He may want to come and ask you.

**ACTING CHAIR**—We have finished.

**Senator CONROY**—We have not finished until I have finished chatting. If we can let him know and see if he wants to come and respond, I can fill in. We could take a coffee break—we have not had a coffee break yet—and see if we can round up Senator Faulkner. It may be that he has left the building and it does not matter. Perhaps we can have a five-minute coffee break while we sort that out and then we may be able to end straightaway.

**ACTING CHAIR**—I do not want to have a break. I want to end. We will just check on it.

**Senator CONROY**—I can stall for 10 minutes, but I am happy to just find out if he is available. If he is not, let us go home—save us all trouble. He is out of the building? Let us go home.

**ACTING CHAIR**—Mr Chester, it may be of assistance to the committee, if you have a copy of your statement, if you would provide that for us. If you do not, we will take it from the *Hansard*. That being the case, the Senate Foreign Affairs, Defence and Trade Legislation Committee's consideration of additional estimates stands adjourned.

**Committee adjourned at 11.01 a.m.**