

***Australia-United States Trade Agreement***  
***Sorting Fact From Fiction***

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**Shadow Minister for Trade**

Good Afternoon

One of the great challenges in any public debate is to ascertain fact from fiction.

The Australia US trade agreement is no exception.

I want to examine today a number of key claims central to this debate, which Labor will assess before deciding our final position on the deal.

A key issue will be to sort fact from fiction.

Fact or fiction?

Labor supports free trade – that is a fact.

Labor's credentials on free trade are unmatched.

Only Labor Governments have taken the bold decisions to unilaterally reduce Australia's tariff levels in 1973, 1988 and 1991.

Labor's continued commitment to free trade was over-whelmingly endorsed at the ALP National Conference in January.

Fact or fiction?

Labor is opposed to free trade agreements (FTA).

The Hawke Government signed Australia's first FTA with New Zealand in May 1983.

The Australia-New Zealand Closer Economic Relationship is regarded as the blueprint of FTAs.

It is comprehensive, it has simple rules of origin making it easy for business, and it has continued to develop in response to the emerging dynamic between our two economies.

Fact or fiction?

Labor is opposed to the US trade deal.

On 27 January, Labor announced it would refer the trade deal to a Senate Select Committee to assess whether the deal is in Australia's national interest.

The US Congress is allowed 3 months to scrutinise the trade deal.

It is only fair and reasonable that the Australian Parliament be given a similar opportunity.

Fact or fiction?

This is a once in a lifetime opportunity to secure a trade agreement with the US.

Over the past 20 years Australian Governments have had the opportunity to enter serious bilateral trade negotiations with the US on a number of occasions<sup>1</sup>.

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<sup>1</sup> Garnaut, Ross: An Australia-United States free trade agreement, Australian Journal of International Affairs, Vol 56 2002

After an expression of interest from the US Government in 1985 about the possibility of a bilateral deal, the Hawke Government decided Australia's interests would not be served by pursuing bilateral negotiations.

George Bush senior announced in a campaign speech that if he were elected President he would pursue bilateral free trade agreements with a number of countries including Australia.

Following his election, Bush senior pushed ahead with the Uruguay Round and the North American Free Trade Agreement – NAFTA - but not with bilateral trade agreements.

The Clinton Administration also raised the possibility of a trade deal with the Howard Government in 1997.

Fact or fiction?

Labor opposes the trade deal because of anti-American bias.

Labor initiated the American Alliance under John Curtin and we have proudly owned and nurtured that Alliance in the 61 years that have passed since then.

Last week, Mark Latham visited Pine Gap and made it clear that Pine Gap would be here to stay under a Labor Government and that he strongly supports the US Alliance.

If Labor is convinced via the Senate Select Committee process that it would be in the national interest to support the deal Labor will do just that and support the deal.

Fact or fiction?

This is a free trade agreement.

The National Farmers Federation President, Peter Corish, wrote in a letter to the Editor of *The Australian* on 13 February,

*“Let me reiterate: this is not a Free Trade Agreement and it fails to secure open access for Australian agriculture, but it offers improvement in access for some farm products”.*

Ross Gittins wrote in the Sydney Morning Herald on 11 February that *“The first thing to understand about the free trade agreement with the United States is that, despite the name, it's got nothing to do with free trade”.*

In light of these comments it is now clear, as reported in *The Australian* on 25 February, that Australia's trade officials recommended that the deal not be signed.

Unfortunately, political considerations rode rough shod over this hard-headed assessment of the national interest giving rise to the poor deal accepted by the Government.

The claim that the trade deal will offer significant benefits for Australia's manufacturing industry is something we will thoroughly assess.

The zero for zero outcome on nearly all tariffs will enhance the competitiveness of Australian manufactured exports in the US market and also the competitiveness of US manufactured exports here.

A key issue will be the extent to which Australian manufacturing is able to meet the rules of origin relating to this deal.

If similar to the rules of origin in NAFTA, many Australian products may be denied entry to the US because they will have too many New Zealand, Asian or European components.

The yarn forward rule of origin for textiles and clothing will almost certainly deny any increase in the export of Australian clothing to the US.

Exporters will also have to acquaint themselves with the new rules of origin applying to the Thai FTA agreed back in October.

Although the text for the Thai Agreement is still not available.

This is of course, in addition to the rules of origin applying to New Zealand and Singapore under our FTAs with those countries.

The web of bilateral trade deals Australia is now developing is giving rise to a whole new range of administrative complexities for business to manage.

Rather than freeing up trade, increased costs of compliance, particularly with new rules of origin, may undermine to some extent the improvements in market access.

Fact or fiction?

The US trade deal will be worth an extra \$4 billion for Australia every year.

We all saw how quickly even the Government realised that was fiction and backed away.

Even the author of the report that came up with the \$4 billion figure, Dr Andy Stoeckal of CIE, said on ABC Radio on 11 February

*“There is a whole series of unders and overs that you have to look at and recalculate to get any sensible number on that US agreement.*

*We really should get away from that (\$4 billion) estimate...”*

As you know 25 per cent of that \$4 billion was derived from free access for sugar.

Another significant proportion came from the elimination of the Foreign Investment Review Board, the abolition of restrictions on US investment in Telstra and Qantas, and abolition of the four pillars policy for our banking system.

None of that occurred of course.

Notwithstanding Dr Stoeckal’s comments putting his study into perspective, Alan Oxley is still saying that the deal *“will generate tens of billions of dollars in extra trade and investment”*.

No analysis to back this claim – just tens of billions of dollars.

Alan is even being more bold than the Government who are now just resorting to the spin that the deal will generate ‘*big bucks*’ for Australia.

Even Mr Vaile is now backing off from those earlier claims about the size of the benefits for Australia.

At the Press Club on 12 February Mr Vaile said *“I’ll put my hand up and maybe we, as a government, did that, maybe industry themselves in selling it to constituent members; that this was a good thing to pursue; maybe it was oversold”*.

A report prepared for the South Australian Government does suggest Australia could be better off by around \$500 million per annum over the medium to longer term of five to ten years.

Alternatively, a report by ACIL Consulting suggested there could be a small negative impact on Australia’s economy.

Where will the numbers come out at the end of the day?

Probably somewhere around the middle of these various claims.

Fact or fiction?

The next economic model prepared by the Government will show a net positive benefit for Australia.

That is a fact.  
Why?

Because the Prime Minister said so on *The Insiders* on 22 February.

When asked if he was confident that when the numbers are finally crunched that Australia will be unambiguously a net beneficiary, Mr Howard said "Yes, I am. *That's the advice we have, yes*".

The Prime Minister has therefore made explicitly clear what the outcome of any further Government modelling will be and the Department of Foreign Affairs and Trade will ensure the modelling meets this objective.

Despite being asked publicly, the Government has refused to guarantee that the Productivity Commission will be tasked to assess the impact of the trade deal on Australia's economy.

Why?

What has the Government got to hide?

We can only wait and see.  
Fact or Fiction

Australian sugar industry is no worse off today because of this deal.

As the Prime Minister has said "*It is just that they did not share in the gain*".

Well that too is fiction.

The Australian sugar industry is worse off today because of the deal.

Why?

As a result of this deal it will now be difficult for Australia to push the EU to open its market to Australian sugar.

Or to ask Japan to open its rice or sugar market.

Or Korea to open further its beef or dairy markets.

By carving out sugar we have agreed with those countries that agriculture is a special product and it therefore requires special sensitivity and attention.  
This cuts across Australia's long-standing bipartisan approach to multilateral trade negotiations.

This is why Australia has always believed that trade liberalisation via the multilateral system of trade negotiations in the WTO offers the biggest gains for Australia.

The Government has allowed US domestic political factors – known as Florida's 27 electoral votes – to influence our multilateral trade negotiation strategy.

This has undermined Australia's credibility in pushing for the liberalisation of agriculture in the WTO Doha Round and sends all of the wrong signals to our Cairns Group partners.

As Tim Colebatch wrote in the Age on 10 February

*"They will be chuckling in Brussels".*

Or as Ross Gittins wrote in the Sydney Morning Herald on 14 February *"The Europeans and Japanese will be laughing"*.

Now some may argue the WTO Doha Round is going nowhere fast so we should take now what we can get in terms of market access.

Well the Uruguay Round had many near death experiences and at the end of the day it achieved an outcome – including the in-built agenda on agriculture that is central to the Doha Round.

It is a fact – and no one will deny - that a successful outcome to the Doha Round will deliver far more for all Australian industries than this deal will – including tackling US export and domestic subsidies.

It would be unfortunate if the arguments of those pushing to take what we can now because of the slow pace of Doha become self-enforcing, ultimately delivering a sub-optimal outcome from the Doha Round.

We can only wait and see.

Services comprise around 70 per cent of Australia's productive economy.

That is a fact.

Minister Vaile's Fact Sheet says *"Importantly, the services chapter establishes a robust framework that should promote the mutual recognition of qualifications in relation to professional services"*.

The reason he says "should promote mutual recognition" is because ultimately Governments have no authority in this area.

The US and Australian Governments do not negotiate mutual recognition of services – our respective Professional Industry Associations do.

Australian and US engineers and architects have for some time been negotiating mutual recognition agreements and there is nothing stopping other industry associations doing likewise.

The challenge now is for service providers to demonstrate the big gains from the deal.

Particularly as I understand, the Agreement does not contain a chapter on the Temporary Entry of Business Persons – along the lines of such a chapter contained in the US-Singapore FTA.

This was going to be a key area for the trade agreement to address.

Not only to facilitate visa arrangements for Australian business men and business women, but also new visa arrangements to enable spouses to work in the US.

This did not occur.

Australian business does not have improved visa access to the US and spouses are still denied the opportunity to work in the US.

The Government also says it “*has protected our right to ensure local content on Australian media and retains the capacity to regulate new and emerging media, including digital and interactive TV*”.

That sounds quite definitive to me.

But, Australia’s film and television industry remains concerned about what may or may not have been agreed in this area.

The Senate Select Committee will assess these concerns.

Labor has said that it will not support a trade deal with the US that in any way undermines the Pharmaceutical Benefits Scheme (PBS).

That is a fact.

But the Government refuses to rule out possible increased costs to the Australian taxpayer subsidising the PBS.

Financial sustainability of the PBS is a fundamental issue for Labor and the Senate Committee will thoroughly assess this.

We will also need confirmation that the trade deal will not in any way impact negatively on, or delay, the introduction of generic drugs to the market.

Any delay in the introduction of generic drugs could also lead to an increase in the cost of the PBS.

The Government anticipates the lifting of the Foreign Investment Review Board’s (FIRB) acquisition threshold from \$50 million to \$800 million will lead to further US investment in Australia.

If that occurs that would be a good thing, although there are legitimate concerns about the discrimination this will cause to other major foreign investors in Australia such as the United Kingdom and Japan.

The US is already Australia’s largest overseas investment destination and the US is the largest foreign investor in Australia.

I am also not aware of too many – if any - US investment proposals being knocked back by the FIRB in recent years.

The US Federal and State Government Procurement market is also to be opened to Australian firms.

The Government says this is a big win – a potential market of 200 to 300 billion dollars.

But this deal does not offer Australian business any preferential treatment.

It simply means Australian business will have the right to compete with firms from 28 other countries already designated under US law such as the EU, Japan, Korea, Canada and the United Kingdom.

Yes, Australia benefits from a waiver of the six per cent penalty imposed under the Buy America Act, but so do all of the other 28 countries party to the WTO Agreement on Government Procurement.

To reciprocate, Australia will open its government procurement market to the US.

Although it is not clear at this stage whether all Australian State and Territory Governments have agreed to sign up to their obligations under the deal.

The US Trade Ambassador has also made it clear that Australia will eliminate its industry development programs, under which suppliers provide various types of offsets, such as local content or local manufacturing requirements.

We will need to examine what impact this may have on Australia's small and medium business sector.

Ladies and Gentlemen, this trade deal has significant implications for Australia's economic, trade and social policies.

It has significant implications for Australia's economy.

It may have a positive impact or it may, in some areas, have a detrimental impact.

The Senate Select Committee we have established will assist us in sorting fact from fiction to enable us to make a thorough assessment.

Once the text has been released – and I understand that will be some time tomorrow - the Committee can begin its deliberations.

I hope you will take a close interest in the Committee and many of you may appear before it or make submissions to it.

I would certainly encourage you to do so.

Through the Committee process, Labor will determine its final position on the Agreement against the following national interest criteria.

The deal must deliver significant and comprehensive benefits to Australia in agriculture in a reasonable period of time.

The exclusion of sugar and 18 year phase-in for beef access makes it difficult to see how the deal could be considered comprehensive.

But the Committee will welcome a range of views on this.

The deal must deliver significant employment and investment gains for Australia's manufacturing and service industries.

As I said earlier, the deal must not undermine the ability of Australian Governments to provide and regulate essential services in health and education, including the PBS.

It must not undermine the capacity of Australian Governments to protect Australian culture by regulating for local content in the future delivery of audio-visual products.

Finally, it must not undermine Australia's access to Asian markets - the primary destination for our exports - or our WTO and APEC objectives.

We would welcome a range of views on all of these issues to enable Labor to determine its final position on the Agreement.

Thank you for your time and enjoy the rest of the conference.