



Speech by the

**Minister for Trade
and
Deputy Leader of the National Party**

The Hon Mark Vaile MP

at the
Australian APEC Study Centre conference

*An Australia-US Free Trade Agreement:
Opportunities and Challenges*

Keeping Focused on Australia's Interests

Canberra, 21 June 2001
(Check against delivery)

Introduction

Thank you David Robinson [Vice Chancellor, Monash University]; Excellencies; other distinguished guests, ladies and gentlemen.

It is a great pleasure to be here today to open this conference. May I begin by thanking the APEC Study Centre for its initiative in putting together today's proceedings, on a matter of such great potential significance for Australia.

Our approach to a possible free trade agreement with the United States is an important subject and one that has already brought out a diversity of views. I want to use this opportunity to outline our Government's views on this issue. But, most importantly, I also want to discuss why the possibility of an FTA with the United States is something Australia would be foolish not to pursue.

What's in it for Australia?

The US is our second-largest trading partner, our largest market for services, and the largest destination for Australian investment. It has the biggest, most competitive and innovative economy in the world. If you want to succeed globally, success in the United States is about the best start you can have.

For Australia, an FTA would be the next, logical step in building a closer economic relationship with the US.

While average US tariff levels are relatively low, they are not insignificant. And Australian exporters do face higher barriers in a number of sectors where their products would otherwise be highly competitive. This

includes areas like dairy, sugar, cotton, fast ferries, processed foods, fibres, metal products and some automotive products. Our services exports - particularly financial, telecommunications and professional services - would also benefit significantly from an FTA.

Our principal aim in pursuing an FTA with the United States is, therefore, a pragmatic one: to build on our merchandise exports, which totalled A\$10.9 billion in 2000, and our services exports, which were valued at \$A5.8 billion. The US is also the largest recipient of Australian investment. The demonstration effect of a strong, positive FTA would provide new impetus to our already close investment relationship and would give a significant boost to our role as a trade and investment hub in the Asia-Pacific region.

Progress to date

While we are keen to pursue our discussions with the US on an FTA, it is important not to raise expectations at this stage. Discussions have nevertheless been positive so far. This has included my visit to Washington in April, and ongoing contact with USTR Bob Zoellick since then. We have established contact with key members of the US Congress, where there is also considerable support for an FTA.

It is important to maintain perspective on how both we and the US are pursuing this issue. We must recognise, for instance, that the US is pursuing a number of other important trade issues this year, in addition to its FTA agenda. Like us, the key focus over the next five months will be preparations for the WTO Ministerial Conference in Qatar. I welcome this, as Bob Zoellick and I share the objective that the launch of a new round of multilateral trade negotiations is a key priority. We also welcome

and encourage the Bush Administration's efforts to secure trade promotion negotiating authority (TPA), which is further evidence of its commitment to the international trading system.

The wider trade policy framework

A comprehensive and outward-looking bilateral FTA with the US would assist our efforts to set the pace for an ambitious agenda at the WTO. In this regard, I have been encouraged by US agreement that any FTA would need to be comprehensive in scope, including in areas like agriculture. This is vital if we are to ensure that an FTA can be used as a building block for WTO negotiations. And there are a range of other issues - like electronic commerce, information technology, services and industrial products - where we believe an FTA could be used creatively to build momentum for WTO negotiations, as well as to deliver significant benefits to Australian exporters in their own right.

Similarly, a bilateral FTA would be in keeping with the trade and investment liberalisation principles – the Bogor goals – of APEC. Both the US and Australia remain committed to APEC's ongoing efforts to promote trade and investment liberalisation and facilitation in the region.

In this sense, we see an FTA with the US as very much part of our broader regional objectives. You will be aware that we are currently negotiating an FTA with Singapore and we are examining the possibility of one with Thailand. We are looking at new ways to reinvigorate our trade and investment links with Japan and Korea. We are supporting China's accession to the WTO. And, of course, we already have the world's most comprehensive FTA with New Zealand.

Sensitive issues on both sides

I am well aware that there are sensitivities in Australia about a negotiation with the US. There are similar sensitivities in the US. But this doesn't prevent discussion, and it doesn't preclude the possibility – indeed, the likelihood in my view - that we can find a way to deal sensibly with difficult issues that still ensures a strong, trade creating FTA.

While we want to pursue an ambitious agenda, we are also realistic. For example, an FTA is not going to see the complete overturn of the United States' Jones Act protecting the American shipbuilding industry. Nor is it going to lead to the overnight demise of the US sugar program - much as I know many North Queensland sugar farmers would like that to be the case. But that does not mean there is no prospect for change in these areas, and sugar for us would be a key area of discussion.

For its part, the US knows that an FTA is not going to see us compromise the scientific integrity of our quarantine arrangements. We also have well-established policy guidelines in areas like local content for Australian TV.

Difficult issues are always going to exist – that is the nature of trade negotiations. But through frank discussion and an understanding of the wider economic and trade benefits, I am confident such difficulties can be overcome.

Our experience with the CER Agreement is interesting in this regard. Many Australian industries in sensitive sectors were reluctant to consider an FTA with New Zealand. However, after the initial five year phase in period, from 1983-1988, the benefits of CER had brought the majority of industry on board. Indeed, industry led the way to greater acceleration of

the CER process.

Agriculture

There is no question that agriculture would be a key area of any FTA. We are realistic about US sensitivities on agriculture, but also recognise that our two nations enjoy extensive cooperation at the multilateral trade policy level and substantial cross-investment in many agricultural sectors.

The United States is a vital and growing market for our exporters of food and beverages. The US ranks second as an export destination for Australian processed and unprocessed food, with exports of \$A2.3 billion. To give you an indication:

- in 2000, we exported \$A1.2 billion dollars worth of beef to the US - a rise of 46 per cent on 1999 – and while we still have not exhausted our available access we are rapidly closing the gap;
- the US was our 5th most important export market for sugar, with exports totalling \$A50 million; and
- the US was our second largest wine market – with exports valued at \$A421 million – a rise of 54 per cent from 1999.

These extensive linkages can only be further enhanced through the provisions of a comprehensive FTA.

Business – a key consideration

As is the case with all of the Government's work on trade, the views of industry and other key players on a US FTA will be crucial. I have had the opportunity to discuss how the Government is approaching a possible FTA

with the United States with a range of business groups in recent months. The reactions from the overwhelming majority have been positive and strongly supportive.

If we were to enter into FTA negotiations with the US we would, of course, engage in broad and extensive consultation with all stakeholders to establish and advance Australia's negotiating position, just as we have been doing with our Singapore FTA negotiation and in our preparations for the Qatar WTO meeting in November.

There is also welcome news of support for an FTA from US business. The recent establishment of the American-Australian Free Trade Agreement Coalition demonstrates genuine business interest in the United States. This will be an important element in securing administration and congressional support for an FTA. The inaugural meeting of the group was held on 21 May and was attended by 21 major American companies across a broad spectrum of US industry, including such big names as Boeing, Citigroup, Ford, Motorola and Sun Microsystems. Thirty other organisations have also expressed an interest in being actively involved.

Modelling the benefits of an FTA

Building an accurate picture of the economic benefits and costs of an FTA is important for determining where we go next. That is why the Department of Foreign Affairs and Trade commissioned the Centre for International Economics (CIE) to carry out a study earlier this year to update economic modelling on this issue. I would like to commend the team from the CIE for their work, and I am pleased to be able to announce the results today.

The study finds that an Australia-US FTA could deliver significant economic gains to both Australia and the United States. Dr Andy Stoeckel will elaborate on the results later this morning, but I'd like to highlight some of his key findings:

- If all tariff and non-tariff barriers are removed as part of the agreement, Australia's annual GDP would be 0.4 per cent higher by 2010, meaning a boost to real GDP of almost US\$2 billion.
- The US also stands to benefit with a rise in real GDP of \$US2.1 billion by 2006.
- These findings also translate to significant gains to both economies over time. Considered as a total accumulated stream of benefits over 20 years for each country, the benefits are almost \$US 16 billion for Australia, and over US\$17 billion for the US.
- Importantly, particularly in the context of Australia's support for the WTO agenda, the Free Trade Agreement would be trade-creating rather than trade-diverting.

These are encouraging results that will help in our efforts to weigh up how best to proceed. Another study commissioned by DFAT, that will examine the broader strategic and policy implications of an FTA with the USA, is due in July and will be another important contribution to this work.

Conclusion

I have outlined today some of the reasons why we are interested in an FTA with the United States. There is no doubt - and the modelling results further bear this out - that it is worth us pursuing our discussions with the

United States.

But we enter this process fully aware of the challenges and opportunities such an agreement would entail. That is why I welcome today's proceedings as an important contribution to the public debate on this issue.

So, in welcoming you to this conference, I wish you all a very productive day. I am looking forward to hearing your views on a possible FTA. They will help inform our Government's position as we move forward, and will help keep us focussed on our central objective, which will always be the national interest.