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Hon Mark Vaile MP
Federal Minister for Trade
Parliament House
CANBERRA ACT 2600

Dear Mark

I refer to the proposed Australia-United States Free Trade Agreement.

United States is South Australia's largest export market, with almost \$1.6 billion in export earnings recorded in 2001-2002. It is also South Australia's second largest source of imports and in 2001-2002 South Australia recorded a merchandise trade surplus with the United States of \$868 million. It would therefore appear that the free trade agreement would provide a greater advantage to the United States than Australia.

The Allen Group report indicates that Australia's gross domestic product could be boosted by \$2 billion annually. However, if all trade barriers are not eliminated immediately the impact would be less and spread over a longer time. Will the reported gains be realised or will we be left removing our trade barriers to find the United States less committed?

President Bush had indicated prior to his election that he was committed to freeing up trade then with the election coming up gave a massive increase in farm subsidies. The American farm lobby is a vocal and powerful group. I doubt that the United States will stop subsidising the American farm sector. Therefore there will not be a 'level playing field' for our Australian farmers. Trade barriers may be removed but will domestic farm subsidies remain for United States primary producers?

The Rural Industries Research and Development Corporation (Australia) judged that trade diversion associated with free trade agreement would outweigh trade creation and there would be net costs to Australian exports and to the Australian economy generally, but particularly in the farm sector.

A stated objective of the United States is to eliminate Australian export monopoly arrangements for wheat, barley, sugar and rice. Grain produce is one of South Australia's top four industries and Eyre Peninsula produces 35% of the States grain. The single desk operation should be retained as it gives South Australian farmers a stronger voice in the international markets and thereby extracts maximum gain for grain growers. They are also large enough to manage currency risks. The majority of growers have indicated support for the single desk. There is almost no grain traded between Australia and the United States therefore it is only the markets for which both countries are already competing where there could be an issue. A free trade agreement would not be an advantage.

An example of the hard nosed attitude that American has to trade is the linking of aid and trade. American produce is sent around the world as aid. This enables American traders to sell their product to aid organisations and to get their produce known in potentially lucrative new markets. Australian Minister for Foreign Affairs, Hon Alexander Downer on the other hand is reluctant to link aid with trade, thus cutting our produce out of existing markets and the potential profitable alliances that could be made in the future. If we are to have a free trade agreement with America, then Australia must encourage 'in kind' aid in the way of food, medical and other produce plus technology and service delivery or American will continue to cut in on our existing markets and access new ones to the detriment of Australia.

South Australia's image as a 'clean' source of agriculture and food is currently an important competitive advantage and should be maintained. United States stated objective to ensure Australia's quarantine/sanitary and phytosanitary (SPS) measures and eliminate any unjustified SPS restrictions implies improper application of the principals. We cannot sacrifice our farming industry for the benefit of trade by big business. Any threat to weaken or devalue Australia's current quarantine system should be strongly resisted.

The motor vehicle and automotive parts industry is one of the top four exports for South Australia and a major employer. There does not appear to be a consensus of opinion on whether it is going to have a positive or negative impact. The Centre for International Economics study predicts that United States exports of a range of manufactured products will increase and Australia's production of such products will fall. The Allen Consulting Group's report states it is a complex issue and that the car industry generally supports the Australia-United States free trade agreement but the two car manufacturers have differing views on how the free trade agreement should be implemented. If the ownership of the company is based in the USA it could be expected that they would not have Australia's best interest at heart and would therefore support free trade regardless of a possible negative effect in Australia. These Global

companies argue nil tariff and free trade to facilitate the international movement of production and products. The interests of Australia are not necessarily protected by global corporations.

American culture already has a huge influence on Australia. The size, power and quantity of entertainment, media and manufacturing may well swamp Australia and the United States objective to promote the development and growth of electronic commerce which does not unjustifiably discriminate among products may influence the media. Australian culture should be protected. In a remote regional area such as Eyre Peninsula, having a local content quota on the radio and the TV is important. It keeps isolated communities informed and feel part of the State and the country. Australian produced television series and other programs play an important role in enhancing local culture. Indeed I find local content a relief from the American barrage that fills our home.

I am disturbed that there would be any threat to the health system, in particular the equitable distribution of pharmaceuticals.

We have just lost Clipsal as a half South Australian owned business. Another head office will probably move from Adelaide. What is the effect of free trade on the ownership and control on the other top industries in South Australia?

I believe there are too many unanswered questions and possible negative outcomes that would not be in the best interest of South Australian if the free trade agreement is sanctioned.

Yours sincerely,



Mrs. Liz Penfold MP

cc Barry Wakelin
Caroline Schaefer
Rob Kenn

FEGIT2



The Hon Mark Vaile MP

Minister for Trade
Deputy Leader of the National Party of Australia

25 SEP 2003

Mrs Liz Penfold MP
Member for Flinders
PO Box 1798
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Dear Mrs Penfold

Thank you for your letter of 29 August 2003 regarding an Australia-United States Free Trade Agreement (AUSFTA).

The Government believes that an FTA with the United States presents a unique opportunity to advance the interest of Australia's exporters, and offers significant benefits to the nation in terms of economic growth and employment. It is the Government's policy to maximise our trade opportunities by striking trade deals with individual countries, with regional groups of countries, and globally through the multilateral trading system. The recent impasse at the World Trade Organization (WTO) meeting in Cancun underlines the wisdom of Australia continuing to pursue bilateral trade deals such as an AUSFTA.

I cannot agree with your analysis that an AUSFTA would appear to provide a greater advantage to the US than to Australia. An assessment in purely quantitative terms needs to consider the relative impact on economic output and welfare, not the current trade balance between Australia and the US, or between individual States and the US. Economic analysis by the Centre for International Economics (CIE) suggests that removal of tariff barriers between Australia and the US could increase Australia's annual GDP by around 0.4 per cent, or \$US2 billion annually within several years. US GDP is predicted to increase by a similar amount in absolute terms - \$US2 billion - but the annual increase in GDP would be far smaller in relative terms - only 0.02 per cent of GDP. The CIE study also predicts that an AUSFTA would have a positive impact on Australia's balance of payments and balance of trade.

An AUSFTA offers a number of other important benefits that are not easily quantifiable. A study commissioned by the Department of Foreign Affairs and Trade on the wider implications of an AUSFTA, carried out by the APEC Study Centre at Monash University, revealed that other wide-ranging benefits could be as significant as the quantifiable benefits. For example, an FTA would play an important role in attracting US investment and in facilitating linkages with best practice in the world's leading economy. By negotiating an FTA now, we have the opportunity to maintain our competitive position in relation to other countries that have already concluded, or are now negotiating, FTAs with the US. An FTA could also open up opportunities in the US government procurement market – which is worth over \$US100 billion annually – that most Australian companies cannot access at present. //

With respect to the study conducted by ACIL Consulting for the Rural Industries Research and Development Corporation (RIRDC) to which you refer, it should be noted that the RIRDC has failed to endorse the study as an official RIRDC study because of its ongoing concerns about the quality of the report. The ACIL Consulting report implies that Australia would be better off if it were to increase protection. No other analyst has supported this policy prescription, which conflicts with the broad consensus of economic policy thinking. The CIE has published a response to the ACIL Consulting report which points to internal contradictions in the report's analysis. The Government continues to have confidence in CIE's own analysis which points to significant potential benefits to Australia from an AUSFTA. The CIE results are also consistent with other modelling work that has been undertaken in this area.

One of the Government's key objectives in an AUSFTA is to eliminate or reduce the very substantial quotas and tariffs confronting a wide range of Australian agricultural and processed food exports in the US market. These include quota restrictions on sugar, dairy products, beef, cotton and peanuts; and significant tariffs on a range of fruits and vegetables, wine, leather, wheat gluten, lamb, vegetable oils, wool items, margarine, canned and preserved fruits, and ice cream. Of particular relevance to your own electorate, canned tuna faces tariffs in the range of 25-35 per cent: it will assist the tuna processing industry in Port Lincoln if we can remove those tariffs in the FTA.

Regional Australia more broadly stands to gain from the removal of tariffs on several mineral and metal items - magnesium and magnesium alloys, processed zinc and aluminium, some steel items, precious and semi-precious stones. In contrast to the United States, Australia has virtually no tariffs or quotas on agricultural products and minerals. In this context, it would also be wrong to suggest that the US stands to gain more from an FTA than Australia.

You ask whether the estimated gains from an AUSFTA will be realised if trade barriers are not eliminated immediately but phased in over a longer time frame. The immediate gains will be reduced to the extent that tariff elimination is phased out rather than implemented immediately. Australia is seeking to minimise any phase-in periods for agricultural tariffs in the negotiations. The Government will have to make a judgement about the overall balance of benefits in the agreement in assessing whether to accept any graduated elimination and if so, what would be an acceptable time frame. We would not expect such phasing-in to be considered for a wide range of products. Any phasing-in would be on the basis of a strictly defined schedule and not a matter of postponing elimination indefinitely.

It is worth noting that the US was able to cover agriculture comprehensively in its negotiations with Mexico under the North American Free Trade Agreement, and in its recently concluded FTA with Chile. While these agreements have transition periods of five to ten years and even longer for eliminating tariffs and quotas for some products, Mexico is already benefiting from removal of tariffs and quotas from most of its agricultural exports to the US.

As you point out, US farm subsidies make it more difficult for Australian farm products to compete on a "level playing field" in the US. However, many agricultural industry organisations are pressing the Government to push for expanded access under an AUSFTA because, without removing the prohibitive tariffs and quotas facing Australian exports, they will not be able to get onto the "playing field" in the first place. Moreover, Australian exports – such as beef and dairy - have already demonstrated that they can be highly competitive in the US within current quota levels, regardless of the level of US subsidies.

The Government will continue to press for substantial reductions on agricultural domestic support and the elimination of all forms of export subsidies through the WTO negotiations, which is the best forum to tackle the problem of trade-distorting farm subsidies, given the global dimensions of the problem. At the same time, we are seeking to address in the FTA some of the direct effects that US subsidies can have on Australian agricultural exports.

On the question of quarantine, I can assure you that the Government has no intention of entering into any arrangement that would compromise the scientific integrity of Australia's quarantine arrangements, nor their vital objective of protecting human, animal and plant health. Individual quarantine decisions for specific products are not part of FTA negotiations, since they are a matter of scientifically based risk assessment.

You raised the issue of single-desk export arrangements for wheat and other commodities. The Government is fully committed to defending our single desk export arrangements, including for rice, barley and sugar, in all current trade negotiations – bilaterally in the FTA negotiations with the US as well as multilaterally in the WTO agriculture negotiations.

With respect to your concerns about Australian culture, the Government remains committed to preserving the right to regulate audiovisual media to achieve its cultural and social objectives, and to maintaining an appropriate set of support measures for the audiovisual sector to underpin Australia's cultural policy. Most support measures for our cultural industries, apart from local content rules for TV and radio, are delivered by grants and other subsidies. The US Chief Negotiator has stated publicly that the US is seeking neither the removal of cultural subsidies nor of existing local content quotas for broadcasting.

In relation to the Pharmaceutical Benefits Scheme (PBS), the Government will ensure that the FTA negotiations will not impair Australia's ability to provide universal access to quality and affordable medicines through a sustainable PBS or to meet other fundamental policy objectives in health care. This objective has been made clear to the United States from the beginning of our negotiations, with the Government highlighting the importance of the PBS to the Australian community. To date, the US has not made any specific requests or tabled any proposals seeking changes to the PBS. Senior US officials have stated publicly, in the context of these negotiations, that the US has no intention of affecting the basic framework of the PBS or Australia's broader health care policy.

In relation to your comments regarding the automotive industry, the Government has held intensive consultations with the car manufacturers as part of its continuing dialogue with Australian industry. The industry has expressed its support for the FTA and recognised the gains on offer to the Australian economy of a deeper economic relationship with the US.

The Chief Executive of the Federal Chamber of Automotive Industries has said that the big picture opportunities from an FTA far outweigh any minor problems for the car industry. While it is clear that the individual producers have differences of view on some aspects of the possible outcomes of the negotiations, the industry has strong offensive interests in the FTA negotiations, in particular in the removal by the US of the 25 per cent tariff on light commercial vehicles that impacts directly on Australian utility vehicles. More than three million light commercial vehicles are sold in the US each year, a market worth tens of billions of dollars. The Federation of Automotive Products Manufacturers has given its support to the negotiations, and suggested in a submission to the Government that an AUSFTA could increase the value of Australian production of automotive components by around 2 per cent.

More information about the Australia-US FTA negotiations is available on the Department of Foreign Affairs and Trade website at www.dfat.gov.au/trade/negotiations/us.html. Thank you for your interest in this important issue and for bringing your views to the attention of the Government.

Yours sincerely



MARK VAILE

cc

The Hon A Downer MP
The Hon B Wakelin MP

Ⓟ 29/9