

Themes and issues

'Too soon to tell'

- 2.1 The overall theme of the roundtable was that it is too early to assess the performance of Australia's free trade agreements. This applied even to the Singapore-Australia Free Trade Agreement, or SAFTA, despite it being in operation since 2003.
- 2.2 All participants agreed that the positive and negative effects of the free trade agreements will take many years to fully materialise. DFAT said 'we would want to look at it over a five- or 10-year period, not over one or two years.'¹

False expectations

- 2.3 Another issue associated with reviewing the FTAs emerged in the opening session, 'Negotiations and consultations: what worked, what didn't?'. Participants commented that unrealistic expectations are created during the negotiation phase, which can mean actual outcomes look poor in comparison.
- 2.4 Economic modelling, which suggested that Australian exporters and consumers would see large and almost immediate benefits, was used for the three FTAs to 'sell' the idea of the agreements to business and the public, according to some participants.
- 2.5 For example, the Minerals Council of Australia argued that:

When people see a big number like \$24 billion – or an even larger number in the case of the United States [FTA] – it is treated

1 DFAT, *Transcript*, p 20.

sceptically by the public and by opposition groups. The assumptions are generally complete free trade. ... It also creates a mistaken impression for groups within Australia who are interested in lowering barriers in the target country... who all of a sudden see this big headline number and an assertion that the benefits from this agreement in this sector are going to be this figure... The assumption is that complete free trade will be achieved by a certain date. It just never happens like that.²

- 2.6 On the other hand, others made the point that economic modelling is essential during the negotiating process, and that high expectations could aid the negotiations. Austrade suggested that heightened expectations in the home country can help to put pressure on the negotiating partner to deliver certain outcomes.

As negotiators of agreements you can have something that some people say is more realistic, but you are actually negotiating something with another country and you want them to be under pressure to address a whole range of issues. There is a balance to be had in there about domestic expectations but also about the expectations in your negotiating partner's country.³

- 2.7 The committee accepts the points made on both sides. It agrees broadly with the following view articulated by DFAT:

What the headline figure of a \$24billion increase in GDP in 2015 gave to people was a very rough outline of the sorts of benefits that might flow from an agreement... I think it was an entirely appropriate, proper and responsible thing for the government to do, even though personally I have big problems with the actual modelling itself. But that is another question – that is for the econometricians to answer.⁴

- 2.8 On the consultations themselves, participants were satisfied with their level of engagement in the process. This did not mean they were entirely satisfied with the agreement itself – the general view was 'it would have been good if we had done better in some areas' – but participants accepted that 'there is always politics involved and the reality of economics'.⁵

- 2.9 There was some concern that consultations with state and local government were inadequate. The issue was raised in the context of the
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2 Minerals Council of Australia, *Transcript*, pp 4-5.

3 Austrade, *Transcript*, p. 46.

4 DFAT, *Transcript*, p 44.

5 Business Council of Australia, *Transcript*, p 46.

Joint Standing Committee on Treaties (JSCOT) report on AUSFTA, which reported:

a common complaint from State and Territory Governments that consultation did not occur during the final weeks of negotiations... and that discussion between the local and State level governments was prevented by requests from DFAT that all information provided by the Commonwealth Government be kept confidential.⁶

2.10 DFAT responded that these levels of government were involved in consultations through JSCOT and other mechanisms and DFAT was 'not aware of any particular criticisms that the states made about their lack of consultation.'⁷

2.11 Without hearing from state and local governments directly, the committee is not in a position to assess whether consultation at these levels was adequate. It wishes to emphasise, though, that the close relationships between business and industry and state and local governments, means it is important to ensure that these levels of government are involved in consultations where appropriate.

Difficulties of assessing the impact of FTAs

2.12 During the second session, 'The impact of FTAs on trade and business and industry', the committee heard that assessing the effects of free trade agreements is made difficult by trade figures which do not indicate which items fall within or outside FTAs. For example, Australia's trade balance with Singapore was negatively affected between 2003 and 2004 by a drop in Australia's petroleum exports, an item not affected by SAFTA.⁸

2.13 The corollary is that trade figures might be positively affected by non-FTA items. This might be an indirect result of an FTA – what Austrade referred to as the 'head-turning effect' – where an FTA might alert exporters to a market even if the FTA offers no direct benefits in terms of lower tariffs. As Austrade explained:

there are some issues about how you identify and associate something with the FTA. There are some broader benefits. The benefits that people often focus on are tariff reductions, which are pretty clear. For ones involving head-turning effects, it is

6 JSCOT, *Report 61: The Australia-United States Free Trade Agreement*, p 40.

7 DFAT, *Transcript*, p 10.

8 Austrade, *Transcript*, p 21.

sometimes more difficult to be able to say, 'This is because of the FTA.'⁹

- 2.14 Despite these difficulties, the committee felt that ongoing assessment of the impact of FTAs would be helped if trade figures for countries with which Australia has an FTA could provide some indication of the exports and imports that fall within the agreement and those that do not.

Recommendation 1

That, where possible, trade figures identify the items that fall within the scope of an FTA.

Winners and losers

- 2.15 As well as using trade figures, the impact of FTAs can be assessed in terms of winners and losers from business and industry. The committee heard that interest of Australian exporters in the FTA markets was growing, which points to potential 'winners' across a range of industries.

- 2.16 The committee did not hear much, however, about who are the potential 'losers' as a result of the FTAs. Anecdotal evidence was given by the Business Council of Australia about problems encountered as a result of changes to government procurement. New tendering standards have seen some Australian businesses fail in their bids for government contracts, because they did not comply with the new standards.

... our members are aware of government procurement and how they might take advantage of it in the US but, on the other side, are not aware of what changes they might have to make to their own procedures to make sure that they comply in the future.¹⁰

- 2.17 The ACTU also raised the issue of losers, but its concern extended to losers in potential FTA partner countries, especially in China and ASEAN countries, as a result of poor labour rights. The ACTU argued that a labour clause should be included in future FTAs to ensure that these agreements do not result in the exploitation of already vulnerable sections of the population in those countries.

Particularly in ASEAN we will all be aware of Burma – Myanmar – as a member of ASEAN. Issues of freedom of association, the right to organise and the right to strike and, in the

9 Austrade, *Transcript*, p 20.

10 Business Council of Australia, *Transcript*, p 26.

case of Burma specifically, the issue of forced labour are going to be important issues for us to come to terms with around issues of rules of origin.¹¹

- 2.18 The committee acknowledges DFAT's point that it is not the job of any single agency, including DFAT, to actively seek out those who might be suffering as a result of the FTA.

From DFAT's point of view, we are not in the business of going out and asking people whether they are suffering. People sometimes write to us and tell us that they feel there is some competitive disadvantage.¹²

- 2.19 The committee therefore urges those affected to make their concerns known to the relevant government agencies.

Living agreements

- 2.20 In the final session of the roundtable, 'Lessons learned', the notion of FTAs as 'living agreements' was introduced. Mr Andrew Stoler, from the Institute for International Business, Economics and Law, explained the concept:

[T]hese are not static agreements, it is not what you see is what you get and that is it. In all cases these agreements have a living agreement element to them where they can be improved over time... they are going to be very important aspects of the agreements.¹³

- 2.21 Mr Stoler gave the following examples:

[T]here is a provision in the agreement with Singapore having to do with recognition of certain Australian law schools as places where Singaporeans can get law degrees. That is not a perfectly operating provision but it is one which we can go back to and talk to the Singaporeans about and expand over time. It is the same with the quarantine provisions in the US agreement.¹⁴

- 2.22 The notion of living agreements also applies to Australia's approach to negotiating FTAs. All participants commented that they are learning

11 ACTU, *Transcript*, p 42.

12 DFAT, *Transcript*, p 19.

13 Mr Andrew Stoler, *Transcript*, p 4.

14 Mr Andrew Stoler, *Transcript*, p 42.

through each FTA what they can do better. Certainly this was the view of business and industry. The Business Council of Australia said:

I think it is true to say that we are both learning – DFAT are still learning and business is definitely still learning – when it comes to free trade agreements... business needs to learn how to step up to the block and provide better information to DFAT in order to get better outcomes overall.¹⁵

The National Farmers' Federation agreed:

I also think we have learnt a lot and that, going forward, we will get better at working with government in identifying both our offensive and defensive interests so that we can be much clearer in articulating arguments for why we want what we want and why it is important that we get what we want.¹⁶

15 Business Council of Australia, *Transcript*, p 6.

16 National Farmers' Federation, *Transcript*, p 41.

Outcomes

- 2.23 The roundtable was stimulating and worthwhile. Given the 'living' nature of these and any future FTAs Australia will sign, the committee believes it should hold another roundtable review in 2006.
- 2.24 The main outcomes of the hearing were:
- It is too soon to make objective judgements about the lasting impact of the three FTAs.
 - This is partly because they are 'living agreements' and will evolve, possibly improving, over time.
 - Future agreements should be improvements on the current FTAs partly as a result of business, industry, unions and other stakeholders becoming better at feeding information to DFAT before and during negotiations.
 - Assessing the performance of the FTAs would be assisted if trade figures indicated which items fall under the scope of a FTA.
 - Despite not making as many gains as they wished, Australian business, industry and unions were largely satisfied with the extent of consultation, their involvement in the negotiations and the outcomes overall.

Senator Alan Ferguson

Chair

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