

## Conclusion

- 4.1 Apart from the bureaucratic issue of 'Certificate of Origin' *vs.* 'Declaration of Origin' documentation, the other issues reviewed in this report have been ongoing issues for both the community and the Committee with regard to free trade treaties (FTAs).
- 4.2 A simple equation that lower trade barriers automatically equals greater prosperity for all is doubtful. Greater prosperity for all is only guaranteed if free trade is accompanied by appropriate complementary policies such as education, infrastructure, financial and macroeconomic policies.<sup>1</sup>
- 4.3 The Committee recognises that economic reform brings strains and stresses even if the long-term outcome is a positive one. The United Nations Conference on Trade and Development (UNCTAD) recognised that:
 

... most of the economic literature considers that trade liberalisation... will generate growth in the short to medium term as the country adjusts to a new allocation of resources more in keeping with its comparative advantage. [However], this process is neither smooth nor automatic. On the contrary, it is expected to create adjustment costs, encompassing a wide variety of potentially disadvantageous short-term outcomes. These outcomes may include a reduction in employment and output, the loss of industry- and firm-specific human capital, and macroeconomic instability arising from balance-of-payments difficulties or reductions in government revenue. The size of the

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1 Diana Tussie and Carlos Aggio, 'Economic and social impacts of trade liberalization', in 'Coping with Trade Reforms: A Developing-Country Perspective on the WTO Industrial Tariff Negotiations.' p. 89, <http://www.unctad.info/upload/TAB/docs/TechCooperation/fullreport-version14nov-p106-119.pdf>, accessed 16 October 2012.

adjustment costs depends on the speed with which resources make the transition from one sector to another.<sup>2</sup>

- 4.4 It is in this context that the Committee makes the following comments on MAFTA.

## Negotiation trade-offs

- 4.5 Treaty negotiation is a set of trade-offs between both parties resolved through compromise. It remains important that Australian negotiators provide balanced outcomes when agreements are reached, rather than compromises being made by the Australian negotiators without a meaningful compromise being made by the other party. With regards to MAFTA, this tension is encapsulated by this exchange that occurred at the public hearing:

**Mr Mugliston [DFAT]:** ...Our [automotive] industry is very keen to have some real access to that market and to at least provide that. They see that as part of the equation of effective collaboration and cooperation. I see this as that we are setting up a dialogue here in the period ahead.

**CHAIR:** You can have all the discussion and collaboration and cooperation that you like but at the end of the day it seems to me that Australia has very low barriers for the automotive industry and that Malaysia – the example we are discussing here – has very high ones. Is that a fair comment?

**Mr Mugliston:** Yes, they certainly do, and that is fair comment...<sup>3</sup>

- 4.6 Similarly, the glacial progress of opening up Malaysia's rice market compared to the already low tariff that exists on automobile imports into Australia was also noted:

**CHAIR:** When I look at the rice situation that the Malaysian politician can go to their electorate and say, 'We are not going to have any problems in relation to rice for another 10 years' and I noted Dr Church's rosy view about the possibility of the thing happening earlier. Perhaps I am just a more gloomy person and think there is a possibility that an agreement that does not take

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2 Diana Tussie and Carlos Aggio, 'Economic and social impacts of trade liberalization', in 'Coping with Trade Reforms: A Developing-Country Perspective on the WTO Industrial Tariff Negotiations.' p. 89, <<http://www.unctad.info/upload/TAB/docs/TechCooperation/fullreport-version14nov-p106-119.pdf>>, accessed 16 October 2012.

3 *Committee Hansard*, 12 October 2012, p. 11.

effect for 10 years can be reneged on by any government, any time in the course of the next 10 years. I look at that and think my Malaysian political equivalent has done me like a dinner. That is how it looks in terms of what arrangements apply to motor vehicle workers compared to the ones applying in the rice industry.<sup>4</sup>

- 4.7 As this issue of trade-offs goes to the heart of employment outcomes in Australia as identified in the previous chapter, the Committee would like to remind Australian negotiators of the practical impact free trade negotiations have on ordinary Australians' lives – particularly with regard to employment.

## Analysis of benefits

- 4.8 The National Interest Analysis (NIA) had no analysis on social impacts of MAFTA, and very little tangible financial analysis. The only direct information that was provided was this single paragraph:

There will be no net impact on the Budget from the implementation of MAFTA from 1 January 2013 as the 2012-13 Budget included a provision for the treaty. MAFTA is estimated to reduce tariff revenue by \$80 million over the forward estimates.<sup>5</sup>

- 4.9 Several times in the past, the Committee has asked for and recommended that more tangible analysis be done with regard to free trade treaties. For example, in its review of the 2008 Australia-Chile Free-Trade Agreement (FTA), the Committee recommended that:

...prior to commencing negotiations for bilateral or regional trade agreements, the Government table in Parliament a document setting out its priorities and objectives. The document should include independent assessments of the costs and benefits. Such assessments should consider the economic regional, social, cultural, regulatory and environmental impacts which are expected to arise.<sup>6</sup>

- 4.10 The Committee notes some improvements in transparency around FTA negotiations in recent years. For example, for the Trans-Pacific Partnership currently under negotiation, and for the launch of

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4 *Committee Hansard*, 12 October 2012, p. 11.

5 National Interest Analysis (NIA), para. 24.

6 Joint Standing Committee on Treaties, Report 95, Chapter 3, 'The Australia Chile Free-Trade Agreement', p. 35.

negotiations for an Australia-Korea FTA, the Government conducted public consultations on the FTA, published submissions and tabled documents in Parliament outlining the views that emerged during the consultations on the costs and benefits of participation.

- 4.11 While the Committee welcomes these public consultations, and the subsequent statements to Parliament, it still does not receive the detailed independent analysis it has previously requested. Accordingly, the Committee makes the following recommendation:

### **Recommendation 1**

**That prior to commencing negotiations for a new agreement, the Government table in Parliament a document setting out its priorities and objectives including independent analysis of the anticipated costs and benefits of the agreement. Such analysis should be reflected in the National Interest Analysis accompanying the treaty text.**

- 4.12 The Committee believes that it is appropriate that a review of this treaty occurs in two years' time to examine the various claims made by DFAT on the benefits of the treaty, as well as the various concerns expressed about the potential negative impacts. This review could coincide with the two year review of the labour and environmental standards and should include:
- analysis of the costs and benefits of changes to non-tariff barriers;
  - impact on Australia's automotive industry;
  - impact on the dairy industry;
  - any implications for Australia's phytosanitary regime; and
  - the costs and benefits of transition from 'Certificate of Origin' to 'Declaration of Origin' documentation.

## Recommendation 2

**That after 24 months of the treaty coming into effect, an independent review of MAFTA be conducted to assess actual outcomes of the treaty against the claimed benefits and potential negative consequences noted in this report. The review should consider the economic, regional, social, cultural, regulatory, labour and environmental impacts. Such a review should serve as a model for future free trade agreements.**

## Final comments

- 4.13 The Committee recognises that FTAs are part of a broader diplomatic engagement and, apart from the provisions themselves, FTAs can foster better cooperation and understanding between countries.
- 4.14 The Committee also recognises that these agreements are not set in stone and are open to amendments in the future. As DFAT explained:
- I think the other important point to note is the concept of living agreements that we try and strive for. It is not just a case of it all being there but a case of recognising that this is the best we can do at this point in time, but we want to continue to work with the other country to improve on this as we go. That is the general approach.<sup>7</sup>
- 4.15 That being the case, the Committee will be interested to examine the outcomes of the two year review of labour and environmental provisions within MAFTA. The broader policy context of free trade, as outlined earlier in this chapter, is what will help ensure that the benefits of these trade agreements contribute to prosperity throughout the community.
- 4.16 Given that the multilateral Trans Pacific Partnership (TPP) agreement is under negotiation, and that two bilateral FTAs with South Korea and Japan are also progressing,<sup>8</sup> the Committee asks that the Australian Government negotiators remain mindful of the issues raised in this report, namely:
- the above recommendation, and previous JSCOT recommendations for more detailed analysis of the treaties' economic, social, cultural, regulatory and environmental impacts;

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7 Mr Michael Mugliston, Special Negotiator, Free Trade Agreement Division, Department of Foreign Affairs and Trade, *Committee Hansard*, 12 October 2012, p. 12.

8 Mr Michael Mugliston, Special Negotiator, Free Trade Agreement Division, Department of Foreign Affairs and Trade, *Committee Hansard*, 12 October 2012, p. 14.

- labour and environmental standards; and
  - employment outcomes in Australia.
- 4.17 Notwithstanding the concerns raised here, the Committee agrees that the treaty should be ratified and binding treaty action be taken.

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**Recommendation 3**

**The Committee supports the *Malaysia-Australia Free Trade Agreement done at Kuala Lumpur on 22 May 2012* and recommends that binding treaty action be taken.**

**Kelvin Thomson MP**

**Chair**