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National Secretary  
Bill Shorten

## **The Australian Workers' Union**

### **Submission**

Senate Select Committee on the Free Trade Agreement between Australia and the  
United States of America

**April 2004**

**Senate Select Committee on the Free  
Trade Agreement between Australia and  
the United States of America**



**National Secretary  
Bill Shorten**

**A. Summary**

The proposed Australia United States Free Trade Agreement (AUSFTA) represents a failure by the Government to represent the best interests of Australia. While a free trade agreement with the United States has the potential to realise tangible gains for Australians, the Government failed negotiate an agreement that seized this opportunity. The agreement negotiated will result in long term detriment to Australian industry, farmers, workers, consumers and taxpayers.

The AUSFTA fails to provide tangible economic benefits, and will have significant adverse non-economic and cultural detriments for all Australians. Further, and perhaps most importantly, the AUSFTA creates significant uncertainty regarding the continuing effectiveness of the Pharmaceutical Benefits Scheme (PBS) and Australia's sanitary and phytosanitary standards. The United States has long maintained that prices paid to US drug companies under the PBS must be significantly increased, and that Australia's quarantine standards must be significantly decreased. Negotiations surrounding these issues following the implementation of the AUSFTA – negotiations that will take place behind closed doors by the Government without any meaningful public scrutiny – will potentially cost Australian taxpayers billions of dollars per year, and place at risk public health and Australia's reputation as a high quality producer of agricultural products.

**B. The Australian Workers' Union**

The Australian Workers' Union, Australia's oldest general union, started in 1886 as the Amalgamated Shearers Union. Today, the AWU represents more than 130,000 members across Australia in a diverse range of industries. Our members build railways, work in underground mines, they mill paper and they asphalt roads. They also farm fish and grow tobacco. Some of the major industries in which our members work include: pastoral and agricultural, aluminium, aviation, oil and gas, mining, construction and steel.

The Australian Workers' Union is in favour international trade within multilateral and bilateral frameworks that deliver tangible economic benefits to all parties. The AWU would support a free trade agreement with the United States if it were in Australia's national interest.

### **C. Lack of Public Information**

The AWU is concerned about the failure of Government to provide the public with timely estimates of the likely economic impact of the AUSFTA on Australia. Prior to finalising the AUSFTA, the Government made a number of statements in favour of the agreement touting potential gains to Australia of up to \$4 billion per year.<sup>1</sup>

It is disappointing that the Government sponsored economic analysis of the AUSFTA was not available for timely consideration by all relevant stakeholders. The AWU notes that this research was released on 30 April 2004 – the deadline for submissions to this inquiry. As a result, the AWU has no specific comment to make in relation to that research at this time. However, the AWU notes with interest that the Centre for International Economics in 2001 forecast hypothetical gains to Australia of approximately \$4 billion per year from a comprehensive free trade agreement with the United States, but has now found gains of \$6 billion per year from a less than comprehensive agreement.

### **D. Exclusion of Sugar from the AUSFTA**

The AWU condemns the decision of the Government to exclude sugar and sugar products from the operation of the AUSFTA.

It is clear that this decision by the Government has resulted in Australian sugar farmers foregoing significant economic gains. Research commissioned by the Queensland Government from the Centre for International Economics found that free US-Australia trade in sugar would result in a net gain to Queensland farmers of approximately \$340 million per year.<sup>2</sup> This is supported by research commissioned by DFAT from the Centre for International Economics that forecast gains to Australian sugar farmers of US\$543 million per year following the implementation of a free trade agreement with the United States.<sup>3</sup>

In the United States, the decision to exclude sugar from the AUSFTA has been widely criticised. Section 2104(e) of the US Trade Act of 2002 requires that advisory committees provide the President, the Congress and the U.S. Trade Representative with reports required under Section 135(e)(1) of the Trade Act of 1974. Each Advisory Committee must include in their report an advisory opinion as to whether and to what extent the agreement promotes the economic interests of the United States and achieves the negotiating principles set out in the Trade Act of 2002.

A number of these US Trade Advisory Committees expressed significant concern about the exclusion of sugar and sugar products from the scope of the AUSFTA, including:

- Trade and Environment Policy Advisory Committee;
- Agricultural Technical Advisory Committee for Trade in Processed Foods (majority opinion);

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<sup>1</sup> [http://www.trademinister.gov.au/releases/2004/mvt007\\_04.html](http://www.trademinister.gov.au/releases/2004/mvt007_04.html)

<sup>2</sup> Centre for International Economics, Potential Impact of the US FTA on the Queensland sugar industry – Prepared for the Queensland Department of State Development, 10 December 2003.

<sup>3</sup> Economic Impacts of an Australia-United States FTA – Prepared for the Department of Foreign Affairs and Trade, Centre for International Economics, Canberra June 2001 at page 91.

- Agricultural Technical Advisory Committee for Grains, Feed and Oilseeds;
- Industry Sector Advisory Committee on Wholesaling and Retailing for Trade Policy Matters;
- Industry Sector Advisory Committee on Building Products and Other Materials for Trade Policy Matters;
- Industry Sector Advisory Committee on Small and Minority Business; and
- Industry Sector Advisory Committee on Consumer Goods.

In addition, the minority of the Sweeteners and Sweeteners Products Agricultural Technical Advisory Committee expressed significant concern about the exclusion of sugar from the agreement.

These Committees were concerned about the precedent created by excluding sugar from what was meant to be a comprehensive Free Trade Agreement. A number of these Committees also considered that the continued protection of the US sugar industry would be bad for the economic interests of the United States.

The AWU supports the conclusion that the exclusion of sugar sets a poor precedent. In particular, it is now likely that other countries negotiating free trade agreements with Australia will seek to restrict trade in certain industry sectors to their advantage, knowing that Australia is happy to disadvantage its own producers ‘to get the deal done’.

The AWU also notes that the exclusion of sugar from the AUSFTA has resulted in the Australian government offering additional financial assistance to sugar farmers. This is a cost directly associated with the AUSFTA and is discussed in more detail below.

## **E. Analysis of Likely Impact of the AUSFTA on Australia’s National Interest**

### **(a) Agriculture**

It was anticipated that Australia would benefit with the reduction of US barriers in the agricultural sector. However, with the exclusion of sugar from the AUSFTA, a significant proportion of that likely gain has been eroded.

Current US agricultural exports to Australia total US\$400 million per year. Under the AUSFTA all U.S. agricultural exports to Australia will receive immediate duty-free access. Products that the US currently exports to Australia that are likely to benefit from this change include: processed food products such as soups, food preparation and bakery products; soybeans and oilseeds products; fresh and processed fruits, vegetables and nuts, including: dried onions, fruit and vegetable juices, dried plums, potatoes, almonds, tomatoes, cherries, raisins, olives, fresh grapes, sweet corn, frozen strawberries, and walnuts; and alcoholic beverages, including distilled spirits.

In relation to Australian agricultural exports to the US, a 5 tier system will apply to determine the timing of liberalisation. These five tiers are: confirmation of pre-existing zero tariff; immediate tariff elimination; elimination of tariffs in equal annual instalments over 4 years; elimination of tariffs in equal annual instalments over 10 years; and elimination of tariffs in equal annual instalments over 18 years. Several products, including dairy, beef and avocados, are subject to special regimes outside this tiered arrangement. As a result of these phase-in arrangements, the potential

Australian agricultural gains from the AUSFTA discussed below will only be fully realised 18 years after the agreement is entered into.

The American Farm Bureau estimates that US gains in the agricultural sector from the AUSFTA will total US\$150 - \$200 million per year. The American Farm Bureau estimates that once fully implemented, increased Australian agricultural exports to the US may amount to between US\$320-420 million. However, it is at least a possibility that Australia will fail to fill the beef quota specified in the AUSFTA, meaning that this net gain will be significantly lessened, or even completely eroded:

Gains in Australia's agricultural sector could be somewhat larger than gains in American agriculture, with the Agreement generating a \$150-200 million increase in United States agricultural exports to Australia, but a potential \$420 million increase in Australian farm exports to the United States. The \$170-220 million United States loss would be the equivalent of less than one-tenth of one percent of United States agricultural production, but would be concentrated in just two agricultural sectors. This boost in the value of trade from Australia into the United States is very dependent on assumptions regarding United States-Australia beef trade. Should Australia fail to fill the beef quota provided in the Agreement, an issue United States negotiators raised during agreement talks, Australian gains would be substantially smaller and changes in farm trade between the two countries would essentially cancel each other out.<sup>4</sup>

In relation to the beef quota issue, the American Farm Bureau notes:

The Australian beef in question is the lower-priced manufacturing grade. The United States concessions amount to a maximum of \$300 million at the end of the 18-year implementation period—assuming that Australia fills its additional quota. Whether Australia will be able to fill that entire quantity is not at all a certainty, some suggest that this additional trade may be much less than the maximum \$300 million allowed. For example, Australia has filled its quota in only two of the last seven years.<sup>5</sup>

Therefore, on the basis of the agreement negotiated, and with no changes to the Australian quarantine system, US producers forecast a reasonable likelihood that the AUSFTA will result in no net gain for either party in relation to agriculture. However, US farmers are also anticipating significant gains will be made through the reduction in Australia's sanitary and phytosanitary standards:

... Australian tariffs on selected semi-processed, processed, and high-value products, however, are significant and in some cases are reinforced with other trade barriers. Assuming that progress is made in the sanitary/phytosanitary follow-up talks called for in the draft, United States exports of these commodities could expand \$150-200 million over the intermediate and longer term.

For example, United States exports of pork and poultry currently enter Australia duty-free, but are subject to sanitary and phytosanitary regulations that keep the trade volume minimal. With progress in sanitary and phytosanitary talks and improved market access, United States exports of pork could reach \$50 million, with poultry exports reaching \$25 million over the intermediate and long term. Exports of these products currently are under \$6 million for pork and are negligible for poultry.

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<sup>4</sup> Implications of an Australian Free Trade Agreement on U.S. Agriculture, American Farm Bureau Federation, Economic Analysis and Trade Teams at page 1.

<sup>5</sup> Implications of an Australian Free Trade Agreement on U.S. Agriculture, American Farm Bureau Federation, Economic Analysis and Trade Teams at page 5.

With the elimination of tariffs and sanitary/phytosanitary restrictions on fresh and processed vegetables, fruits, and nuts, United States exports of \$80 million over the 1999-2001 period could increase by 50%, or \$40 million. Assuming comparable growth in the other semi-processed, processed, and high-value categories, United States exports could increase an added \$50 million from a 1999-2001 base of \$100 million per year.<sup>6</sup>

While acknowledged being less than certain, there exists a real possibility that the United States will succeed in negotiating reductions in Australia's quarantine regime. It must therefore be acknowledged that:

- as a best case scenario, Australian agricultural producers will derive net benefit of up to US\$220 million per year as a result of the AUSFTA;
- there is a significant likelihood that Australian producers will be unable to realise the maximum potential gains available under the AUSFTA, and that as a result, Australian agricultural producers will suffer no net gain from the AUSFTA; or
- in the worst case scenario, Australian agricultural producers will suffer net losses in the region of US\$150 - \$200 million per year if they fail to realise the maximum possible gains available under the AUSFTA and suffer additional losses as a result of follow up discussions with the United States in relation to sanitary and phytosanitary matters.

In addition, there are significant additional risks posed by changes to Australia's quarantine regime that are discussed below.

## **(b) Manufacturing**

Australia has made significant concessions to the United States in relation to manufacturing. From the outset of the agreement, more than 99 percent of U.S. exports of manufactured goods to Australia will become duty-free. These goods account for approximately 93 percent of total U.S. goods exports to Australia. It is estimated by the United States that this will potentially increase US manufacturing exports to Australia by up to US\$2 billion per year.<sup>7</sup>

It is believed that the US manufacturing industries that will benefit most from the AUSFTA include: autos and auto parts; chemicals, plastics, and soda ash; construction equipment; electrical equipment and appliances; fabricated metal products; furniture and fixtures; information technology products; medical and scientific equipment; non-electrical machinery and paper and wood products.

From Australia's perspective, over 90% of its manufactured goods will not be subject to tariffs when exported to the US. This should also lead to some rise in Australia's manufacturing exports to the United States, particularly in relation to goods such as chemicals, motorbikes, wine and automobiles. However, it is unclear to what extent Australian producers will benefit from such a change.

The AWU believes that the Australian manufacturing sector will suffer a net loss as a result of the AUSFTA. As noted above, the United States is forecasting net gains in its manufacturing sector of approximately US\$2 billion. Economic forecasts of

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<sup>6</sup> Implications of an Australian Free Trade Agreement on U.S. Agriculture, American Farm Bureau Federation, Economic Analysis and Trade Teams at page 2.

<sup>7</sup> <http://www.ustr.gov/releases/2004/02/04-08.pdf>

Australian non-agricultural gains have been much smaller – the Centre for International Economics forecast a total increase in Australian exports to the United States (excluding increases in sugar and dairy) of US\$477 million per year.<sup>8</sup> Given that that modelling assumed an exchange rate of AUD\$1 buying US\$0.64 (against a prevailing exchange rate of AUD\$1 buying US\$0.76), actual Australian gains are likely to be significantly lower. It can be safely assumed that the United States will receive a net benefit in relation to manufacturing under the AUSFTA in excess of US\$1.5 billion per year, and that at least some of those gains will be at the expense of Australian production, businesses and jobs.

### **(c) Services**

The AUSFTA includes provision for free trade in relation to services. Such free trade will apply to industries such as: telecommunications services; financial services, including banking, insurance and securities; distribution services, such as wholesaling, retailing and franchising; express delivery services; computer and related services; audiovisual and entertainment services; energy services; construction and engineering services; tourism; advertising services; professional services (architects, engineers, accountants, etc.); environmental services and education and training services.

It does not appear that either party anticipates that the agreement will result have significant impact in the trade of services. The AWU believes that the AUSFTA will not result in significant gains in this sector. However, considerable concern has been expressed in Australia in relation to the uncertainty created under the AUSFTA in relation to trade in audio-visual and entertainment services, and particularly the protection of Australian television content. This issue is discussed in greater detail below.

### **F. Major Areas of Uncertainty**

The AUSFTA leaves several issues of national importance to be decided after the introduction of the agreement. The major areas of such uncertainty include:

- quarantine;
- the PBS; and
- television content.

These strategic areas are open to further erosion by the United States following the introduction of the AUSFTA, and US producers are anticipating significant gains from changes in these areas.

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<sup>8</sup> Economic Impacts of an Australia-United States FTA – Prepared for the Department of Foreign Affairs and Trade, Centre for International Economics, Canberra June 2001 at page 44.

## **(a) Quarantine**

A major concern held by the AWU is that follow up discussions to the AUSFTA will erode Australia's sanitary and phytosanitary regime. While the AUSFTA affirms a science based approach to quarantine and biosecurity issues, the United States has flagged in many forums that it considers a number of Australian quarantine protections to be far above those that can be justified on the basis of science. In particular, it is likely that following the implementation of the AUSFTA there will be further discussions regarding the phytosanitary barriers in relation to poultry, pork, citrus, apples and stone fruit.

The AUSFTA establishes a regime to allow for changes to Australia's quarantine standards in relation to US agricultural imports. Under Article 7.4.1:

The Parties hereby establish a Committee on Sanitary and Phytosanitary Matters ("Committee") comprised of representatives of each Party who have responsibility for sanitary and phytosanitary matters.

The mandate of this Committee is set out in Article 7.4.5, providing that the Committee shall:

- (a) enhance mutual understanding of each Party's sanitary and phytosanitary measures and the regulatory processes that relate to those measures;
- (b) improve bilateral understanding related to specific implementation issues concerning the SPS Agreement;
- (c) review progress on and as appropriate, resolve through mutual consent, sanitary and phytosanitary matters that may arise between the Parties' agencies with responsibility for such matters; and
- (d) consult on:
  - (i) matters related to the development or application of sanitary and phytosanitary measures that affect, or may affect, trade between the Parties;
  - (ii) issues, positions, and agendas for meetings of the WTO SPS Committee, the *Codex Alimentarius Commission* and its subsidiary bodies, the International Plant Protection Convention, the International Office of Epizootics, and other international and regional fora on food safety and human, animal, and plant health; and
  - (iii) technical cooperation activities on sanitary and phytosanitary matters.

In addition, Article 7.4.9 establishes a Standing Technical Working Group on Animal and Plant Health Measures. Annex 7-A defines this Working Group's responsibilities as:

(F)acilitating trade to the greatest extent possible, while preserving the rights of the Parties to protect animal or plant life or health in their respective territories and respecting the regulatory systems, risk assessment and policy development processes of each Party.

Annex 7-A goes on to state:

The Working Group shall provide a forum for:

- (a) resolving specific bilateral animal and plant health matters with a view to facilitating trade and, where possible, achieving consensus on scientific issues;
- (b) engaging, at the earliest appropriate point in the risk assessment and regulatory processes of each Party, in scientific and technical exchange and cooperation regarding animal and plant health matters that may, directly or indirectly, affect the trade of either Party; and



(c) considering specific measures or sets of measures likely to affect, directly or indirectly, trade between the Parties that are designed to protect animal or plant life or health within the territory of the importing Party from risks arising from the entry, establishment or spread of pests, diseases, disease carrying organisms or disease-causing organisms.

These forums are clearly designed with the intention of lessening Australia's level of quarantine protection. From a commonsense point of view, negotiations in these forums will have one of three results:

- there will be no change in sanitary and phytosanitary standards;
- there will be a reduction in sanitary and phytosanitary standards as a result of a genuine recognition that Australian sanitary and phytosanitary standards cannot be maintained on the basis of science; or
- there will be a reduction in sanitary and phytosanitary standards that, while justified on the basis of Australian science, the Government agrees to reduce to satisfy US producers.

The AWU concedes that there is the possibility that there may be no reductions in Australia's sanitary and phytosanitary standards as a result of the AUSFTA. However, the United States has already strongly signalled its intention to seek reductions to Australia's quarantine regime, and the Australian Government has shown an incredible willingness to accommodate US demands in all other areas.

Any potential reduction in SPS standards will have two possible impacts:

- in the case of the reduction of any SPS standard, such reduction will remove or reduce a non-tariff barrier to the Australian market and will consequently increase the competitiveness of US product in the Australian market. This would in all likelihood increase US production to the detriment of Australian producers; and
- in the case of the reduction of any SPS standard that is justified on the basis of science (but which the Government decides to remove to appease the US Government and producers), such reduction will increase the risk of disease in Australian agriculture products, in addition to the economic impact described above.

As noted above, the American Farm Bureau estimates US potential gains from the erosion of Australia's quarantine standards at between US\$150 and \$200 million per year. However, losses to Australian producers are likely to be even greater because, once Australia concedes certain quarantine issues to the United States, it will face pressures from other trading partners to similarly reduce those restrictions. The extent of such losses cannot be predicted, but are likely to be significant.

The costs associated with increased risk of disease cannot be accurately quantified, but are likely to be significant. In this respect the AWU notes that the recent outbreak of avian flu in Asia is estimated to have cost producers in those countries hundreds of millions of dollars. Further, any disease outbreak would jeopardise Australia's reputation as a disease free producer of a number of agricultural commodities.

However, the AWU notes that one small grace of the AUSFTA is that neither party has recourse to the dispute settlement procedures under the agreement for SPS disputes. (Article 7.3.2) However, given the willingness Australian negotiators have

displayed in acceding to US demands in other areas of the agreement, it is likely that they will display similar willingness to deal with the US on these issues.

## **(b) Pharmaceuticals and the PBS**

Under the AUSFTA the Pharmaceutical Benefits Scheme (PBS) will technically remain in place, but in an exchange of letters, Australia has agreed to certain 'enhancements' of the existing system. As stated in the Exchange of Letters on the PBS:

In order to enhance transparency, meaningful consultation, and accountability in the process of selecting, listing, and pricing of pharmaceuticals under its Pharmaceutical Benefits Scheme (PBS), Australia shall provide an applicant seeking to have a pharmaceutical listed on the PBS formulary:

- (a) an opportunity to consult relevant officials prior to submission of an application for listing, including on the selection of a comparator pharmaceutical;
- (b) an opportunity to respond fully to reports or evaluations relating to the applications that are prepared for the technical subcommittees of the Pharmaceutical Benefits Advisory Committee (PBAC);
- (c) an opportunity for a hearing before PBAC while it is considering reports or advice from the technical subcommittees to the PBAC regarding applications; and
- (d) sufficient information on the reasons for its determination on an application, on an expeditious basis, to facilitate any application to the Pharmaceutical Benefits Pricing Authority.

2. Australia shall provide an opportunity for independent review of PBAC determinations, where an application has not resulted in a PBAC recommendation to list.

3. In order to make its process of selection, listing, and pricing of pharmaceuticals and indications under its PBS more expeditious, Australia shall:

- (a) reduce the time required to implement recommendations of the PBAC, where possible;
- (b) introduce procedures for more frequent revisions and dissemination of the Schedule of Pharmaceutical Benefits, where possible; and
- (c) make available expedited procedures for processing of applications not requiring an economic evaluation.

4. Australia shall provide opportunities to apply for an adjustment to a reimbursement amount.

These mechanisms are clearly designed to allow major US drug manufacturers to increase the price of drugs under the PBS. These companies have long argued that the PBS system allows the Australian government to acquire drugs at lower prices than those companies would achieve selling direct to consumers. While a number of reviews of the price suppression effect of the PBS have been conducted, none have been able to conclusively determine the cost savings to Australians as a result of the PBS. Estimates of cost savings range from several hundred million dollars to more than \$2 billion per year.<sup>9</sup> Given the Government derives such large savings through the PBS, there is significant potential for drug companies to argue for, and justify, higher prices under the proposed AUSFTA regime.

It is difficult to determine what impact this will have on the PBS scheme. However, any decision to increase the price of drugs listed on the scheme will result in a significant detriment to taxpayers. Additionally, it is possible that significant price

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<sup>9</sup> Evaluation of the Pharmaceutical Industry Investment Program, Research Report, Productivity Commission, Canberra, January 2003.

rises in PBS listed drugs will threaten the overall viability of the PBS system resulting in either higher co-payments or cutbacks in the number and type of drugs covered by the scheme.

### **(c) Local Media Content**

Annex 1 of the AUSFTA places restrictions on the ability of the Government to protect Australia's culture through the provision of local media content.

In relation to Australia's local content quotas for existing broadcast services, a ratchet mechanism will be applied. If the Government decides to reduce the level of mandated Australian content in relation to such existing services, it will be unable to return protection to those levels in the future.

In relation to new media services, Annex 2 to the AUSFTA mandates maximum levels of local content that can be proscribed by the Australian government. In relation to multichannel free-to-air commercial television, Australian content is to be capped at 55% on no more than 2 channels (or a maximum of 20% for the total number of channels offered by the broadcaster to a maximum of 3 channels). In relation to free-to-air commercial radio broadcasts, Australian content is limited to 25%, and in relation to subscription television services, 10% (up to 20% in relation to subscription television drama channels in certain circumstances).

The AUSFTA clearly limits the ability of Australia to determine appropriate mechanisms to protect its culture, and will encourage further 'Americanisation' of Australian television and radio stations to the detriment of local production. The social costs of such a move are significant, but unquantifiable.

### **G. Labour Protections**

Labour obligations are part of the core text of the trade agreement and both parties reaffirm their obligations as members of the International Labor Organization (ILO). The agreement requires that Australia and the United States effectively enforce their own domestic labour laws and that workers and employers will continue to have fair, equitable and transparent access to labour tribunals/courts. However, the AUSFTA's dispute-resolution mechanism can only be used if domestic labour laws are not enforced to achieve a trade advantage, and there is no mechanism within the AUSFTA to prevent either party from legislating lower labour standards than currently prevail.

The US Labor Advisory Committee for Trade Negotiations and Trade Policy has recommended that the US not entered into the AUSFTA on the basis that Australia fails to comply with ILO labour standards. In particular, the Committee has concerns about Australian laws regarding freedom of association, anti-union discrimination, collective bargaining, the right to strike and child and forced labour.

The Australian Workers' Union joins the US Labor Advisory Committee in condemning Australia for failing to meet its international obligations in protecting the basic rights of workers.

## H. Foreign Investment

Under the proposed AUSFTA, Australia will significantly reduce its review of US investment in Australia.

Subject to reservations in relation to Telstra, Qantas, the Commonwealth Serum Laboratories, newspapers and broadcasting, airports and coastal shipping, the transaction threshold for review by the Foreign Investment Review Board will be increased from \$50 million to \$800 million. It is likely that this change will exempt almost 90% of all US investment in Australia from review by FIRB.<sup>10</sup>

This change significantly reduces Australia's ability to review investment to ensure that assets of national importance remain Australian owned.

## I. Loss of Taxation Revenue

It is acknowledged by the government that the AUSFTA will have a negative impact on taxation revenue. The Regulation Impact Statement prepared by the Government states:

Tariff revenue collection forgone:

The Treasury has estimated that the financial cost of the Agreement to the Commonwealth Government will amount to \$190 million in the first year (2004/05), \$400million in the second year (2005/06), \$420million in the third year (2006/07) and \$450million in the fourth year (2007/08). This estimate is based on the expected loss of tariff revenue from imports from the United States, which are assumed to grow steadily in line with the economy. It is also assumed that the Agreement will enter into force on 1 January 2005. The estimates do not take account of the scope for additional lost tariff revenue that could arise if imports from the United States displace imports from other countries. Nor, however, do the estimates take into account the potential economic growth that the Agreement may generate and any additional taxation revenue resulting from this growth.<sup>11</sup>

Therefore it is clear that, in addition to the negative consequences outlined above, Australia will forgo significant taxation revenue (in the order of \$400 million per year) to secure a substandard and harmful agreement.

In addition, with respect to the RIS estimate qualification that '(t)he estimates do not take account of scope for additional lost tariff revenue that could arise if imports from the United States displace imports from other countries', the AWU notes that the cost arising from import substitution is likely to be significant. The AWU notes the conclusions of the Centre for International Economics in their original analysis of a free trade agreement with the United States:

From the table we can see that the US increases its exports to Australia by US\$1854 million. However, net imports into Australia increases by around 36 per cent of that amount (US\$675 million). Hence the increased exports from the US displaces some US\$1179 million worth of

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<sup>10</sup> US Trade Representative, 'Summary of the US-Australia Free Trade Agreement', Trade Facts, p 1, 8 February 2004.

<sup>11</sup> Regulation Impact Statement (RIS), Australia – United States Free Trade Agreement, Commonwealth Government, March 2004 at page 10.

exports from other regions. This will have an adverse impact on those regions whose exports to Australia are displaced.<sup>12</sup>

While CIE's analysis of the economic impact of the actual AUSFTA has not yet been finalised, it seems likely that import substitution will be significant under the proposed agreement, and will result in additional losses to government revenue.

## **J. Additional Budget Costs**

An additional factor that must be taken into account by the Committee is that the Government's failure to include sugar as part of the AUSFTA will result in it offering the Australian industry a further 'bailout' package.

It was reported by the ABC that the Canegrowers Council has requested \$600 million in aid as a result of the exclusion of sugar from the AUSFTA.<sup>13</sup> On 29 April 2004, the Government announced an extra \$444.4 million assistance for canefarmers.<sup>14</sup> It seems likely that additional assistance will be provided to canefarmers in future years – assistance that would not have been necessary had sugar been included as part of the AUSFTA.

## **K. Weighing up of Potential Benefits and Potential Detriments**

It is clear that the AUSFTA negotiated is nowhere near ideal. However, in addition to failing to realise its potential, the AWU believes that the AUSFTA as negotiated is not in Australia's national interest. It seems clear that, at best Australia can anticipate:

- marginal economic gains (of up to US\$200 million per year) in the agricultural sector;
- economic losses in the manufacturing sector;
- to continue to subsidise the Australian sugar industry; and
- lost government revenue of approximately \$400 million per year.

Under this best case scenario, the AUSFTA appears to be detrimental to Australia's national interest.

In the worst case scenario, the AUSFTA will result in:

- economic losses in relation to agriculture of up to US\$200 million per year (and perhaps more);
- economic losses in the manufacturing sector;
- continued subsidy of the Australian sugar industry;
- lost government revenue of at least \$400 million per year, plus additional lost revenue as a result of import substitution;
- higher prices for drugs paid under the PBS – potentially costing taxpayers hundreds of millions or billions of dollars per year;
- erosion of Australia's quarantine standards and increased risk of disease outbreaks – potentially costing producers tens or hundreds of millions of dollars, as well as

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<sup>12</sup> Economic Impacts of an Australia-United States FTA – Prepared for the Department of Foreign Affairs and Trade, Centre for International Economics, Canberra June 2001 at page 42.

<sup>13</sup> <http://www.abc.net.au/news/newsitems/s1048566.htm>

<sup>14</sup> <http://www.affa.gov.au/ministers/truss/releases/04/04103wt.html>

- causing international damage to Australia's reputation of producing high quality, disease free, agricultural products; and
- loss of Australia's national identity through restrictions on Australia's ability to mandate local broadcasting content.

In this worst case scenario, the AUSFTA is highly detrimental to Australia's national interest.

## **L. Conclusion**

The AWU believes that a free trade agreement with the United States could potentially result in significant benefit to both Australia and the United States. However, the proposed AUSFTA fails to deliver such benefit to Australia.

The AWU would support any attempt by the Government to negotiate a more balanced free trade agreement with the United States – an agreement under which the economic interests of both the United States and Australia are fairly represented.

However, for the reasons outlined above, the AWU believes that the AUSFTA is not in Australia's national interest.

Further, and as a final general comment, the AWU notes that a major reason for the US Government agreeing to entering into the AUSFTA was the Government's support of its war on Iraq. The AWU notes that the proposed agreement is poor compensation for the risk all Australians now face from the increased threat of terrorism as a result of the Government's decision to support that war.

Should you require any additional information from the AWU in relation to this matter, please do not hesitate to contact myself or Trent Gillam on (03) 8327 0888.

Bill Shorten  
National Secretary  
The Australian Workers' Union