

U.S.-AUSTRALIA FREE TRADE AGREEMENT

**Written Testimony of
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Deputy U.S. Trade Representative
before the
Committee on Finance
of the
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INTRODUCTION

Mr. Chairman, Senator Baucus, and Members of the Committee:

Thank you for the opportunity to testify today and for the guidance and advice both parties have provided us. We appreciate your leadership, Mr. Chairman, and are grateful to Senator Baucus and Members of this Committee and their staffs for the close cooperation we have enjoyed on trade issues over the past three years.

Working together, we have reenergized the U.S. trade policy agenda and reestablished America's leadership on trade. Passage of the Trade Act of 2002, including Trade Promotion Authority (TPA) was a pivotal step in this effort. In TPA, the partnership between Congress and the Executive branch is manifest, and this partnership has given us the ability to negotiate agreements that will bring real economic benefits to Americans and our trading partners.

Today, I have the honor and privilege of featuring the significant accomplishments of the United States - Australia FTA and hearing the Committee's views on legislation required to implement this Agreement.

This FTA is an historic trade agreement with one of the United States' closest friends and allies. As Ambassador Zoellick stated at the FTA signing ceremony last month, conclusion of this Agreement "is especially fitting for our two countries, which have prized individual liberty and demonstrated the achievements that are possible when governments see their role as freeing people to strive to make their own dreams."

The United States and Australia have long had a special partnership. We have common histories and, as President Bush has put it, a "closeness based on a shared belief in the power of freedom and democracy to change lives." Our countries have common values and an unwavering belief in freedom, democracy and the rule of law. We both have offered opportunities to immigrants from around the world, thriving immensely from this diversity. Both of our countries have been willing to stand side by side to fight for what we believe in. We have done so in Europe, in the Asia-Pacific, and now in Afghanistan and Iraq, united in the fight against global terrorism.

The U.S.-Australia FTA represents an opportunity to build upon this enduring relationship and

deepen our “essential partnership,” as Australian Prime Minister Howard has called it. Fifty years ago, the United States and Australia signed the ANZUS Treaty, an alliance based on our mutual security needs. The FTA will further expand the alliance between our two countries, putting our trade and investment relationship on the same plane as our longstanding political and security relationship and bringing our societies and our people even closer together.

SUMMARY OF THE AGREEMENT

There is no doubt that the U.S.-Australia FTA is a landmark agreement and one that is befitting the special partnership between our two countries and our shared commitment to free trade principles. The Agreement, which some have dubbed the “Manufacturing FTA” will eliminate more than 99 percent of the tariff lines covering U.S. manufactured goods exports to Australia on the first day the Agreement goes into effect. This is the most significant immediate reduction in industrial tariffs ever achieved in a free trade agreement.

Australia already is a major trading partner of the United States. Two-way goods and services trade is nearly \$29 billion. Australia purchases more goods from the United States than from any other country, and the United States enjoys a bilateral goods trade surplus of nearly \$7 billion. The thousands of American jobs supported by these goods exports pay an estimated 13 to 18 percent more than the national pay average. With the further reduction in trade barriers, we expect new opportunities for America’s manufacturers, farmers, and workers. The International Trade Commission estimates that the tariff cuts alone would increase U.S. exports to Australia by about \$1.5 billion yearly.

In addition to the benefits the FTA will bring to the manufacturing sector, duties on all U.S. farm exports to Australia – nearly \$700 million in 2003 – will be eliminated on the first day that the Agreement goes into force. For this achievement, I must pay tribute to Secretary Veneman and our Chief Agriculture Negotiator, Al Johnson, who has joined me today, for working with Members of Congress and our agriculture constituencies to successfully address these particularly challenging issues. Among those agricultural interests that will benefit from these tariff cuts are those producing processed foods, fruits and vegetables, corn oil, and soybean oil and other agricultural industries. As part of the Agreement, the United States and Australia also will establish a special committee to address sanitary and phytosanitary (SPS) issues, a longstanding trade concern highlighted by Members of Congress when we announced our intention to launch these FTA negotiations in November 2002. Through close cooperation and focus on these issues over the last two years, we have seen progress on a range of SPS issues. For example, U.S. table grapes entered the Australian market in 2002 and U.S. exporters are expected to sell to pork to Australia very soon.

Access for U.S. services industries will be opened as well. As in goods trade, the United States already has a significant surplus – \$2.3 billion – in services trade and more than \$6 billion if the surplus in sales of services by majority-owned affiliates is included. The FTA will create new opportunities that U.S. service industries, among the most competitive in the world, are well

positioned to take advantage of. The Agreement ensures improved market access for the U.S. entertainment industry, including films and television; and provides new rights for life insurance and express delivery providers. Australia also made commitments in the telecommunications, computer services, tourism, energy, construction, education, and other services sectors.

Small and medium sized enterprises (SMEs) should particularly benefit from this FTA. The common language and perspective of our peoples combined with the new opportunities provided for by this Agreement should make Australia an especially attractive market for SMEs taking the first steps to join the global market.

Integration between the U.S. and Australian economies and the extraordinary benefits that have flowed from this integration has been fostered not only by goods and services trade but by the flourishing investment between our countries. Australia is the eighth largest foreign investor in this country, and its investments support U.S. jobs in many sectors, including manufacturing, real estate and finance. The FTA will further this linkage by providing a predictable framework for U.S. investors in Australia, exempting investment in new businesses from screening requirements and substantially raising the thresholds for screening of acquisitions in nearly all sectors. These changes would have exempted from screening the vast majority of U.S. investment transactions over the past three years.

The U.S.-Australia FTA is the first to include non-tariff market access provisions to address issues in the pharmaceutical sector. Recognizing the sensitivity of this issue, we drew on studies prepared by the Australian government to propose changes that would improve transparency and the regulatory procedures for listing new drugs in Australia. Under the FTA, the United States and Australia agreed to common principles on facilitating high quality health care and continued improvements in public health, including through government support for research and development in the pharmaceutical industry. We also agreed to establish a Medicines Working Group to discuss emerging health policy issues. Australia committed to specific steps to improve the transparency, accountability and promptness of the listing process, including establishment of an independent review of listing decisions.

The FTA provides for state-of-the-art intellectual property protection for U.S. trademarks, copyrighted works, including for digital works, and patented products. It also strengthens penalties for piracy and counterfeiting, providing strong deterrence against these illegal activities. With IPR piracy and counterfeiting a serious problem in many countries in the Asia-Pacific region, these provisions will serve to reflect the importance of robust intellectual property protection to the development and growth of solid, long-term trade and investment relations.

In addition, the FTA includes innovative electronic commerce provisions, reflecting both countries recognition of the importance of e-commerce in global trade. In addition to commitments to ensure that digital products will receive non-discriminatory treatment, the Agreement facilitates the ability of businesses to authenticate a business transaction in both markets and establishes a program for cooperation on other e-commerce issues.

The FTA opens up the Australia's government procurement market, which is especially significant because Australia is one of the few developed countries that is not a Party to the WTO Government Procurement Agreement. The Agreement requires the use of procedures that are transparent, predictable, and non-discriminatory. U.S. and Australian companies will be able to bid on procurements from each other's central government entities and their states that have agreed to participate. Of particular significance, Australia has agreed to remove industry development requirements that have long been part of its procurement regime.

The United States has been able to include the world's highest standard of enforceable labor and environment provisions in its recent FTAs and this Agreement is no exception. The Agreement includes labor and environment provisions, which commit each country to effectively enforce its law and environmental laws and these obligations are enforceable through the FTA's dispute settlement procedures. Under the Agreement, each government commits to promote high levels of labor and environmental laws and to not weaken or reduce labor or environmental laws to attract trade and investment. The Agreement also establishes processes for further cooperation on labor and environmental issues, supporting our long history of cooperation and coordination in these areas.

Finally, the Agreement includes strong enforcement provisions. Our FTAs raise the bar and provide the best basis for our global work of ensuring a fair and level playing field for our workers, farmers and businessmen. The nearly 1,500 pages of rules and commitments that comprise this FTA will form the basis of our enforcement program. The Agreement creates a Joint Committee to supervise implementation these rules and commitments and assist in resolving disputes. As with each of our trade agreements, we will rely wherever possible on bilateral cooperation and consultations to resolve issues and ensure strict enforcement of trade obligations. The U.S. government team monitors carefully the implementation of our trade agreements, meeting regularly with our foreign counterparts to review implementation of the range of commitments. We also consult closely with U.S. business and other stakeholders to ensure that we are fully apprised of any developing concerns. Our record shows that such consultations have been remarkably successful in ensuring that our trading partners follow through on their commitments and address emerging problems in a expeditious manner. While we frequently rely on the range of other tools available to us, in this FTA as in our other agreements, we of course have ultimate recourse to formal dispute settlement to resolve trade disputes and ensure full and faithful implementation of our agreements.

BROADER BENEFITS OF THE AGREEMENT

In addition to the specific benefits that will flow from the commitments the United States and Australia have undertaken in this FTA, there are other benefits as well that I would ask you to contemplate as you consider this Agreement. Australia has been one of our closest and most reliable partners in pursuing trade liberalization around the world. Both of our countries are strongly committed to advancing the Doha Development Agenda and our alliance in the WTO has been further fortified through the FTA negotiations, which will more closely unite our trade

and economic interests. This alliance will improve the prospects for a successful outcome to these global negotiations, still the highest priority on both countries' trade agendas.

The FTA also will help advance our goals in the Asia-Pacific region. Australia has been a strong partner in APEC and Australia and the United States have a mutual stake in seeing the fruits of the free market expand in this strategic region. This Agreement, which sets high standards for other free trade agreements, will certainly help to do this.

GLOBAL TRADE AGENDA

In addition to the success we have achieved in concluding the Australia FTA, the Administration has acted on the opportunity you presented us with passage of TPA to launch a number of other major new trade initiatives designed to open markets around the world for U.S. products and services. With your support, we have been pressing energetically to secure the benefits of a world trading system that is dramatically more free and open, advancing our goals globally, regionally, and bilaterally.

To reinvigorate the new round of global trade negotiations that was launched in Doha, Qatar in November 2001, the Administration presented bold new proposals to the World Trade Organization (WTO) that embody the U.S. commitment to open markets and spur growth and development. Earlier this year, Ambassador Zoellick traveled around the globe, offering creative and far-reaching plans to remove all tariffs on manufactured goods, open agriculture and services markets and deal with the special needs of developing countries. The U.S. leadership has been critical to keeping WTO members focused on the core issues of market access and optimistic that forward momentum can be maintained.

While pressing ahead on the global trade agenda, the Administration has worked with Congress to successfully conclude FTAs with Chile and Singapore, complete negotiations with Morocco, Bahrain, CAFTA and the Dominican Republic. In addition, we have launched negotiations with the five members of the Southern African Customs Union, Panama, and three Andean countries. Later this month, we will be holding the first round of FTA negotiations with Thailand. At the same time, we have worked to continue negotiations on the Free Trade Area of the Americas, and to lay the groundwork for future market-opening initiatives through the Enterprise for ASEAN Initiative and a Middle East Free Trade Area initiative, as well as through Trade and Investment Framework Agreements with selected countries from all regions, both developed and developing.

CONCLUSION

I have highlighted some of the most significant benefits of the Agreement for the United States. A more detailed summary of the main provisions of this Agreement is attached to this testimony.

While we can describe the benefits we anticipate from this FTA for our trade and economic partnership with Australia, the support this Agreement commands from stakeholders is perhaps a

more persuasive indication of its potential benefits. U.S. and Australian businesses, both large and small, recognize the vast potential of this Agreement in terms of economic growth, jobs, and living standards and are actively promoting it. Businesses, farmers and workers understand that while we have a long-established and well-developed trading relationship, the framework of the FTA will allow them to use their drive, ingenuity, and vision to create even greater opportunities for themselves and their countries in the future.

Before concluding, I want to take a moment to note that there are many essential ingredients that go into negotiating an FTA of this high caliber. These include, of course, the relentless patience, hard work and negotiating skills of the large teams on both sides and especially of the lead negotiators, Ralph Ives and Steve Deady. Tribute also must be paid to the creativity, stamina and leadership of Minister Vaile and Ambassador Thawley and, of course, Ambassador Zoellick.

Conclusion of this FTA also is the result of the hard work and dedication of many leaders from the private sector, including Anne Wexler, R.D. Folsom, and the co-chairs and nearly 300 members of the U.S.-Australia Business Coalition, representing a broad spectrum of the U.S. economy.

Finally, as was intended in the TPA legislation, the quality of this FTA and its successful conclusion are due to the guidance and unflinching support of many Members and their staffs. We are indebted to you, Chairman Grassley for your leadership and advice. We also are extremely grateful for the direction and guidance we received from Senators Baucus, Kyl, Nickles, and many other Members.

With continued Congressional guidance and support, this Administration will continue to pursue an ambitious and multifaceted trade policy. Together, we can demonstrate to the power of free trade to spur economic growth, build prosperity, and promote democracy.

The Administration looks forward to working with this Committee and the full Congress in enacting the legislation necessary to implement this Agreement. Thank you Mr. Chairman, Senator Baucus, and Members of the Committee. I would be pleased to respond to questions.