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OF THE

COMMITTEE ON WAYS AND MEANS

U.S. HOUSE OF REPRESENTATIVES

REPORT

ON

TRADE MISSION TO NEW ZEALAND AND AUSTRALIA

MARCH 1999

Prepared for the use of Members of the Committee on Ways and Means by members of its staff. This document has not been officially approved by the Committee and may not reflect the views of its Members

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LETTER OF TRANSMITTAL

U.S. HOUSE OF REPRESENTATIVES,
COMMITTEE ON WAYS AND MEANS,
Washington, DC, March 25, 1999.

Hon. Bill Archer,
Chairman, Committee on Ways and Means,
House of Representatives, Washington, D.C.

Dear Mr. Chairman: I am pleased to transmit to you the enclosed delegation report on the recent Subcommittee on Trade mission to New Zealand and Australia. This report contains an overview of the mission, summaries of meetings with foreign and U.S. officials and copies of several documents pertinent to our mission.

The report describes the bilateral economic and trade issues which were investigated during the trip.

Sincerely,

PHILIP M. CRANE
Chairman

Enclosure

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OVERVIEW OF THE MISSION

Between December 1–11, 1998, the Subcommittee on Trade of the Committee on Ways and Means visited New Zealand and Australia to conduct a fact-finding mission. The primary purpose of the trip was to discuss bilateral and regional trade issues with government and private sector officials in these countries, including prospects for negotiating a free trade agreement. The delegation exchanged views on negotiations in the Asia Pacific Economic Cooperation (APEC) Forum and the status of China's possible accession to the World Trade Organization (WTO). Finally, the delegation explored the outlook for successfully launching a new round of negotiations under the WTO at the Ministerial meeting, which will be hosted by the United States in Seattle from November 30 to December 3, 1999.

Chairman Philip M. Crane led the bipartisan Ways and Means delegation, which included Congressman David Dreier, Chairman of the Committee on Rules in the 106th Congress, and Senator Charles Grassley, Chairman of the Subcommittee on Trade of the Senate Committee on Finance.

New Zealand

The delegation traveled first to New Zealand, which will host the APEC leaders meeting in November of 1999. Members arrived on December 3, very shortly after the conclusion of the 1998 APEC Leaders meeting in Kuala Lumpur, Malaysia, which had achieved disappointing results, particularly in the area of tariff liberalization. Many observers were raising questions as to the future role and effectiveness of APEC in promoting trade liberalization, while also noting that the United States trade agenda had slowed due to the expiration of fast track negotiating authority.

On December 3, after receiving an extensive briefing in Auckland from U.S. Ambassador Josiah Beeman and his staff, the delegation went on to Christchurch, where the Members were received warmly by Prime Minister Jenny Shipley. Although acknowledging the barrier that lack of fast track trade negotiating authority continues to present, the Prime Minister expressed great interest in negotiating a free trade agreement between the United States and interested countries in the region. The delegation urged the Prime Minister and members of her cabinet and the Parliament to resolve several outstanding issues of concern to U.S. businesses operating in New Zealand, including the pharmaceutical pricing practices of New Zealand's health purchasing agent, Pharmac, and recent amendments to New Zealand's copyright law removing restrictions on parallel imports.

Another primary goal of the mission was a meeting held with the Honorable Mike Moore, a leader of the opposition Labour Party in New Zealand and a candidate for Director General of the WTO.

Members exchanged views with Mr. Moore on preparations for the Seattle Ministerial and threats caused to the WTO dispute settlement process by the European Union's failure to implement WTO panel findings with respect to its banana import regime and beef hormones. Members also exchanged views with Mr. Moore on coordination between the United States and New Zealand in order to ensure that the 1999 APEC Leaders Meeting would be successful. It was agreed the Japan needed to do more, particularly in the area of forest and fish products.

Australia

In Australia, whose bilateral trade relationship with the United States is larger and at times, slightly more contentious, the delegation held meetings with Cabinet officials and leaders in Parliament, business, and agriculture. Tim Fisher, Deputy Prime Minister and Minister for Trade, agreed that the 1998 APEC Leaders meeting was a setback, particularly the failure to reach conclusion in the Early Voluntary Sector Liberalization negotiations. With respect to the WTO, he believes that the 1999 Ministerial Meeting in Seattle represents an important opportunity to make progress, especially in the areas of agriculture and services, where the two countries have many similar interests. Urging a broader "millennium round," he cautioned against a trade round limited to certain sectors where there was not enough on the table to ensure a fruitful give and take. Both sides are committed to close coordination among the Cairns group of agriculture exporting nations as a means to create maximum pressure on the European Union to agree to reforms and limitations on export subsidies, restrictions to market access, and domestic support policies.

Recent U.S. trade complaints against Australia center on sanitary and phytosanitary trade restrictions and intellectual property protection. Australian officials object to U.S. export promotion programs, including the Export Enhancement Program (EEP) and the Dairy Export Incentive Program (DEIP), and to U.S. import restrictions on dairy and, potentially, on lamb. These issues were raised in several meetings, including one with the National Farmers' Federation in Canberra. Discussion at a working lunch hosted by the Australian Industry Group centered in the historical process of trade reform in Australia and the effects of the Asian financial crisis.

During the meetings, Chairman Crane raised the prospect for negotiating a free trade agreement with Australia and New Zealand, and the delegation had a number of thoughtful discussions on the issue.

On the topic of China's accession to the WTO, Australian officials indicated that, unlike Japan, Australia has avoided settling its bilateral negotiations with China and is in "lock step" with the United States on insisting that China first make a broad array of commercially significant concessions.

Many officials and business leaders, in both New Zealand and Australia, questioned the delegation regarding the impasse on labor and environment issues that was delaying agreement between Congress and the Clinton Administration on fast track legislation.

NEW ZEALAND

Country Team Briefing with Ambassador Beeman, Auckland, New Zealand

December 3, 1998

Ambassador Beeman provided the delegation with a briefing on the political, defense, and trade relationships between the United States and New Zealand. With respect to the political environment, he noted that the current majority coalition, headed by Jenny Shipley of the National Party, holds a very tenuous majority of only one vote. The opposition is led by Helen Clark of the Labour Party. Elections must be held by November 1999, but the Ambassador said that the government may fall as early as April. He described the National Party as mainstream, although generally to the left of the U.S. House of Representatives, as politics are typically more to the left than in the United States on social issues. He noted that the government has a strong commitment to privatization, national health insurance, and public education. However, there is little commitment to defense. The government's views on trade are generally more to the right than in the United States.

Ambassador Beeman described a longstanding dispute between the United States and New Zealand in the area of defense. Specifically, New Zealand has a longstanding policy of barring nuclear-powered and nuclear-armed warships from New Zealand ports. As a result, the United States conducts no military exercises with New Zealand, although the two countries have operated together in missions in the Gulf. The New Zealand Cabinet recently approved the purchase of F–16 aircraft, although not a frigate which had been under discussion.

With respect to trade, the Ambassador highlighted the tremendous interest that New Zealanders have in negotiating a free trade agreement (FTA) with the United States. He noted that the issue would undoubtedly come up frequently during the delegation's meetings. He told the delegation that there were relatively few trade disagreements between the United States and New Zealand. He pointed to the recent, hurried removal of the New Zealand ban on parallel imports as a source of concern to the United States. A number of U.S. companies are anxious that the removal of the ban may undermine their ability to sell into New Zealand through exclusive channels of distribution and may lead to increased piracy of intellectual property. He noted that an out of cycle review under Special 301 is under discussion.

With respect to pharmaceuticals, the Ambassador described Pharmac, the company established to manage the purchasing and funding of pharmaceuticals for the public health authorities. Pharmac is exempt from New Zealand's competition laws. While New Zealand does not restrict the sale of non-subsidized pharmaceuticals in New Zealand, private medical insurance companies will not cover unsubsidized medicines. Thus, Pharmac effectively controls what prescription medicines will be sold in New Zealand and, to a large extent, at what price they will be sold.

The Ambassador described to the delegation a number of agriculture issues between the United States and New Zealand. He noted that U.S. salmon is now eligible for entry into New Zealand and that New Zealand has become a burgeoning market for California summer fruit. However, he stated that New Zealand has halted U.S. poultry shipments due to sanitary and phytosanitary (SPS) concerns. He noted that New Zealand is very protective on SPS issues concerning fruit.

The delegation asked about the status of the New Zealand Dairy Board. The Board does not have government status and is made up of industry representatives from the four large New Zealand dairy companies, but a Kiwi producer may not sell dairy overseas except through the Board, which controls marketing and price. The Ambassador noted that the United States views such boards (including the diary and kiwi fruit boards) as state trading enterprises and as possible barriers to an FTA. The Ambassador described that the New Zealand government may be retreating from the single desk status provided to the Board. However, he said that the New Zealand government is unlikely to terminate the Board unilaterally and would probably wait to do so in the context of an FTA negotiation instead. He also noted that some of the New Zealand dairy companies might actually prefer to remove the restrictions imposed by the Board and to price and market without controls.

The Ambassador pointed to the high level of U.S. foreign direct investment in New Zealand, amounting to approximately $1 billion per year, in the areas of computers, telecommunications, pharmaceuticals, and timber.

The delegation next discussed the future of the Asia Pacific Economic Cooperation (APEC) forum. New Zealand will host the next Leaders' Meeting, to be held in September 1999. Prime Minister Shipley moved the meeting up from November in order to give her government a boost before the election. The Ambassador noted that a change in government might well affect APEC because opposition leader Helen Clark has stated that there might not be a Leaders' Meeting next year if her party comes to power. Her party believes that APEC events are too big and do not focus sufficiently on labor issues. The Ambassador suggested to the delegation members that they ask in their meetings about the likely stance of the Labor Party towards APEC and trade in general.

The delegation also discussed the candidacy of Mike Moore for World Trade Organization Director General. Mr. Moore, a parliamentarian, is a member of the Labor Party and is currently the shadow Foreign Minister. The Ambassador described him as a friend of the United States, although the United States has not declared its support for any candidate as yet.

Briefing by the Researched Medicines Industry, Auckland, New Zealand

December 4, 1998

For a discussion of market access barriers in New Zealand faced by U.S. pharmaceutical firms, the delegation met with representatives of the Researched Medicines Industry (RMI). The delegation was given an overview of the situation by Terrence Aschoff, General Manager of RMI.

Under the country's national health insurance program, New Zealanders receive subsidies from the government for medicines they use from the national pharmaceutical schedule. In the New Zealand market, 99.7% of pharmaceutical sales are of products listed on the government's schedule.

The medicines listed on the pharmaceutical schedule are determined by the Pharmaceutical Management Agency (PHARMAC), a wholly-owned government entity which has the authority to decide not only what drugs are listed on the schedule, but also at what price they are sold. PHARMAC enjoys a blanket exemption from New Zealand's anti-competitive laws and is extremely powerful relative to the industry. Under its pricing regime, PHARMAC prices patented medicines based on the prices of generic compounds and pressures companies to reduce their prices for new drugs to equal the subsidy offered by the government. If a company does not agree to offer to lower its price for a particular drug to meet the government subsidy, or offer to lower the price of another product to make up the difference, PHARMAC does not include that drug on the pharmaceutical schedule. As a result, RMI believes PHARMAC's practices significantly distort the New Zealand pharmaceutical market.

RMI believes that PHARMAC must separate the subsidies offered by the government from the prices charged by pharmaceutical firms. By failing to distinguish between the price and the subsidy, the government is denying access to life saving medicines to New Zealanders. Mr. Aschoff distributed to the delegation copies of a recent article entitled "Doctor's Orders," which describes the impact that PHARMAC's policies can have on patients lives.

The United States Trade Representative has cited PHARMAC's practices in its 1998 National Trade Estimate Report on Foreign Trade Barriers. In September 1998, Don Phillips, Assistant United States Trade Representative, visited New Zealand and raised the industry's concerns about PHARMAC and put forward some procedural remedies, but the New Zealand government has not yet responded.

Congressman Dreier asked whether patient groups exert any kind of consumer pressure on PHARMAC and the government to make new pharmaceuticals available to them. Mr. Aschoff responded that New Zealanders are divided on this issue. Some patient groups are beginning to lobby the Parliament to have access to certain drugs; however, Members of Parliament say that they don't want to have to look at drugs one by one.

Congresswoman. Johnson asked if the subsidy paid by the government for pharmaceuticals covers the full price of drugs and whether there are any drugs available that the government does not subsidize. Mr. Aschoff said that the government subsidy usually equals the full price negotiated by PHARMAC. There are examples of drugs, however, that have had their subsidy reduced after being listed on the pharmaceutical schedule. Companies can choose to keep their prices at the same level, but physicians will tend not to prescribe those drugs because it will cost patients money to obtain them.

Congressman Dreier asked whether the pharmaceutical industry's problems could be resolved if fast track negotiating authority is renewed and if there are negotiations between the United States and New Zealand toward a free trade agreement. Mr. Aschoff replied that he believes that the matter can be resolved in that context and that the New Zealand government knows it will have to be resolved in order for any negotiations with the United States to go forward. Because it is a small country, however, New Zealand is trying to benefit from the research and development done by companies in larger markets, particularly the United States, without having to pay its share of those costs.

Congresswoman Johnson asked whether the domestic debate in New Zealand about health care supports lower subsidies. Mr. Aschoff explained that the public is divided with some arguing that free health care is a right based on the taxes they have paid. Others realize that they may need to pay more to get better access to new technology and innovations.

Congresswoman Thurman asked how long the cost containment policy practiced by PHARMAC has been in place and how the system worked before. Mr. Aschoff stated that the 1993 health care refoms established PHARMAC and the general policy that the price of a drug should equal the subsidy provided by the government. Previously, the Ministry of Health determined the safety and effectiveness of a particular drug separately from considering whether or not to subsidize it. PHARMAC's primary focus is on achieving the lowest possible price for a drug (see Attachment A).

PARTICIPANTS FROM THE RESEARCHED MEDICINES INDUSTRY

Mr. Terrence Aschoff, General Manager, Researched Medicines Industry
Mr. Stephen Udy, Pharmacia and UpJohn
Ms. Jan Trotman, Janssen-Cilag
Mr. Bill McLauchlan, Glaxo Wellcome
Mr. Greg Dove, Eli Lily

Tranz Rail Briefing on Privatization, Christchurch, New Zealand

December 5, 1998

While traveling from Christchurch to Arthur's Pass National Park aboard a Tranz Rail Train, the Codel had the opportunity to discuss the experience of privatization of the New Zealand Railway with executives of Wisconsin Central, the small, mid-western railway line, headquartered in Chicago, that purchased and transformed the performance of Tranz Rail. The successful restructuring of Tranz Rail is one of the most dramatic and successful examples of the historic economic reforms initiated by New Zealand's Labour government in 1984.

According to Wisconsin Central executives, their initial efforts were directed toward cost-cutting and identifying new business. So fruitful were the cost-cutting efforts that the new owners increased productivity per employee by almost 9%, moving Tranz Rail from a drain on the public treasury to a taxpaying corporate citizen. Since 1985, the number of workers is down 22,000 to 4,000, freight rates have been almost halved, and transit time for freight reduced as much as 90% on key routes. Based on improved transit times, efforts to seek new business from shipping and trucking paid off handsomely. By no means a monopoly, Tranz Rail currently carries about 20% of freight in New Zealand. The rail system, however, makes a significant contribution to the country's transportation systems which, according to Tranz Rail executives, are "twice as efficient and expansive as Chile's."

While in the region of Arthur's Pass, the Codel also toured a high country sheep station. Ecologist Gerry McSweeney, owner and operator of the Alpine Wilderness Lodge, and his staff led the Codel on nature walk focusing on the special plants, forests, and wildlife found in the area.

Meeting with Prime Minister Jenny Shipley, Christchurch, New Zealand

December 6, 1998

The Prime Minister warmly welcomed the delegation. She emphasized the healthy relationship between the United States and New Zealand and the importance of promoting free trade, although she pointed to some issues of bilateral interest.

In response, Chairman Crane stated that his primary goal in New Zealand was to advance trade and to explore the possibility of a free trade agreement (FTA). He noted that he intends to seek the renewal of fast track negotiating authority in 1999. He also pointed to trade issues of concern, including protection for pharmaceutical products through Pharmac and the removal of the ban on parallel imports.

Prime Minister Shipley responded to the bilateral concerns raised by Chairman Crane. She described that because Pharmac acts as the single purchasing entity, it is important to assure that the proper purchasing techniques are used. The goal, she stated, is to discern when public funds should be used to subsidize pharmaceutical purchases, not to thwart the pharmaceutical industry. As a result, Pharmac is able to "play off" the drug companies, to the advantage of the New Zealand consumer. She noted that pharmaceutical prices are better in Australia because of volume, and Pharmac uses "proper market principles to even the score." She admitted that Pharmac acted more aggressively toward pharmaceutical companies than was necessary at its inception, but she emphasized that it would "take some persuading to say" that Pharmac should not be a single purchaser. She noted that USTR has made some "helpful suggestions" concerning Pharmac, and she promised to examine them.

Congressman Dreier noted that a number of successful drugs have not been available for sale in New Zealand. The Prime Minister stated that eligibility for sale in New Zealand is a separate issue from the Pharmac issue. A drug must successfully complete clinical trials before it is available for sale in New Zealand. The "rub," she said, is whether at that point Pharmac will subsidize it. Even if Pharmac does not subsidize the drug, it may still be sold in New Zealand. New Zealand freely grants access, she stated, but is discriminating as to when the public purse should be used. As a result, she concluded, Pharmac has brought drug costs down.

The Prime Minister then discussed the issue of parallel imports. She stated the New Zealand was "happy to be tested" on the recent lifting of its ban. She said that New Zealand has been determined to be diligent concerning copyright abuse and that New Zealand deals with violations swiftly and sternly. New Zealand has an open attitude toward trade, and the ban was lifted to give consumers greater access. There is no intention, she emphasized, to dilute protection of intellectual property. She would be happy to discuss the issue further and to be held to account, she added.

Chairman Crane asked the Prime Minister about the prospects for an FTA in the region. He noted that Australia might be reluctant to discuss an FTA out of concern that its significant Asian market might be adversely affected. He expressed optimism that once New Zealand negotiates an FTA with the United States, Australia would be quick to follow. He acknowledged that the stumbling block to an FTA is the failure to renew fast track authority. He noted that the fast track debate has become very political but expressed hope that the Ways and Means Committee could report out the fast track bill by the spring. However, its success, he emphasized, depends on "major cooperation" from the President. The Chairman suggested to the Prime Minister that she encourage President Clinton, when she meets with him in 1999, to seek fast track authority. Senator Grassley added that there are 65 votes in the Senate for fast track and that the problem with enacting this legislation is in the House.

The Prime Minister stated that New Zealand is very "keen" to negotiate with the United States and is "ready to go" but "aware of the barrier" of not having fast track in place. She also pointed to the importance of fast track for the APEC and WTO negotiations.

Congressman Dreier stated that is important for New Zealand to begin negotiations with the United States while recognizing the barrier that the lack of fast track imposes. He noted that the Prime Minister's meeting with the President is highly symbolic and suggested that she encourage the President to seek this authority. He added that free traders must convey the message that workers are the beneficiaries of free trade and that imports are of benefit to the United States and New Zealand. The Prime Minister agreed, noting that free trade has helped New Zealand. There are more people in the labor market now than when the government began to open the economy. Consumers in New Zealand can purchase almost any product or service. Together, New Zealand and the United States must educate other Asian countries, even Japan, about this truth.

Congresswoman Dunn raised the issue of forest products negotiations in APEC and thanked the Prime Minister for her role in chairing this working group. She noted that Japan is the biggest barrier to free trade in this sector. She also stated that the world will be watching as New Zealand takes over the chairmanship of APEC in 1999. The Prime Minister responded that the recent APEC Leaders' Meeting avoided a rapid return to protectionism, but she acknowledged that questions have been raised after the APEC meeting as to the role and effectiveness of the forum. She then asked the delegation members whether they believed that APEC is still relevant. Chairman Crane responded that APEC was "absolutely relevant." Congressman Dreier added that FTAs also provide pressure for free trade together with APEC.

Congresswoman Johnson then stated that APEC is vital to linking the pace of change in the WTO to the Asian region. However, she pointed to the removal of the restriction on parallel imports as calling into question New Zealand's ability to enforce its piracy laws. She added that there was a contradiction between the removal of the ban on the one hand and the retention of the Dairy Board and Pharmac protections on the other hand. She noted that the Pharmac structure makes negotiation of an FTA difficult, adding that Medicare makes many price decisions, which are hard to make accurately and affect access. The Prime Minister responded by saying that she was "very aware" of the need to have a "serious engagement" concerning the Diary Board in the context of FTA negotiations. She suggested that the monopoly could be removed in tandem with an FTA. In fact, she stated she has told the Board that it "should step out of this framework." If an FTA is forthcoming, she promised that she would "deal with legislation forthwith" concerning the agriculture boards. However, she noted that while Pharmac was "not an insurmountable barrier," it was "more delicate." Congresswoman Johnson noted that better preventive care would be available if Pharmac did not restrict the entry of new drugs.

Congresswoman Thurman, however, expressed a different view concerning Pharmac. She noted that pharmaceutical companies have taken advantage and that there was some legitimacy to Pharmac's practices. On a more general trade policy note, she stated the importance of opening a dialogue on trade issues, involving agriculture, labor, and environmental groups. She noted that she looks at trade issues from the perspective of how important issues such as agriculture, sanitary and phytosanitary, and risk management issues are addressed.

The Prime Minister agreed that agriculture was a difficult issue but that progress can be made. Reasonable access to food is her primary goal. She added that a WTO Round is necessary to deal with agriculture issues. She then asked the delegation members whether they were committed to a new WTO round. Chairman Crane stated that the United States has a major commitment to the WTO but pointed to the European Union's "abuse of the system" concerning implementation of adverse panel rulings concerning bananas and beef hormones. Senator Grassley echoed Chairman Crane's concerns.

Chairman Crane then asked the Prime Minister her opinion of WTO Director General candidate Mike Moore. The Prime Minister stated that he is committed and experienced and a well-informed moderate with good consensus skills. In response to a question by Chairman Crane as to the significance of the fact that Mike Moore is a member of the Labour Party, she described the Labour Party as not protectionist. Although she noted that some elements of the party do not support free trade, she described Moore as centrist and not bound by that view. Instead, she stated, he is actively committed to free trade.

Senator Grassley then noted that the issue was not whether the agriculture negotiations will occur but what they can accomplish.

He expressed concern that in the absence of fast track, the EU will seek to fill the vacuum in leadership in the negotiations. He encouraged the Cairns Group, including New Zealand, to fill that vacuum instead. The Prime Minister agreed. Senator Grassley added that APEC performs a vital function in stimulating the WTO and countering the EU's regionalism. The Prime Minister said that the value of APEC is in bringing to the table 21 economies in different stages, permitting the developed countries to facilitate, educate, and share technical expertise with the developing countries in order to develop more effective economies. In APEC, the Prime Minister stated, politics should be put aside to focus on economics. Senator Grassley then stated that the United States has more of an obligation toward Chile with respect to an FTA but that it would be ideal to move with respect to several countries at once. The Prime Minister agreed, adding that Singapore and Australia would be good candidates. Either a "straight bilateral or group approach" would be acceptable, she stated.

Congresswoman Johnson then asked the Prime Minister to describe, given her narrow majority, what she considered her three biggest accomplishments. The Prime Minister pointed to capitalist investment and a clearing out of the regulatory environment for a free market; social reforms to help those who help themselves; and an international view in which New Zealand has taken opportunities to lead and to be a good international citizen. She also pointed to the fact that the New Zealand economy was beginning to rebound.

Meeting with The Honorable Ruth Richardson, Former Minister for Finance, Christchurch, New Zealand

December 6, 1998

Mrs. Richardson began the meeting by noting the degree to which public discussion has focused worldwide on how well governments serve their citizens. Mrs. Richardson believes the debate should focus on what governments should do and what should be left to the private sector to accomplish.

In recent years, New Zealand policy setting has become renowned worldwide in areas such as tight monetary policy, fiscal responsibility in budgeting, deregulating labor markets, the use of accrual rather than cash accounting in budgeting, a move toward a performance-based civil service, and budgeting based on outputs rather than inputs.

These policy changes came about in New Zealand as a result of legislation sponsored by Mrs. Richardson when she served as Minister of Finance in the early 1990s. Mrs. Richardson distributed copies of this legislation, the Fiscal Responsibility Act, to the delegation.

Mrs. Richardson explained that she introduced the Fiscal Responsibility Act because she observed a perverse pressure in politics to spend money now and send the bill to future generations. As a results, political debates focused on budget deficits, rather than surpluses. To change this focus, Mrs. Richardson knew that there would have to be changes in the institutional framework. To establish a high level of transparency in budget, the Fiscal Responsibility Act required budget statements to come out publicly, thereby tabling parameters for decision-making. The Fiscal Responsibility Act also established guidelines for a principled approach to decision-making and required decision-makers in government to plan long-term.

Since the enactment of the Fiscal Responsibility Act, New Zealand has run a budget surplus every year (see Attachment B). Mrs. Richardson believes that the U.S. Congress is hampered by not adopting similar fiscal disciplines. She strongly recommends the use of accrual, rather than cash, accounting.

Chairman Crane asked Mrs. Richardson where she developed her philosophy. Mrs. Richardson said she has always had a conservative perspective and sought to minimize government intrusion into people's lives, which she believes interferes with personal liberty.

Congresswoman Johnson asked what key changes in education and social policy resulted from the enactment of the Fiscal Responsibility Act. Mrs. Richardson noted that unlike the United States, New Zealand education policy has always been set at the national level. Approximately 96% of all education is funded by the taxpayer, and the government maintains absolute control over curriculum. The shift resulting from the Fiscal Responsibility Act came when New Zealand eliminated the bureaucracy and effectively made parents managers of their children's schools. Today, parents decide which teachers to employ and can even control the school budget. New Zealand does allow parents to choose which public schools their children attend, but they cannot spend the voucher on a private school education.

On social policy, Mrs. Richardson noted that the framework is much more demanding, requiring welfare recipients to work for the benefits they receive although no time limits have been imposed. The government's social security system for retirees is not yet privatized. It still operates on a pay-as-you-go basis and provides income for 75% of the elderly population. Mrs. Richardson noted that the current system is not sustainable. New Zealand has already raised the retirement age. She believes they will have to privatize the system eventually, but the public does not yet endorse that idea.

Congresswoman Thurman asked about spending per pupil in the New Zealand education system. Mrs. Richardson recalled that US$1500 is spent on average up to age 12, then US$2000 thereafter.

Congresswoman Johnson asked what percentage of the population has a private pension and what percentage has private health insurance. Mrs. Richardson noted that 25% of the population has a private source of retirement income. In the area of health care, only about 20% of expenditures are from private sources. Mrs. Richardson said that some people have begun to argue that New Zealand needs to develop a genuine private sector health care market in order to benefit from true competition in this sector.

Mrs. Richardson asked about the delegation's mission. Chairman Crane explained that the delegation's interest in exploring the possibility of a free trade agreement with New Zealand and other countries in the region, but he noted that Congress would need to renew fast track negotiating authority in order for the negotiations to proceed.

Mrs. Richardson said that as a farmer she would very much like to see increased export opportunities in the U.S. market. She noted that New Zealand has unilaterally taken steps toward free trade by eliminating subsidies and planning the elimination of all tariffs by 2006.

Congresswoman Thurman noted that increasingly there are barriers beyond tariffs, particularly in the agriculture sector on sanitary and phytosanitary issues, risk assessment, different labor costs, and different environmental standards. Congresswoman Thurman noted that there is need to instill a level of confidence in some U.S. farmers that they will compete on a level playing field in any future free trade agreements.

Mrs. Richardson noted that when you boil the debate over free trade down, domestic industries are fearful of foreign competition and want a degree of protection retained, which comes at the expense of efficient producers and consumers overall.

Congresswoman Johnson noted that non-tariff barriers can sometimes be more difficult to get around than prohibitively high tariffs. Mrs. Richardson agreed and said that while she believes it is appropriate for the government to set standards, they should not be set higher for imports than for domestically produced goods.

Congresswoman Thurman asked what percentage of New Zealand income is spent on food. Mrs. Richardson recalled that it is comparable to the United States. Senator Grassley said that it is 12% in the United States.

Chairman Crane thanked Mrs. Richardson for her insights and commended her for her record of public service. Congresswoman Johnson noted that there are Members in Congress that are very seriously looking at budget reform and that it would be helpful to them to look at the New Zealand model.

Meeting with Mike Moore, Leader of the Opposition Labour Party and Candidate for Director General of the World Trade Organization, Christchurch, New Zealand

December 6, 1998

One of the primary goals of the trade mission was to have the Codel meet with Mike Moore, a leader of the opposition Labour Party in New Zealand. He is a candidate to replace Renato Ruggerio as Director General of the World Trade Organization. He discussed his objectives for the WTO, along with the strategy and ideology behind his campaign for the organization's chief position.

With respect to his WTO candidacy, he said that the competition is boiling down to an ideological struggle, with his two chief competitors being a Moroccan representing the interests of lessor developed countries, and a Thai candidate, supported by Asian countries, including Australia. European countries, he said, are split. At this point, he believes that the Thai has an edge because there are so many countries in Europe "who look at New Zealand and are only able to see a pound of butter and a leg of lamb." Mr. Moore believes that his candidacy will grow stronger as time goes on, as countries move off of positions defined by regional solidarity toward ones based more on merit. For his part, he does not want the WTO to fall into a "pattern of passing the baton from one region to another" in terms of the key jobs in the organization. He said that the process of choosing a director general tends to be an evolution of opinions rather than an election, and that strategically it may be better for him if he is Europe's second choice.

He expressed an earnest desire for a successful Ministerial meeting in November of 1999, where countries can launch a new round of multilateral trade negotiations. He sees a particular need for stronger international rules governing trade in services and agriculture. Although smaller governments often see the WTO system as contrary to their interests and violative of their sovereign rights, it is smaller countries, he said, which need effective rules, as opposed to a system where the largest countries can dictate outcomes in trade disputes. A rules-based system will help ensure that the next century is "one of persuasion instead of a century of force."

Mr. Moore agrees with the leadership at the International Monetary Fund that a developing country can create "a competitive advantage through the establishment of a functioning democracy." He sees enormous opportunities under WTO rules which prevent "criminal elements" from stealing government procurement contracts. Later on in the meeting, he said that he saw a need for internal changes in the WTO to assist less developed countries and economies in transition with technical training. Right now, he cautioned, there are too many countries that can barely get to WTO meetings, let alone negotiate meaningful results that they can live up to. These countries, he warned, will not let "Marakesh happen again"; they "won't sign up to 27,000 pages of text" without being allowed to participate more fully in the process.

He cautioned that globalism is "becoming the 'ism' to hate," both by the extreme-left wing and the right wing, led by Pat Buchanan in the United States. Expanding international trade, he said, has "advanced our species" by doubling the living standard of 1.5 billion people in the last ten years.

Senator Grassley asked about the future of the WTO dispute settlement system in light of the fact that the United States has won major decisions against the European Union in the areas of bananas and beef hormones, both of which the European Commission is refusing to implement. He made the point that while the U.S. wins 80% of the cases it takes to the WTO, Europe's recalcitrance is nullifying the gains made by the Uruguay Round in agriculture reform. He deplored the damage that these "hollow victories" are having on the trading system. Moore agreed, saying that WTO decisions must be binding and that time allowed for implementation must be compressed. Moore went on to say that no one doubts the integrity of the panel system and that it is free of the influence of money that plagues certain other international organizations. He pointed to the value of allowing scientific determinations to take control over difficult political pressures.

Congresswoman Dunn asked how the WTO should handle the political issue of Taiwan's future accession to the WTO. Mr. Moore believes that China and Taiwan should enter the WTO simultaneously, and that member countries ought to look at the APEC process, where three different Chinese economies sit at the table, for guidance on how to proceed once China and Taiwan become members. In his view, greater pressure needs to be applied on China to meet "commercially viable standards." Taking the view that it will be a long time before China will be prepared to meet strict WTO standards, Congresswoman Johnson suggested that there should be different levels of membership, allowing China to enter based on a lower level of obligations at the beginning. She said that it is not fair to keep Taiwan, which has made most of the changes necessary to comply with WTO rules, out of the WTO because of an "imaginary theory that there is only one China." While he is enthusiastic but cautious about China's entry into the WTO, Mr. Moore said that he believes that there are many members of the WTO, such as Malaysia and India, who are very concerned that China will be accorded preferences that are much more favorable than those accorded to their economies upon entry.

Asked by the delegation what role he saw for APEC, Mr. Moore said that this forum has provided the atmosphere of a think tank and has created an Asian counterweight to the protectionist tendencies of Europe. He said that APEC, along with the WTO and the IMF, is critical to the security of the Asian Pacific region where "trade can turn very nasty, very fast." Congresswoman Dunn inquired whether there would be a turnaround in New Zealand's support for APEC and the 1999 Leaders Meeting scheduled to take place in Auckland if the Labour Party took control of the New Zealand government. Moore responded that the Labour Party would be fine, but there is some danger that Labour could be forced into a coalition with another New Zealand political party that might be more negative toward APEC.

On issue of pressures in the United States to broaden fast track trade negotiating authority to include labor and the environment, Mr. Moore said that in a multilateral trade negotiation, this approach is "fraught with enormous difficulties." He predicted, however, that Europe would be more strident on these issues, now that there are only two governments in Europe which are not controlled by Social Democrats. He thought that the outcome on labor and environment at the Singapore Ministerial was "smart" in that it "gave cover to those interested in these issues." He believes that it is the job of the International Labor Organization (IL0) to police labor standards, and he made the point that he is not applying for Director General of that organization. As head of the WTO, however, he intends to find ways to help the ILO function more effectively.

Meeting with New Zealand Dairy Board, Wellington, New Zealand

December 6, 1998

Upon arrival in Wellington on the evening of December 6, the Codel held a meeting with representatives of the New Zealand Dairy Board (NZDB.) In attendance was John Storey, Chairman of the Board, along with Nigel Mitchell and Ken Geard.

Under statutory authority, New Zealand maintains several agricultural "producer boards," which operate as monopoly sellers or which license sellers. The United States considers these to be state trading enterprises (STEs), trading entities that are owned, sanctioned, or government supported, that are subject to WTO rules, and that generally operate as "single-desk sellers."

The most prominent STE is the NZDB, which controls the export of all manufactured dairy products in New Zealand, about $2.8 billion a year. The primary focus of the New Zealand Dairy industry is exports. Only 5% of its production is for its domestic market of 3.5 million people. Due in part to herd expansion and a switch from beef and sheep production to dairy, New Zealand dairy output has increased significantly, along with exports.

Mr. Storey emphasized that the NZDB is a cooperative that is not owned, financed, or managed by the New Zealand Government. The Board exists, he said, because of the major distortions in international dairy trade, including those resulting from U.S. dairy programs. For example, only 130,000 tons of cheese were allowed in under the U.S. import quota last year, in a domestic market of 3.5 million tons. U.S. export subsidy rates under the Dairy Export Incentive Program (DEIP) are currently around $1000 for skim milk powder. In contrast, the NZDB and the New Zealand dairy industry are reliant solely on commercial returns from international markets.

Chairman Crane assured the group that he thought U.S. quotas on cheese imports were "unconscionable" and would work to remove or at least enlarge the market access for imports in this sector. He expressed the hope that bilateral trade issues with New Zealand could be solved in the context of future free trade agreement negotiations. Finally, he expressed his support for close cooperation between the United States and the Cairnes Group to ensure that the WTO addresses major international market disruptions caused by European subsidy programs.

Meeting with Dr. Lockwood Smith, Trade Minister, Wellington, New Zealand

December 7, 1998

The delegation next met with Lockwood Smith, New Zealand's Trade Minister. He told the delegation that his goal is to galvanize APEC (see Attachment C). He stated that the failure of the Administration delays trade liberalization in many areas, and he expressed frustration that the Administration would be paralyzed by the impeachment proceedings and would not concentrate on obtaining fast track authority. He said that Ambassador Charlene Barshefsky, the United States Trade Representative, had expressed her concern to him that impeachment would be a distraction.

Chairman Crane stated that he intends to move fast track quickly through the Committee so that it could be voted on by the full House in May. As for impeachment, he said that he doubts that there are votes in the Senate to convict the President.

Minister Smith emphasized the importance of moving quickly to negotiate and conclude a Free Trade Agreement (FTA) between the United States and New Zealand. He said that if an agreement is not concluded in 1999, it would be difficult to move even in New Zealand because of its own elections. He suggested that the two countries begin negotiations even before fast track is in place, stating that negotiators could be far along in the negotiations by September 1999, before the APEC Leaders' Meeting. Congressman Dreier encouraged such negotiations. Chairman Crane added that Australia can then be added to the negotiations.

With respect to APEC, Minister Smith stated that the APEC process had "suffered a wee bit" in the last meeting because of the failure to conclude an agreement in the early voluntary sector liberalization negotiations. Congresswoman Johnson commented about the importance of regional integration, pointing to South America as a region that is integrating without the United States. Minister Smith responded that a number of countries, especially Japan, struggle with APEC and believe that the WTO is the appropriate entity for trade liberalization. Accordingly, he stated, momentum is necessary in APEC to help move the WTO negotiations forward. Congresswoman Dunn then congratulated Minister Smith on New Zealand's efforts on paper and wood products during the APEC Leaders' Meeting.

Minister Smith then asked the delegation members whether they believed an FTA would be possible without fast track. Congressman Dreier responded that without fast track, the Senate could destroy an implementing agreement by amending the provisions and adding extraneous matters.

Minister Smith asked the delegation whether it was worth encouraging Ambassador Barshefsky, with whom he has a very close working relationship, to begin negotiating an FTA. He emphasized that New Zealand was ready to begin, and that Ambassador Barshefsky was ready as well, but that word from the White House was necessary. Ambassador Beeman responded that the Prime Minister should raise the issue with the President during their meeting next year. Chairman Crane and Congressman Dreier reiterated the need for strong encouragement to the White House. Congresswoman Johnson stated that Members need concrete examples as to how trade benefits U.S. citizens. Congressman Dreier responded that the fast track bill that went to the House floor earlier in the fall was a "great bill" that should be supported. Although the President personally support fast track, he added, key defenders of the President are tied to the labor movement. Minister Smith outlined two steps to take: first, he would encourage the Prime Minister to ask the President to begin the negotiations quietly; and second, the United States and New Zealand must work together to build a constituency for trade. Minister Smith noted that New Zealand has a constituency struggling to understand how decreasing tariffs can create jobs. He noted that the problem is one of transition—that is, a time lag for workers to develop new skills. He noted that the impediments to the major reforms in 1985 were labor unions and government spending. Once reforms are achieved, however, people do not want to go back to the old days. Major fiscal discipline led to a decrease in interest rates and higher growth. He expects growth for 1998 to be flat because of the drought and the financial crisis.

Congresswoman Johnson then raised the issue of New Zealand's recent removal of the ban on parallel imports. Minister Smith stated that if New Zealand wants high tech software investment, then it must make sure that it has adequate intellectual property protection. He said that "the jury is still out" as to whether New Zealand's intellectual property protection is adequate. New Zealand, he said, has made some moves to increase protection, but he is not sure whether that is enough. He said that he would look to Singapore as an example because it has robust antipiracy protection but also does not have a ban on parallel imports. Congresswoman Dunn mentioned that Ireland has high quality protections, and Microsoft has recently moved there. Enforcement, she emphasized, is the most important aspect of intellectual property protection.

Congresswoman Johnson mentioned that she was surprised to hear how much the U.S. government subsidizes cheese. Minister Smith responded that trade policy involves maintaining a balance between protecting the market and making sure that consumers do not suffer because of higher prices and lack of availability.

Congresswoman Johnson asked Minister Smith to describe the biggest challenges he faced. He responded by pointing to the need to demonstrate to the media, which has a negative view, that New Zealand is managing itself well. The next challenge, he said, is to convince the public.

Congresswoman Dunn asked whether the Labour Party would be as strong on trade as the current government. Minister Moore responded that it depends on Mike Moore. He is the strongest and most committed to trade of the Labour Party politicians. Labour Party leader Helen Clark, he stated, understands the importance of trade but is not as committed. In response to a question as to whether New Zealand would host the next APEC Leaders' Meeting if the Labour Party is in control of the government, he said that it would be a "huge mistake" not to have such a meeting.

Congresswoman Johnson noted that it would be helpful to the trade policy debate in the United States to make clear why labor and environment issues should not be included in fast track and to demonstrate where APEC and the WTO already deal with these issues. Minister Smith pointed to the high level environmental WTO meeting, to be held in the spring of 1999, as such an opportunity. Congresswoman Johnson suggested that the Congress send a delegation of Members to that meeting to show that the WTO is capable of dealing with these issues. Minister Smith added that labor is protected through the International Labor Organization. Issues such as labor and the environment, he stated, are very important, but there are other more suitable avenues in which to pursue them. In fact, far from trade undermining the environment, protectionism is actually hugely damaging to the environment.

Congresswoman Dunn then asked about the used car market in New Zealand. Minister Smith stated that used cars are tariff free. Ambassador Beeman added that few new cars are sold in New Zealand. Minister Smith noted that there is no limitation on bringing in cars from the United States, as long as they are equipped with right-handed drive.

Meeting with the Honorable John Luxton, Minister for Food, Fibre, Biosecurity and Border Control, Wellington, New Zealand

December 7, 1998

Senator Grassley, Congressman Herger, and Congresswoman Thurman met with Minister Luxton to discuss issues on the bilateral trade agenda and the prospects for a free trade agreement between the United States and New Zealand. Senator Grassley began by noting the strength of the relationship between the two countries. While there are some issues in the bilateral relationship to resolve, those differences should not overshadow the friendship between the two countries.

Senator Grassley indicated that he hopes that the Cairns Group of nations will play a leading role in the agriculture negotiations in the World Trade Organization. He noted that it will be particularly important for countries in the Cairns Group, like New Zealand, to be even more vocal in those negotiations if the United States has not renewed fast track negotiating authority.

Minister Luxton agreed that the United States and New Zealand do work together very closely to open markets to trade and noted that New Zealand is perhaps the most dependent on exports of all developed countries. Three-fourths of New Zealand's exports are of agriculture and forestry products. It is vital to New Zealand that these areas be included and treated as any other in trade negotiations.

Minister Luxton explained that he represents a dairy constituency and believes that even if New Zealand had unfettered access to the U.S. market, it would not have a great impact on the U.S. domestic industry. New Zealand's total dairy production equals only 15% of U.S. dairy consumption, and New Zealand's producers already have markets for most of their dairy products around the world. Only a small portion would likely be redirected to the United States if they had unrestricted access to the U.S. market.

New Zealand sees the renewal of fast track negotiating authority as very valuable, and the Minister expressed the country's interest in being considered as a candidate for a free trade agreement with the United States once fast track authority is renewed.

Senator Grassley indicated that a majority of Senators support fast track renewal. Congressman Herger explained that it has been difficult to renew fast track authority in the House because of a disagreement with the President and Democrats about the inclusion of labor and environmental issues in trade agreements. Congressman Herger said that he was encouraged by the remarks made earlier in the day by the Minister for International Trade, Dr. Lockwood Smith, about New Zealand's interest in developing stronger trade relations with the United States. Congressman Herger indicated that he supported this goal and believed that the United States should move ahead and see what can be done in the interim pending fast track's renewal.

Minister Luxton said that New Zealand markets are already very open and, while the country's economy is small, a free trade relationship with the United States would send a very important signal to others in the region.

Congresswoman Thurman said that the fast track debate in Congress did not focus only on tariffs, and she noted the significance of non-tariff barriers, such as sanitary and phytosanitary issues, as tariff levels come down. Only by addressing these issues on a multilateral level, such as through the WTO agriculture negotiations, can these types of problems be addressed.

Minister Luxton agreed that countries have sought to use non-tariff barriers in place of traditional tariffs and noted that New Zealand has sought to insure that its measures will stand up to a challenge in the WTO.

Congresswoman Thurman asked whether the Minister believed risk assessment requirements, particularly on fruits and vegetables, were a barrier to accessing the New Zealand market. Minister Luxton responded that he did not believe they were, noting that New Zealand now allows U.S. salmon and trout to enter its market and that New Zealand imports many fruits and vegetables. Poultry is an area with some restrictions, but they largely affect the United Kingdom.

Senator Grassley stated that he believes U.S. concerns about the use of sanitary and phytosanitary measures to restrict trade is not really directed toward New Zealand but really toward the European Union. Senator Grassley emphasized U.S. frustration with the EU reluctance to comply with the WTO panel decisions on bananas and beef hormones.

Minister Luxton agreed with Senator Grassley's observations and said that New Zealand has faced the same problems accessing the EU market. He hopes there is a way that New Zealand can raise its profile with the United States so that U.S. concerns do not diminish the possibility of negotiating a free trade agreement. Minister Luxton noted that only 4% of New Zealand imports are subject to tariffs and that all tariffs are scheduled to be eliminated by 2006, along with quotas and licensing requirements.

Congresswoman Thurman said she believed the WTO agriculture negotiations are very important and represent an area where the United States and New Zealand can work together. She also expressed her belief that the President actively sought fast track authority in 1997, but many Members of Congress were under pressure from both agricultural sectors and environmental interested opposed to further trade liberalization.

Minister Luxton said he believes that much of the agriculture community's reluctance to embrace trade liberalization comes from the sector's exclusion from the original GATT agreement in 1948. He went on to say that he had productive meetings with representatives from the U.S. Trade Representative's office in September 1998 regarding parallel imports and explained that for New Zealand, the issue comes down to a concern about high prices paid by consumers if a ban on parallel imports is reinstated. New Zealand sees this issue as one of trade liberalization, not theft.

Senator Grassley asked if the New Zealand Dairy Board might be eliminated. Minister Luxton indicated that if a free trade agreement is negotiated with the United States, he expects that New Zealand would eliminate the Dairy Board very quickly. The Minister went on to identify quantitative restrictions that the United States imposes on imports of cheese, chocolate, ice cream, butter-milk powder, and other products that New Zealand would like lifted in a free trade relationship.

Minister Luxton thanked the delegation for its interest in developing closer trade relations with New Zealand and asked that the delegation take back a message of New Zealand's interested in a free trade agreement with the United States.

Meeting with Michael Cullen, Deputy Leader of the Opposition Labour Party, Wellington, New Zealand

December 7, 1998

For the opposition party's perspective of economic and trade issues facing Parliament, the Codel went to Parliament House to meet with Michael Cullen, Deputy Leader of the New Zealand Labour Party. Saying that "New Zealand has very high degree of political volatility," Mr. Cullen observed that support for the National Party, which is currently in "an unsteady coalition" with the New Zealand First Party, swings between 26% and 47% in public opinion polls. Historically, political control in New Zealand has alternated between the Labour Party and the National Party, which was elected in 1990 and then again, much more narrowly, in November of 1993. Also in 1993, New Zealanders changed their electoral system to a controversial form of proportional representation designed to give smaller parties a larger voice in Parliament. In the 1996 election, the first under the new "mixed-member-proportional"(MMP) system, the National Party barely edged out Labour as the top party. Mr. Cullen predicted that the current National Government, headed by Prime Minister Jenny Shipley, would fall in March or April of 1999, due to eroding political support and an "inability to pass legislation."

Depicting the New Zealand economy as fragile, Mr. Cullen sees his country as "on the road" to becoming a "low income society" characterized by a slow GDP growth rate (currently about 1% annually) and an 8% unemployment rate which continues to rise. In his view, the structural program of the National Government is directly responsible for low growth rates and wide volatility in the country's foreign exchange rate. He pointed to a "major current account problem" that must be addressed and said he favored replacing individual and ad hoc taxes with a tax on capital gains.

On trade, Mr. Cullen indicated that there was not much disagreement between the political parties in New Zealand. Congresswoman Johnson asked if the Labour Party had decided whether labor and environmental issues should be linked to trade agreements. Traditionally, Mr. Cullen said, the Labour Party supported a "clear line" separating trade agreements, from labor and environmental agreements. New Zealanders are always concerned that the Europeans will use labor and environmental standards as a way to block imports of kiwi products. He observed, however, that as a result of stronger support for left-wing governments in Europe, there will probably be more linkage in the future. In New Zealand, he too feels "pressure from the left"on these issues. Pointing to a change in position that he saw on the Multilateral Agreement on Investment (MAI), he said that domestic politics in New Zealand is also beginning to force more of a linkage. He thought that many in the Labour Party have begun to view the MAI as a "Trojan horse" for "allowing a deterioration" in labor and environmental standards.

Chairman Crane discussed the bipartisan support that free trade policy has historically had in the Unites States. Telling Mr. Cullen that he would favor the negotiation of a free trade agreement with New Zealand, he indicated his hope that bipartisanship can be renewed in support of fast track negotiating authority, which failed in September on a party-line vote.

Congresswoman Dunn asked whether there are different levels of support for APEC between the Labour and National parties. Indicating that he could "no longer take the left wing for granted," Mr. Cullen said support for APEC would ultimately depend on whether the Labour Party was required to seek a coalition with the Alliance Party, which tends to be "unenlightened on foreign and trade policy, and generally opposed to international agreements." It will depend, he continued, on whether the Labour Party is free to establish "an open door coalition" or whether his party is dependent on the Alliance Party for its majority.

In response to a question from Congresswoman Thurman about his party's support for recent legislation allowing parallel imports, Mr. Cullen said the Labour Party would favor a two-year moratorium on parallel importing. He is concerned that New Zealand is "becoming a dumping ground for a lot of strange products," and he believes the government is having difficulty enforcing against piracy and counterfeiting. However, on another bilateral trade issue, Mr. Cullen indicated that his party is squarely behind Pharmac pharmaceutical pricing policies which, he believes, protects citizens from "price-gauging" by multinational corporations.

Roundtable Discussion with Representatives of the Ministry of Foreign Affairs and Trade Wellington, New Zealand

December 7, 1998

The meeting began with John Wood, former New Zealand Ambassador to the United States, welcoming the delegation to New Zealand and indicating his interest in discussing trade liberalization in APEC and the possibility of a free trade agreement with the United States. Ambassador Wood distributed a paper to the delegation outlining New Zealand's objectives as the 1999 Chair of APEC.

Chairman Crane said that to negotiate a free trade agreement, the United States must renew fast track negotiating authority. Chairman Crane stated that this objective is the delegation's top priority, but indicated that there has not been the degree of bipartisanship on trade that there has been in the past. Chairman Crane indicated that he believes the concerns expressed by labor unions in 1997 and 1998 prevented passage of the legislation during the 105th Congress.

Ambassador Wood asked whether the Administration supported fast track renewal in the last Congress. Congressman. Dreier said that the Administration was very slow to come forward to talk about renewing fast track authority in 1997. Given the Asian financial crisis, Congressman Dreier had hoped that fast track would have passed in the fall of 1998 even though the President objected to considering the issue at that time.

Ambassador Wood said that New Zealand sees fast track renewal as being critically important and noted that the United States is hosting the next WTO ministerial meeting. Shortly before the WTO ministerial, New Zealand will host the next APEC summit, and Ambassador Wood believes that it can contribute significantly to the success of the WTO ministerial.

Congresswoman Dunn agreed with Ambassador Wood's comments and urged him to raise this when he meets with Administration officials.

Ambassador Wood asked for the delegation's recommendations on what Prime Minister Shipley should say to persuade President Clinton of the importance of fast track renewal when she meets with him in January 1999.

Chairman Crane suggested that the Prime Minister discuss the possibility and benefits of a free trade agreement with New Zealand and the ripple effect it could have in the region in terms of insuring that countries continue on a course of trade liberalization.

Congresswoman Thurman said that she believes the vote in 1998 on fast track renewal failed because of the timing of the vote. She indicated that the Administration worked hard to renew fast track in 1997 and argued that the United States is losing out on export opportunities. Congresswoman Thurman suggested that the Prime Minister raise the issue of fast track renewal with the President and how issues like labor and the environment should be handled. Congresswoman Thurman said that she believes these are significant issues for New Zealand as well and they are keeping us from moving forward on trade liberalization.

Congresswoman Johnson noted that the issues of labor and the environment have been raised by the Labour Party in New Zealand as well and asked that New Zealand help the United States find a way to address these matters so we can move forward with trade liberalization. Ambassador Wood observed that there is nothing to prevent the negotiation of side agreements on labor and environmental issues.

Congressman Dreier said that he believes trade is an end in itself for advancing labor and environmental issues and noted that there will be diminished support among Republicans for fast track renewal if these matters are included within trade agreements. Ambassador Wood agreed with Congressman Dreier's comments and cited as an example New Zealand's abolishment of agriculture subsidies, which has lead to better land management by farmers.

Congresswoman Dunn asked if there is concern that a possible change in government would impact New Zealand's approach to hosting the 1999 APEC meeting. Ambassador Wood observed that there is a national commitment to make the APEC meeting a success across party lines. Mr. Maarten Wevers, APEC Senior Official at the Ministry of Foreign Affairs and Trade, added that APEC is extremely important to New Zealand and noted that the country has three major objectives in that forum. Specifically, New Zealand seeks to advance trade and investment facilitation, strengthen markets in the region, and broaden support for APEC among its members. Mr. Wevers noted a very strong relationship between the United States and New Zealand APEC negotiators.

Congresswoman Johnson asked Ambassador Wood about his views on the Asian financial crisis. The Ambassador said he believes the decline has leveled off and that the affected countries will begin to grow. Ambassador Wood noted that South Korea has already improved and that there are signs that Thailand is as well. The Ambassador also pointed out that New Zealand exports globally are still growing, which has made up for any loss that they incurred as a result of the financial crisis in Asia.

PARTICIPANTS FROM THE MINISTRY OF FOREIGN AFFAIRS AND TRADE

The Honorable John Wood, Deputy Secretary of the Ministry of Foreign Affairs and Trade and Former Ambassador to the United States from New Zealand
Mr. Maarten Wevers, APEC Senior Official
Mr. Wade Armstrong, Director, Trade Negotiations Division
Mr. David Walker, Director, APEC Division
Mr. Graeme Pirie, Acting Director, Americas Division
Mr. Charles Finny, Deputy Director, Trade Negotiations Division
Ms. Bridget Nichols, Americas Division
Ms. Suzanne Paki, Trade Negotiations Division

AUSTRALIA

Australian War Memorial

December 8, 1998

The delegation paid its respects in Canberra at the Australian War Memorial, which included the Roll of Honour naming Australia's war dead, the Hall of Memory, and the Tomb of the Unknown Australian Soldier. The Memorial is evocative of Arlington National Cemetery.

Country Briefing by The Honorable Genta Hawkins Holmes, U.S. Ambassador to Australia, Canberra, Australia

December 8, 1998

The delegation visited the U.S. Ambassador's Residence in Canberra, where Ambassador Holmes noted the importance of the delegation's visit by indicating the close and enduring relationship between the United States and Australia. The foundation of the relationship is built on a close defense and intelligence alliance. The Ambassador pointed out that neither side takes the relationship for granted, and both work to preserve and strengthen it. Trade is an area where there are some matters under dispute, but the strength of the alliance makes the trade issues manageable.

Ambassador Holmes described that Prime Minister Howard is a committed supporter of the defense alliance with the United States, but he has not been so willing to work with the United States to resolve trade disputes. The Prime Minister's trade philosophy was developed during the 1970s and 1980s when he was a trade negotiator.

William M. Bellamy, Deputy Chief of Mission, gave the delegation an overview of the Embassy's priorities. The first priority is to maintain a high level of military cooperation with Australia. Second, the Embassy seeks Australian support for U.S. foreign policy internationally. For the most part, this effort has been successful. Mr. Bellamy noted that Australia supports U.S. efforts to contain Iraq, contributes a disproportionally large share to the North Korean energy agreement, was the only country to support the 1996 deployment of U.S. carriers into the Taiwan Straits, and always emphasizes the stabilizing force to the Chinese of a U.S. presence in the region.

The third priority of the Embassy is to promote good economic relations with Australia. To this end, the United States works closely in APEC and seeks the fullest possible access to the Australian market for U.S. goods and services. Fourth, the U.S. Embassy seeks cooperation with Australia on a variety of fronts, including scientific, cultural, and law enforcement. Mr. Bellamy noted that the FBI works very closely with local Australian officials. The fifth priority of the U.S. Embassy is to provide a full range of consular service to U.S. citizens and encourage Australians to travel to the United States.

Ms. Jo Ellen Powell, Counselor for Administrative Affairs, then gave the delegation an overview of the personnel at the U.S. Embassy in Canberra and noted that the Embassy is well staffed to achieve the mission priorities outlined by Mr. Bellamy. Ms. Powell distributed information to the delegation on the Embassy's budget, security profile, and staffing levels (which can be seen in Attachment D). Ms. Powell noted that there have been some reductions in positions at the Embassy to meet demands elsewhere in the region. Presently 300 U.S. and Australian employees staff the Embassy. The Embassy's budget has been stable at about $6.5 to $7 million annually. Three-fourths of this amount is used for diplomatic and consular operations.

Security is also an important issue, and the Embassy works closely with local officials. Ms. Powell noted that although the compound is well-positioned to guard against security breaches, some vehicle barriers are needed. Australian authorities share relevant information with the Embassy that they obtain. Vigilance is the key.

Chairman Crane asked whether the Embassy in Canberra has ever received any threats or experienced any assaults. Ambassador Holmes responded that there have been incidents in the past involving car bombs related to U.S. policy toward Turkey. Because Australia will host the 2000 Olympics, it may make the country and the Embassy more of a target internationally than it otherwise might be.

Congresswoman Dunn asked whether all Embassies will receive funding for security measures. Ms. Powell said that she expected that all legitimate Embassy requests would be funded.

Chairman Crane asked about the nature and level of crime in Australia. Ambassador Holmes said that the streets in Canberra are safe, but there are still problems. Heroin addiction is a problem in Australia. Sydney experiences the types of city crimes common in major international cities.

EXO Arnold Long, Chief of Station, gave the delegation an overview of the military alliance between the United States and Australia and noted that this relationship is very mature, dating back to World War II. Colonel Richard Welker, Army Attache, added that Prime Minister Howard's policy looks at "a secure Australia in a secure region" and is very active internationally. Australia has 50,000 people in its military, 25,000 of which serve in the Royal Australian Army. Australia currently spends US$6.6 billion, or about 1.9% of the country's gross domestic product, on defense annually.

Congresswoman Dunn asked to what degree the United States is responsible for the defense of Australia. Ambassador Holmes said that the ANZAC treaty has been suspended because of New Zealand's nuclear policy.

Senator Grassley asked if there is domestic pressure in Australia to cut or raise the country's defense expenditures. Colonel Welker responded that the Prime Minister is committed to the current levels of funding, and given the fact that the current Labor Party leader is a former Minister for Defense, he would expect a Labor Government to continue the current funding levels if one should come to power.

Mr. Stephen Engelken, Counselor for Political Affairs, gave the delegation an overview of the political environment in Australia and indicated that Prime Minister Howard's government is very supportive of U.S. policy. Since 1983, Australia has implemented free market and privatization principles under both Liberal and Labor governments. There are extremists on both the left and right who oppose foreign investment and support protectionism. These forces affect the main stream because the right wing party, the One Nation Party, received the third largest block of votes in the last election.

Congressman Dreier asked how universal is support for privatization of Australia's social security system. Mr. Engelken said that the support is weak at best. The Ambassador added that there is a fundamental difference in how Australians versus Americans view their respective governments. Australians continue to see more government as a positive influence on their lives, whereas Americans are seeking less government intrusion.

Congresswoman Johnson asked how far privatization has gone in Australia and whether people can feel the results. Mr. Engelken responded by saying that the privatizations have been very successful to date. The utilities in Victoria have been privatized as have the Commonwealth Bank and Quantas airlines. However, it is difficult to draw a direct link between these privatizations and people's everyday lives. In fact, people are conscious of the negatives associated with them such as bank branches closing.

Congresswoman Thurman asked about electricity rates in Australia. Mr. Curtis Stewart, Counselor for Economic Affairs, responded by saying that there is a general view that rural areas should pay the same as urban areas. Privatization does not work as well because companies have to cross subsidize in order to equalize the rates. Ambassador Holmes said that while 95% of Australia's population lives in urban areas, rural regions carry similar emotional ties for Australians as they do for Americans.

Mr. Stewart then gave the delegation an overview of the economic situation in Australia and noted the overall positive picture in the economy. Although unemployment remains high, it has dropped to under 8%. Prime Minister Howard's government takes credit for the good economic environment, but the situation is really the result of Australia's 15-year pursuit of policies supporting open markets, privatization, and lower tariffs.

The Australian dollar has dropped 17% versus the U.S. dollar in the last year. This trend partly reflects the degree of confidence in the region, but it also reflects the fact that prices for Australia's commodity exports are at record lows.

APEC is the only regional organization to which Australia belongs. Approximately 60% of Australia's exports are shipped within the Asia/Pacific region. Australia believes that it is playing a disproportionate role in insuring the success of APEC trade liberalization.

U.S. direct investment in Australia is about US$60 billion, and the United States enjoys a trade surplus with Australia as a result of U.S. aircraft, computer, and capital goods exports. Sanitary and phytosanitary issues are of primary concern to the United States in the bilateral relationship. Because Australia is an island, its government tends to be extremely concerned about the introduction of diseases. The Embassy has conveyed to the Australian government that it risks becoming perceived like the European Union in its approach to sanitary and phytosanitary issues, which is in direct contradiction with its call for free trade in agriculture. In the long run, it will work to Australia's detriment in the WTO agriculture negotiations to continue to maintain these policies.

Congresswoman Thurman asked about the status of pending risk assessment evaluations by the Australian government of U.S. agricultural products. Mr. Randy Zeitner, Counselor for Agricultural Affairs, responded that the biggest problem has to do with Australian concerns about the med fly and citrus canker.

Senator Grassley asked about market access for pork and whether it was possible to get regions in the United States certified for export. Ambassador Holmes said that the Embassy is pursuing this idea, but noted that Australian pig farmers are going through difficult times as a result of low world market prices for their products.

Congresswoman Johnson asked about parallel imports in the Australian market. Mr. Stewart replied that the major U.S. concern is that parallel imports will lead to an increase in pirated products. Australia just changed its law to permit parallel imports, but the retailers have not yet changed their purchasing habits. They still buy from their traditional, licensed suppliers. The United States is concerned, however, that pirated goods will enter Australia with legal goods and that the pirated ones will be more difficult to detect. Mr. Stewart noted that the issue of parallel imports is the U.S. Trade Representative's top priority with respect to Australia.

Chairman Crane asked whether the Australians tend to change frequently personnel associated with approving agricultural goods for import and whether this staffing policy tends to become a market access barrier. Mr. Zeitner noted that a number of personnel changes have taken place, but this policy can have both good and bad points. Personnel changes can lead to new thinking on old issues, but replacements are not familiar with the process. Also, the replacements have tended to have more advanced degrees and ask for greater amounts of information.

Congresswoman Dunn asked about the possibility of seeing more high tech U.S. firms investing in Australia to take advantage of the highly educated workforce. Mr. Bellamy said that Australia would very much like to see this happen. It would help them deal with their unemployment situation.

PARTICIPANTS FROM THE U.S. EMBASSY IN CANBERRA

The Honorable Genta Hawkins Holmes, U.S. Ambassador to Australia
William M. Bellamy, Deputy Chief of Mission
Curtis M. Stewart, Counselor for Economic Affairs
Stephen Engelken, Counselor for Political Affairs
Jo Ellen Powell, Counselor for Administrative Affairs
Randy Zeitner, Counselor for Agricultural Affairs
Barry Friedman, Senior Commercial Officer
Colonel Richard Welker, Army Attache
EXO Arnold Long
Dr. Eric Hoffman, Animal and Plant Health Inspection Service Attache
Stephen Gangstead, Acting Public Affairs Officer
Brian J. Siler, Environment, Science and Technology Officer

Lunch Meeting with the Australian Industry Group, Canberra, Australia

December 8, 1998

On December 8 the delegation met for a working lunch with a group led by Chief Executive of the Australian Industry Group (AIG), Robert Herbert, and several members of his staff. Similar to the National Association of Manufacturers in the United States, AIG is the largest industry group in Australia with more than 11,500 member companies from all sectors of manufacturing. Responsible for about $100 billion in output a year, a considerable percentage of which is exported, Mr. Herbert said he believes that AIG has considerable clout with the Australian Government.

After discussing how the group develops policy through a system of state councils comprised of top business leaders, Mr. Herbert summarized the major issues on which AIG focuses its efforts. These include: 1) maintaining and improving growth rates; 2) addressing recessionary pressures on the Australian economy of the "Asian contagion"; 3) achieving lower interest rates; 4) reminding the government about the job-creating capabilities of industry; 4) attracting new foreign investment to Australia (which has dropped from 3% of the world's share to 1%); 5) tax reform; 6) international trade; and 7) industrial relations and worker retraining.

Making the point that 75% of chief executive officers in Australia are involved in international trade, Herbert said that AIG is now a "very globally oriented group," in stark contrast to 20 years ago when the group dedicated its efforts to fighting trade liberalization.

Director Liegh Purnell, responsible for trade issues, described the transformation in Australia's trade regime which occurred during the last 20 years. Since 1984, successive Australian governments, he said, have reduced or eliminated tariffs, which were increasingly viewed as having restrained growth by insulating domestic industry from foreign competition. Also that year, the Australian dollar was floated and allowed to fall dramatically, while corporate taxes were significantly reduced and the economy generally liberalized and more exposed to international competition. Macroeconomic reforms such as privatization encouraged economic diversification and export orientation and strengthened the manufacturing industries. As a result, exports of "elaborately transformed products" are growing, and manufactures' total share of exports has increased.

Mr. Purnell indicated that Australian industry has survived unilateral tariff reductions to an average rate of about 5%, with the major tariff barriers remaining in the automotive, textiles, clothing and footwear sectors. Discussing the importance that Australia places on attracting foreign investment, he said that his group is conducting a review of Australia's tax system, with the goal of proposing tax reforms that would encourage more local research and development.

Congresswoman Johnson asked whether AIG believed that Australia was adequately prepared to deal with the "Y2K" challenge, and whether the government was looking at passing liability protection legislation so that companies would be more willing to share information and reveal the status of their compliance efforts. Pointing out that there are actually nine dates that have to be looked at, Purnell said he thought that companies in New South Wales were generally very compliant, but that some may not be aware of the full extent of their embedded semi-conductor chips. He has some worries about the effects of the problem on electricity systems.

Congresswoman Johnson urged the group not to underestimate the value of APEC and ASEAN to push the agenda of trade liberalization forward by creating pressure on WTO negotiations to go further. Mr. Purnell agreed, saying that until the Asian downturn, Australia was making real progress with its Asian neighbors, which had been the fastest growing markets for the country's exports. Congratulating the group on Australia's progress in moving its economy toward the adoption free of trade principles, Chairman Crane indicated that he intended to propose that the United States pursue free trade agreement negotiations with Australia, New Zealand, and other countries in APEC, such as Singapore which have "made the necessary reforms." While reacting positively to this proposal, Mr. Purnell urged the United States to exercise leadership in the WTO in support of a broad multilateral trade round that would include industrial tariffs.

Question Time in the Australian House of Representatives and Senate

December 8, 1998

The delegation was given the opportunity to observe Question Time in both the Australian House of Representatives and in the Senate. In the House, Members were afforded the rare honor of sitting on the floor of the House during the proceedings, and observed a vigorous question and answer period regarding the Government's proposed Goods and Services Tax (GST). In the Senate, Members were also granted the privilege of sitting on the floor of the Senate and witnessed a wide-ranging and spirited debate covering topics including national health care policy and labor policy. An excerpt from the official record of proceedings (Hansard) follows:

Australian House of Representatives
Hansard for 8th December 1998

DISTINGUISHED VISITORS

Mr SPEAKER—I inform the House that we have present in the gallery this afternoon representatives of a congressional delegation from the United States of America. Our guests have been kind enough in fact to accommodate the unpredictable sitting pattern of the House this afternoon and have returned to the gallery. I trust they feel very welcome.

Honourable members—Hear, hear!

Australian Senate
Hansard for 8th December 1998

DISTINGUISHED VISITORS

The PRESIDENT—I draw the attention of honourable senators to the presence in the chamber of a delegation from the United States Congress led by the Chairman of the Subcommittee on Trade of the House Ways and Means Committee, the Hon. Philip Crane. On behalf of honourable senators, I welcome you to the chamber and trust that your visit to this country will be both informative and enjoyable.

Honourable senators—Hear, hear!

Meeting with Tim Fischer, Deputy Prime Minister and Minister for Trade, and David Spencer, Deputy Secretary, Department of Foreign Affairs and Trade (DFAT), Canberra, Australia

December 8, 1998

Chairman Crane began the meeting by stating that the principal purpose of the mission was to discuss trade issues, including their relationship to regional stability. He expressed his interest in pursuing a Free Trade Agreement with Australia, New Zealand and possibly Singapore, and the positive effects that such an agreement would have on stability in the region. He expressed his hope that the parties could soon begin to sit down and iron out any differences.

Mr. Spencer discussed the impact of the Asian economic crisis, and reported the Australia had been spared so far. Australia posted a 5% increase in its GDP in the last quarter, and he expected between 2 and 3% growth next year. Mr. Murray Cobban, First Assistant Secretary, Americas and Europe, DFAT, also participated in the discussion.

Minister Fischer addressed a number of contentious bilateral, regional, and multilateral issues. He flagged Australia's concern with such non-tariff barriers as the Jones Act, which limits Australian access to the U.S. market for vessels such as fast ferries. He claimed that this nontariff measure makes it cheaper to fly fifty head of cattle to the United States than to ship them by sea.

Minister Fischer also addressed the APEC negotiations and the recent Leaders' Meeting, particularly the setback in not reaching conclusion in the Early Voluntary Sector Liberalization negotiations. As for the WTO, he said that the 1999 Ministerial Meeting to be hosted by the United States provides an opportunity to make significant progress, particularly in the areas of agriculture and services. He said that whichever approach to the built-in agenda is taken, either a "cluster Round" as favored by the United States or a "millennium Round," there must be enough on the table to give and take. He cautioned that the U.S. cluster approach gives the impression that the United States is willing to negotiate only on those issues that would benefit it. He said that he is ready to work with the United States and is prepared to explore ways to increase trade liberalization in order to force the European Union to move as well. Deputy Secretary Spencer noted that it would help the success of the 1999 WTO ministerial meeting if the United States had fast track. He expressed concern that if fast track were to fail in the House again, the prospect for a new Round would be "spoiled." He concluded that if fast track were to be "snarled up" in Congress, perhaps it would be better to wait to seek fast track after the 2000 election.

Congresswoman Johnson stated that it is important to proceed with the APEC process because it shows within the United States that U.S. companies and workers lose out which other countries move ahead. Congresswoman Thurman said that the consideration of fast track last fall was a "political embarrassment" and asked the Minister his views on labor and environment issues. David Spencer replied that Australia does not support bringing labor issues into the WTO because it "snarls things." Environmental issues, he said, are more nuanced. Disciplines within the WTO are needed, but he expressed concern about how to raise the issues without having an environmental agreement provide an excuse not to comply with WTO rules. Both Congresswomen Thurman and Johnson stated that these issues must somehow be addressed to quiet fears. Congressman Dreier, however, said that Republicans made a significant concession in their fast track bill by assuring that there would be no "race to the bottom" with respect to labor and environment.

One the question of the next Director-General of the WTO, the Minister stated that he hoped the issue would be resolved by the first quarter of 1999. He said that Australia supported Dr. Supachai of Thailand because he was best equipped and because a candidate from a developing nation should be given a turn. Chairman Crane responded by saying that his personal leaning was toward Mike Moore and that in his view, Mike Moore's qualifications and bipartisan support would be more beneficial to the WTO than limiting oneself to candidates from developing nations.

The Minister and the delegation next discussed the prospects for fast track negotiating authority. Chairman Crane expressed his hope that fast track—more specifically, the same fast track bill as was considered last year—could be considered by the House in early spring. He explained that modifying the fast track bill to allow the negotiation of issues not directly related to trade, such as labor and the environment, would cost Republican support. Congressman Dreier asked the Minister to encourage the U.S. Administration to support fast track in the spring. Minister Fischer said that he was keen to support a "raft" of opportunities. He said that Australia would take a favorable look at a free trade agreement with the United States if agriculture is included.

Chairman Crane then stated that he did not realize how restrictive the U.S. market is to dairy products, labeling the U.S. policy "totally reprehensible." Minister Fischer said that Australia has no quotas on agriculture products except for one, while the United States has twelve, on very important products such as beef and sugar. Senator Grassley responded that sanitary and phytosanitary (SPS) barriers may have the same effect as outright tariff measures. He cited EU restrictions on beef hormones and bananas stating that Uruguay Round gains would be lost if the EU does not implement dispute settlement decisions. Congresswoman Thurman mentioned SPS barriers on citrus, noting that she will be interested in the Australian SPS paper, which should be out shortly. She noted that the treatment of agriculture products sends an important message as legislators are thinking about the next WTO agriculture negotiations. Minister Fischer assured Congresswoman Thurman that citrus will be dealt with transparently and in a manner based on science. The Minister and delegation members agreed that SPS issues must be based on a fair scientific basis in order to be viewed as legitimate.

On the issue of trade liberalization, Minister Fischer said that the average Australian does not support such measures as the removal of tariffs and quotas. The Australian government, nevertheless, has undertaken unilateral reductions because it is the right thing to do. He provided the delegation with copies of a brochure that the government has created in an effort to persuade the Australian public about the benefits of trade liberalization. Chairman Crane responded that public attitudes toward trade liberalization in the United States are similar and that even in his district, where several major exporters are significant employers, public perceptions are often negative. Congresswoman Johnson pointed to an "information deficit" about trade. Many companies in her district, she said, supply components to companies that export, but there is no chain of information to make the trade link apparent to the supplier companies.

The delegation then discussed China policy. Deputy Minister Spencer stated that Australia supports Chinese entry into the WTO but only if China "pays the fee." Senator Grassley, Congressman Dreier, and others in the delegation agreed that they opposed any special exceptions for China. Mr. Spencer expressed concern that China would single out Australia and apply pressure to gain support for early accession. Australia, he said, has avoided settlement with China, unlike Japan, and is in "lock step" with the United States. Chairman Crane suggested that Australia use the strong stance taken by United States to justify its own position. Deputy Minister Spencer concluded that China must show political leadership. If no progress is made in the next few months, he said, the issue will be "dead" for some time. He and the delegation agreed to stay in touch concerning this issue.

Meeting with Alexander Downer, Foreign Minister, Canberra Australia

December 8, 1998

Highlighting the importance Australia places on its relationship with the United States, Foreign Minister Downer characterized his country as the most reliable ally the United States has after Great Britain. He pointed to Australia's consistent support of U.S. efforts to solve tough international situations, including Iraqi aggression and lawlessness. Noting that the United States played a crucial role in the success of all major trade negotiations since World War II, he cautioned that "the world trade agenda will stall if the world's largest economy won't drive it." He regretted the failure of the Early Voluntary Sectoral Liberalization Initiative (EVSL) in APEC, saying that he was told by USTR that Congress had denied the authority needed to implement this agreement. Warning that the United States should not tie trade to extraneous matters, he told the Codel "you will crash and burn if you link" fast track to "moral issues."

Minister Downer repeatedly and energetically cautioned that the U.S. nonpayment of its United Nations (UN) dues was doing a disproportionate amount of damage to the image and influence of America around the world. He commented that as a politician, he was especially aware of the need for constituency building, especially among G–77 countries, who believe that the United States is "kicking sand in their eyes." Minister Downer also said that the U.S. nonpayment of dues made things difficult for allies like Australia who are lobbying others to support UN actions.

Both Congressman Dreier and Senator Grassley discussed their view, and that of their constituents, that the United States has an obligation to insist that the UN reform its bloated bureaucracy. Responding to these concerns, Minister Downer said that the United States had already achieved significant reforms, including a new Secretary General, but that the United States should not "keep raising the high jump bar all the time." Mr. Dreier pointed out that "if the President pushes fast track vigorously, he will have an easier time" convincing Congress to approve UN dues.

Meeting with Peter Vaile, Minister of Agriculture, Canberra, Australia

December 8, 1998

This meeting was the first high-level U.S.-Australian exchange for Minister Vaile, Secretary of Agriculture, who was appointed in October. The Minister briefly mentioned a number of current bilateral problems such as potential U.S. safeguard actions on lamb and Australian action on pork, as well as Australian concerns with the use of the Export Enhancement Program and the Dairy Export Incentive Program. He indicated that the Australian Productivity Commission had recently ruled that imports of pork are negatively affecting pork producers, but the "preferred response" would likely be direct assistance to help the industry adjust to competition, as opposed to tariff protection.

On the upcoming WTO talks, Minister Vaile said Australia has very strong interests. Since more than 80% of its farm products are exported, the country always has to be focused on the international marketplace. He said he was looking forward to an early meeting with Secretary Glickman in order continue joint preparations for the upcoming WTO Ministerial meeting.

Finally, he expressed great interest in learning more about U.S. risk insurance programs for farmers. He told the Codel that currently only one company in Australia will insure against frost. Congresswoman Thurman responded that participation in the risk insurance program in the United States is voluntary and that the program is designed to take the place of disaster payments from the government. Senator Grassley emphasized that the New Zealand government ought to consider promoting risk management by the private sector, rather than paying farmers after disasters occur. He would like the United States to take its program one step further so that a certain level of production can be guaranteed, with income protection being sold on the futures market.

Meeting with The Honorable Peter Costello, Treasurer of Australia, Canberra, Australia

December 8, 1998

For a briefing on the tax reform proposal under consideration in the Australian Parliament, the delegation met with Peter Costello, Treasurer of Australia. Mr. Costello explained that Australia's tax revenue is lower than many developed countries at around one-fourth of gross domestic product. The problem with the current system is that income tax rates are too high and many middle income people are caught in high rate brackets. The tax reform package under debate in Australia would lower the individual tax rate and seek to broaden the tax base through an across the board 10% tax on goods and services that would function much like a value added tax (VAT).

The total revenue proceeds from the new tax will go to the states. In return, the states have agreed to abolish all of their indirect taxes. At the same time, the federal government will abolish its grants to the states.

Chairman Crane asked why the federal government doesn't abolish its grants to the states and let them decide how to raise revenue on their own. Mr. Costello explained that under the Constitution, states cannot levy taxes on goods.

Congresswoman Johnson asked how the tax burden will be lessened overall as a result of this proposal. Mr. Costello replied that projections predicted a 1% decrease in overall tax revenue.

Chairman Crane asked about the spending priorities of the federal government's budget and who will pay for natural disasters and other emergencies. Mr. Costello answered that presently the federal government spends 50% of its budget on social security, 25% on health care, and 10% on education. The federal government will maintain a program to address natural disasters.

Chairman Crane asked whether turning over control to local people in areas like education is under consideration and whether Australia has studied the Chilean model of privatizing social security. Mr. Costello said that control over education would be turned over to the local level and that the government has studied the Chilean model on social security. In Australia, it is predicted that by 2020 a majority of the workforce will fund their own retirement. Under the current system in Australia, social security taxes equal 6% of employees' wages. The superannuation funds are managed by industry wide prudential regulators. Soon it is expected the assets in the superannuation funds will exceed bank assets in Australia.

Chairman Crane asked whether the tax reforms under consideration would retain the current corporate tax structure. Mr. Costello said yes because it is necessary to maintain the progressive elements of the existing structure in order to offset the regressive nature of the proposed goods and services tax. Chairman Crane said that he considers a flat income tax rate progressive because wealthier taxpayers pay a greater amount of taxes.

Congressman Dreier asked about the capital gain tax rate in Australia. Mr. Costello said that the existing system accounts for inflation and only taxes real gains. Capital gains are treated as ordinary income so the marginal tax rate applied is the applicable rate based on a taxpayer's income. Overall, the proposed reductions in individual income tax rates would reduce capital gains rates as well.

Chairman Crane asked whether Australians will be aware of the amount of goods and services taxes that they will be paying and expressed the concern that such a tax can easily be hidden and rates ratcheted up. Mr. Costello said that the federal government has entered into an agreement with the states so that the rate cannot be changed without the consent of each state.

Reception hosted by Mr. William M. Bellamy, Deputy Chief of Mission, U.S. Embassy

December 8, 1998

The delegation attended a reception hosted by Mr. William M. Bellamy, Deputy Chief of Mission, U.S. Embassy, and had informal discussions with a wide-ranging group of Australian government and business representatives.

PARTICIPANTS FROM AUSTRALIAN GOVERNMENT AND BUSINESS

Mr. David Spencer, Deputy Secretary, Department of Foreign Affairs and Trade (DFAT)
Ms. Joanna Hewitt, Deputy Secretary, DFAT and Ambassador for APEC
Mr. Mark Pierce, Assistant Secretary, Trade Negotiations Division, DFAT
Mr. Murray Cobban, First Assistant Secretary, Americas & Europe, DFAT
Mr. Robert Hodgkins, Director, U.S. Section, DFAT
Mr. Ron Huisken, Director General of the Alliance Policy & Management Branch, Department of Defense

Dr. Wendy Craik, Executive Director, National Farmer's Federation
Mr. Bill Paterson, Assistant Secretary, Asia, APEC & Trade, Prime Minister & Cabinet
Mr. Paul Hickey, Executive Director, Australian Quarantine & Inspection Service
Mr. Dennis Gebbie, Department of Agriculture, Fisheries & Forestry
Mr. & Mrs. Thor Beowulf (Melissa) President, U.S.-Australia Business Council
Mr. Andrew Southcott, M.P.
Mr. Phil Barresi, M.P.
Mr. Larry Anthony, M.P.
Senator Peter Cook, Shadow Minister for Trade
Senator David McGibbon
Mr. Gavan O'Connor, M.P.
Mr. And Mrs. Brian Livermore (Jacqueline), Senior Policy Consultant, IBM Australia
Mr. David McKenzie, The Australian
Dr. John Lake, Executive Director, Australian-American Educational Foundation
Dr. Gregory Austin, Department of International Relations, ANU
Dr. John Kunkel, Adviser, Office of The Hon. Tim Fisher, Parliament House
Mr. Bill Tweddell, DFAT
Senator Bill O'Chee (Queensland)
Mr. Allan McKinnon, Assistant Secretary, Agricultural Branch, DFAT
Senator John Woodley (Queensland)
Mr. Warren Entsch, M.P.
Mr. Laurie Brereton, M.P.
Mr. Bob McMullan, M.P.

PARTICIPANTS FROM U.S. EMBASSY

Mr. Stephen Engelken, Political Counselor, U.S. Embassy
Mr. George White, Labor Officer, U.S. Embassy
Mr. Kurt van der Walde, Political Officer, U.S. Embassy
Mr. Curtis Stewart, Economic Counselor, U.S. Embassy
Mr. Joe Richardson, Economic Officer, U.S. Embassy
Mr. Brian Siler, Economic Officer, U.S. Embassy
Mr. Steve Gangstead, Cultural Affairs Officer, U.S. Embassy
Mr. Randy Zeitner, Agricultural Counselor, Department of Agriculture, U.S. Embassy
Dr. Eric Hoffman, Area Director, Oceania, Department of Agriculture, U.S. Embassy
Ms. Jo Ellen Powell, Administrative Counselor, U.S. Embassy

Meeting with the National Farmers Federation (NFF), Canberra, Australia

December 9, 1998

At a meeting in the offices of the National Farmers Federation, the Codel met with Mr. Ian Konges, President of the NFF, Lyall

Howard of the Sheep Meat Council, Neil Fisher of the Grains Council, Greg Evan of the Wool Council, and Justin Toohey of the Cattle Council. All of the NFF members praised what they said were excellent relations between Australia and the United States. Specifically mentioned was cooperation on multilateral issues such as WTO efforts to reform global agricultural trade and negotiations on a biosafety protocol regulating trade in genetically modified living organisms (GMOs). They said that the agriculture sector in Australia, which exports 80% of its production, is focused on expanding international trade opportunities.

However, the NFF members told the Codel that despite the general pattern of cooperation, there are a number of specific issues where Australia has concerns. Greg Evans raised the petition for import relief under section 201 of the Trade Act of 1974, which was filed by the U.S. sheep industry in early October. Australia and New Zealand are the two largest suppliers of lamb imports to the United States. Mr. Evans offered his view that imports were not the primary cause of the downturn facing the U.S. industry, which was suffering a decline in production due to the recent repeal of the domestic support program authorized by the U.S. Wool Act. The U.S. industry, he said, is also suffering the self-inflicted wounds of a defeat in the check-off promotion program which had previously worked to improve the image of lamb in eyes of U.S. consumers. He emphasized that wool is part of Australia's heritage, much like coal and gold.

Senator Grassley countered that even by the Australian Government's assessment, as reflected in a recent brochure, the United States has very low trade barriers. He said that sometimes U.S. farmers see themselves as "suckers," because they believe that Australia was diverting large quantities of lamb from former markets in Asia to the United States. According to Customs import data, between 1995 and 1997, lamb meat imports increased by 23% from New Zealand and by 46% from Australia. Senator Grassley assured the group that any safeguard action taken by the U.S. would be fully consistent with WTO rules.

Neal Fisher of the Grains Council emphasized his organization's interest in the treatment of genetically modified organisms under the planned international agreement on biosafety. He note that the Council's position is close to that of the United States on most aspects of the agreement. Fisher also passed on complaints he had received from peanut producers in Queensland about the protectionist nature of the U.S. peanut program.

Mr. Toohey of the Cattle Council raised the bilateral issue of meat inspection and described "Project Two," an Australian meat inspection project designed to move to industry quality assurance programs (similar to the plant hazard program), where the government plays an auditing role.

Several members of the Codel, including Chairman Crane and Congresswoman Thurman discussed the importance of resolving phytosanitary and sanitary disputes. They urged Australia to adopt more standards based on sound science and on the principles of transparency. For their part, the NFF members stressed the island nature of their country, which they believe creates the need for extraordinary protection standards in certain circumstances.

Senator Grassley reviewed the current state of U.S. export credit guarantee programs. Emphasizing that the United States employs the Export Enhancement Program in a defensive manner against predatory European subsidies, he said that farmers in the United States are facing grain prices that are at a fifteen-year low. In his view, the United States is helping the world counter the effects of European subsidies. He asked the Australians whether they thought it would be beneficial to allow the Europeans to continue their subsidization practices unimpeded by other countries.

NFF members mentioned that Australia was under great pressure to "sign off" on China's accession to the WTO, but emphasized that they saw this negotiation as a "one-off" opportunity to achieve a good deal on agriculture, which is their priority. In their view, U.S. trade policy is "unsettled at the moment," as demonstrated by the failures at the last APEC meeting. They expressed concern that the WTO is twelve months away from the 1999 Ministerial meeting, but the United States and the Cairnes Group still need to coordinate to ensure that Europe and Japan are not in a position to delay the start of the new negotiations on agriculture.

Meeting with Senator the Honorable Margaret Reid, President of the Senate, and the Honorable Neil Andrew MP, Speaker of the House of Representatives

December 9, 1998

Speaker Andrew welcomed the delegation to the Speaker's suite. The Speaker is the principal office holder in the House of Representatives. In addition to basic work as a member, the Speaker presides at meetings of the House, represents the Chamber in dealing with Government and with other authorities, and, in conjunction with the President of the Senate, oversees the Parliament's administration.

He expressed his special affinity for Americans, which he experienced firsthand during a visit to American in 1970, and again recently in 1996 when his son began at Penn State University. He said that the Australians rely on the United States to maintain global harmony, and it is critical that the United States remain interested in events in Australia and the region. He welcomed the delegation to the parliament building, which is just 10 years old.

Chairman Crane stated that the major interest of the delegation is in expanding trade relations with Australia, and that he is looking forward to working together in APEC and the WTO in that regard. He related his efforts to try to get fast track negotiating authority renewed in the next year, and pending that, his interest in pursuing a free trade agreement with Australia, New Zealand, and perhaps Singapore, as a healthy and stabilizing influence in the region.

Congressman Dreier discussed his new role as the Chairman of the House Rules Committee and asked about comparisons between the U.S. and Australian House of Representatives. The Speaker noted certain disciplinary measures at his disposal, such as excluding members from the chamber for 1 hour or 24 hour periods, after two warnings.

The President of the Senate was asked to comment on the rather raucous debate and virulent questioning witnessed by the delegation in both the House and the Senate. Chairman Crane noted that such debate would not be possible under the rules in the U.S. House. President Reid responded that, in her view, question time no longer had any value and had become just pure theater. This was due to the much stronger and more rigid party system in Australia. For example, the Labor party will now expel members for voting against the party. The current Government party was more flexible on this matter. In the Senate, bills go through Committee, hearings are held for testimony from affected parties, etc. By contrast, in the House, legislation is handled via party meetings, and the outcome of the legislation when voted on is predetermined. In the Senate, amendments are more likely to pass due to the relative balance of the parties. Nonetheless, the opposition is still more likely to automatically oppose every bill to uphold its institutional role.

The President of the Senate is the presiding officer of the Senate, whose chief function is to guide and regulate the proceedings in the Senate. The President is also responsible for the administration of the Department of the Senate, in much the same way as a government minister is responsible for the operation of a government department.

Speaker Andrew said his institutional role is to maintain order, to the extent he can. Regarding campaign financing, in the House, races are publicly financed based on the number of votes cast ($1.75 per vote cast) above a minimum percentage of the vote (4%). All of the funds go the parties for distribution, plus those election campaigns that are self-financed. President Reid said that in the Senate, all campaigns are run centrally and financed in each state by the party. When asked whether her leadership role was an asset with her constituency, President Reid said no. She is hampered by the fact that while Senators from the states have 6-year terms, Senators from the territories (she represents the Australian Capital Territory) serve 3-year rotating terms, the same as the House.

After a brief discussion of the proposed Goods and Services Tax (GST), Congresswoman Johnson made the general observation that it appeared that the United States has relatively more barriers to trade than Australia does. She also said she has been impressed by the depth of the intelligence alliance between the two countries.

Speaker Andrew remarked about the general support in Australia for trade liberalization and support for GATT rules. He said the bipartisan support for lowering trade barriers must be maintained and observed that Americans did not seem to be as "keen" for it now. Chairman Crane concluded the meeting by urging the hosts to exhort the U.S. Administration to support passage of fast track legislation.

Meeting with The Honorable Peter Cook, Shadow Minister for Trade, Canberra, Australia

December 9, 1998

Senator Cook circulated copies of an article he authored entitled "Trade issues in hibernation," which outlines his perspective on what Australia's role should be in APEC and the WTO (see Attachment E). Senator Cook believes that Australia should take a much more aggressive approach in setting the negotiating agendas in these fora.

Senator Cook feels that APEC has "lost its way" and that APEC members decided to put aside hard issues at the last meeting just when they needed to address them. But even if the issues were too difficult to resolve, Senator Cook feels APEC members should have tried to make whatever progress was possible. The Senator noted that many APEC members are Cairns Group members. For them, the November 1998 APEC meeting was a missed opportunity to lay groundwork for the WTO agricultural negotiations scheduled to begin in 1999.

Senator Cook believes that APEC needs to be refocused. The admission of countries like Russia, Vietnam, and Peru have diluted the intensity of APEC's direction and resolve.

More broadly, Senator Cook would like to find a way to bring India and China into a more open relationship on trade. On the possibility of a free trade agreement with the United States, Senator Cook said that he supports the concept as long as an analysis of the benefits and costs to Australia shows that it is in its national interest.

Chairman Crane indicated that a free trade agreement with Australia is an objective of the delegation but noted the need to renew fast track negotiating authority. Chairman Crane went on to say that a free trade agreement between the United States, Australia, New Zealand, and perhaps Singapore could have positive ripple effects throughout the region in terms of encouraging sound economic reforms.

Senator Cook said that he believes the current government of Australia is carefully looking at the possibilities of a free trade agreement, but he added that he would like to see an opportunity to resolve issues with Japan, Australia's largest trading partner, as well as China.

Chairman Crane pointed out that a free trade agreement would help Australia manage and stabilize its trade throughout the region. Senator Cook noted that the currency exchange rates have given Australia a price advantage in the U.S. market in the export of commodity products.

Congresswoman Dunn asked about the Senator's views on the candidates for Director General of the WTO. Senator Cook replied that he is friends with both Mr. Moore of New Zealand and Mr. Supachai of Thailand. The Senator felt it was a difficult decision to make but that Mr. Supachai would probably be his choice.

Congresswoman Johnson asked whether Thailand was very interested in trade liberalization at the last APEC meeting and whether the Thai candidate for Director General of the WTO would be in a position to work aggressively on trade issues. Senator Cook said that the Thai candidate may be difficult for the Europeans to accept and that Mr. Moore might get the region's support in the end.

Luncheon meeting with the Australian-United States of America Parliamentary Group, Canberra, Australia

December 9, 1998

The Honorable David Jull, Member of Parliament and Chairman for the 38th Parliament of the Australia-United States of America Parliamentary Group (see membership list in Attachment F), welcomed the delegation and explained that friendship groups were formed many years ago in the Australian Parliament to develop informal relationships between Members of Parliament and their counterparts overseas. Mr. Jull indicated that he welcomed the opportunity to share views with the delegation in informal discussions on a wide range of issues.

Chairman Crane responded by saying that the Members of the delegation heard only positive input on Australia prior to leaving the United States and that their experience has only reinforced this impression. Chairman Crane indicated that he looks forward to continuing a relationship with members of the Australia-United States of America Parliamentary Group, particularly if any travel to Washington, D.C. in the future.

Country Briefing by Richard Greene, Consul General from the U.S. Consulate General in Sydney, Australia

December 9, 1998

Consul General Greene gave the delegation an overview of the operations of the U.S. Consulate in Sydney, noting that the most important function of the Consulate is to reinforce the very close bilateral relationship between the United States and Australia. The U.S. business presence in Australia is very strong, and five of the six largest corporations in Australia are headed by Americans.

Sydney is hosting the Olympics in 2000, and the United States will field the largest number of athletes and coaches. Moreover, U.S. corporate sponsorships will make the Olympics in Sydney a success. It is important to have the U.S. government involved in insuring the success of the 2000 Olympics in terms of security, Customs procedures, and business support.

The state of New South Wales, where Sydney is located, is facing many of the same issues as are U.S. states, including an aging population, infrastructure problems, manufacturing surplus capacity, depressed commodity prices, rising health care costs, education issues, and crime.

Chairman Crane asked whether crime is contained to neighborhoods in Sydney. Consul General Greene noted that overall the crime rate is lower than in the United States.

Consul General Greene went on to note that there is compulsory voting in Australia, which changes the nature of elections because candidates do not have to motivate the populace to get them to the polls. Candidates instead focus on articulating their party's platform. Australians who do not vote in an election face a fine of approximately US$50. Overall, campaigns tend to be much shorter than in the United States.

Consul General Greene noted that there is a gap between the warm welcome that visiting Americans receive in Australia and the business environment that U.S. firms find when they try to operate in Australia. Some of the obstacles U.S. businesses experience include marginal tax rates as high as 48%; a high level of government intervention in the economy; a lack of focus in the economy on providing service; the small size of the economy; and lower costs than elsewhere in Asia, but higher than in the United States.

Congressman Herger asked Consul General Greene if he could identify some examples of overt government intervention in the economy. The Consul General specified that labor laws make it extremely difficult to dismiss employees. Also, tax rates are fairly high. Privatizations in the telecommunications and energy sectors have been difficult because the public does not want them to happen. Welfare payments are virtually unlimited as a result of the public perception of welfare as a social contract to keep crime rates down.

Consul General Greene noted that the current tax reform package under debate has avoided most issues related to corporate taxes.

Congresswoman Johnson asked about the political situation in New South Wales. Consul General Greene noted that a state election will take place in March 1999. The current Premier of New South Wales, Bob Carr, is from the Labor Party and will face a challenge from the Liberal Party candidate, Mrs. Chikarovski. The Consul General noted that the One Nation Party has made progress in tapping into voter dissatisfaction with the two major parties, but not in a way that can be sustained. The party articulates anti-trade and anti-immigration policies that are contrary to Australia's national interests.

Briefing by the Department of State and Regional Development of New South Wales, Sydney, Australia

December 10, 1998

David Mageachie, the general Manager of Trade Services, welcomed the delegation and opened by explaining that the role of the Department is to contribute to the sustainable economic growth of New South Wales. To that end, the Department seeks to secure foreign investment, promote exports, promote innovation, and provide advice to government on the competitiveness of New South Wales as a business location.

Historically, states were heavily involved in setting their industrial development policy. Export commodity trade was a primary business, but this was not a sustainable approach in the long term. Commodity prices fell in the 1970s, threatening a downward spiral in standards of living. In the 1980s, structural reform was implemented to introduce strong competition, labor agreements, productivity increases, and a floating currency. The result has been a robust and outward looking economy.

Mr. Judd Webber, Senior Manager for Trade Services, then gave the delegation an overview of the New South Wales economy. In all, 164 U.S. companies have selected New South Wales as their regional headquarters. The Department of State and Regional Development is the first point of contact for businesses in the state. The Department facilitates investment, seeks to grow the businesses already located in the state, and helps businesses capture the international opportunities of the region.

Geographically, New South Wales is the gateway to Asia. Its time zone is important because it spans the closing of the U.S. stock market and the opening of the European markets. With one-third of Australia's 18 million citizens residing within its borders, New South Wales provides businesses with a highly skilled and multilingual workforce. New South Wales accounts for one-third of Australia's gross domestic product, and its economy is expected to grow at a rate of 4% per year through the year 2000. New South Wales' exports total about US$10 billion annually, two-thirds of which consists of merchandise exports to the Asian region.

After the presentation, Congresswoman Thurman asked for the Department's views on the tax reform package under debate in Parliament. Ms. Lynette Foulkes from the Department responded that taxes are mostly levied by the federal government because states are prohibited from levying taxes on goods. States can tax transactions only. The federal government is looking to levy consumption taxes to supplement state revenues.

Congresswoman Johnson observed that there does not appear to be a great deal of talk in the current tax debate on simplification. There is no clear relationship in the current debate between reform and simplification. Ms. Foulkes said that Australian businesses, as well as the U.S. Chamber of Commerce, are pushing for simplification but it is clear that it will have to come later.

Chairman Crane asked about the redistribution formula that will be used to distribute the consumption tax revenues to the states. Mr. Mageachie said that it is not clear how it will be shared with states, but there is an awareness that revenues generated in more prosperous economies like New South Wales will be used to support more rural and less prosperous states.

Congresswoman Thurman asked about the minimum wage in Australia. Mr. Mageachie replied that it is indexed by education level or age so that teenagers can work and earn less than the minimum wage for adults.

PARTICIPANTS FROM THE NEW SOUTH WALES DEPARTMENT OF STATE AND REGIONAL DEVELOPMENT

Mr. David Mageachie, General Manager, Trade Services
Mr. Judd Webber, Senior Manager, Trade Services
Mr. Malcolm Forbes, Client Manager, Trade and Business Services
Ms. Lynette Foulkes, Senior Manager, Investment Services
Mr. Alan Noble, Senior Manager, Trade Services
Mr. Paul William-Smith, Manager, Trade Services

Round Table Luncheon Discussion with American Chamber of Commerce (AMCHAM), American Club, Sydney Australia

December 10, 1998

Bill Ferguson, President of AMCHAM and Managing Director of Citibank in Australia, and Richard Colbran, President of the American Club, both welcomed the delegation.

Richard Greene, Consul General, introduced the delegation. He said that this is the most important delegation to come to Australia in terms of trade policy, and that trade was the most important issue between the two countries. He related that the delegation has been on busy schedule, and that it has been impressed by what they had seen thus far.

Mr. Ferguson then gave the perspective of Americans doing business in Australia. Having worked in 12 different countries, he found no country more open and hospitable than Australia. The government there began a policy of opening its markets in the 1980s, and U.S. business has benefitted from those policies. He went on to discuss the importance of the U.S.-Australian business relationship. The United States is the biggest foreign investor in Australia, and number two in terms of overall trade. The United States has a positive balance of trade with Australia, and there are many excellent opportunities for U.S. business there. However, Ferguson noted several issues of concern, particularly on intellectual property rights, but acknowledged that Australia has issues with the United States as well. He discussed the corporate tax overhaul currently underway, noting that the current tax system inhibited business. He reiterated the importance of having the delegation there to highlight the important trade issues.

Chairman Crane began his remarks by noting that no one in the delegation had ever been to Australia before. He was struck by the strong relationship the Australian people had with the United States. He noted the primary purpose of the delegation is to expand trade relations. He asked for their support in renewing fast track negotiating authority, saying that it is essential to prevent unraveling of existing trade agreements. He said that under fast track, Congress does not relinquish its authority over trade, but rather is able to expand trade while maintaining its constitutional role. He recalled that the October vote on fast track did not receive the traditional bipartisan support, mainly because the Administration did not support it. He urged the attendees to convey to the Administration the importance of adopting it early in 1999. Then it would be possible to discuss a free trade agreement with Australia, New Zealand, and Singapore, which could have a stabilizing influence in Asia and help others rethink their commitment to free trade and democratic institutions. He explained: "A good example is the best sermon." He concluded his remarks by saying that Australia is a key influence in Asia, and he looks forward to even closer relations.

When asked about the likelihood of such a free trade agreement, Chairman Crane placed the odds at "50–50," based on the chances of passing fast track. The Chairman was next asked why the United States was protesting Australia's recent change to allow parallel imports of music. He responded that it is a valid concern on particular types of intellectual property. Theoretically, the practice of parallel importation should be fine, but he raised concerns about the difficulties it creates in intellectual property enforcement. From the standpoint of free trade, parallel imports make sense-it works to the advantage of consumers. However, it also facilitates the theft of intellectual property, and that must be addressed. He was next asked how the current U.S. domestic political problems affect the U.S. role in Asia. The Chairman replied that it is a distraction but should not affect the relationship. He stressed that institutions will survive personal improprieties, emphasizing the importance of continuing to advance U.S. interests. When asked what the Ways and Means Committee would do to facilitate the opening of the U.S. market to the Australian software industry, Chairman Crane said that this was a new matter brought to his attention on the trip and that it requires further investigation.

In response to the question of whether the U.S. would continue cabotage on ships, Congresswoman Johnson replied that while the U.S. position was not perfect, there is a legitimate tension between trade and defense manufacturing interests, noting that policies such as VRAs have had some use in that regard. She said that the United States is trying to maintain some shipbuilding capabilities and must rethink this policy periodically in relation to its defense infrastructure needs. This issue would need to be addressed, especially in the context of a potential FTA.

The final question was whether there was disappointment over the outcome of the recent APEC meeting. Chairman Crane responded that he is looking forward to the September meeting in New Zealand and the WTO meeting in November in the United States to get things back on track. Mr. Ferguson concluded the meeting by offering his appreciation for the Chairman's longstanding commitment to free trade.

PARTICIPANTS FROM AMCHAM

Bill Ferguson, Citibank
Robin Speed, Speed and Stracey
Bruce Stracey, Speed and Stracey
Richard Denness, Schering-Plough Pty Ltd.
Patrick Wall, U.S. Commercial Service
Tony Stinson, Sample Systems Pty Ltd.

PARTICIPANTS FROM THE AMERICAN CLUB

Richard Colbran, Med-Law Associates
Robert Heininger, MA Michael Property Ltd.
Alan Van Es, TASA International
Margot McKay, TASA International
Bill Fenn, TASA International
Grant Jagelman, Spatial Systems
John Bleakley, Maxwell Optical Industries Pty Ltd.
Bob Harrison, Maxwell Optical Industries Pty Ltd.
John Mclhuish, Australian Institute International
Lola Crossingham, Flavours of India Restaurant
John Wagner, Flavours of India Restaurant
Cynthia Wagner, Flavours of India Restaurant

PARTICIPANTS FROM U.S. CONSULATE

Richard Greene, Consul General
Kris Pelz, U.S. Consulate
Pat Wall, Senior Commercial Officer

Meeting with New South Wales Farmers Federation, Sydney, Australia

December 10, 1998

At a wide-ranging meeting with representatives of the New South Wales Farmers Federation in Sydney, the Codel spoke with John Cobb, who raises wool, wheat, and beef; Glenn Dalton, a wheat farmer; and Ian McClintok. After indicating that the Federation is a private organization "that shies away from taxpayer funding so that it is a better position to defend the interests of its members," John Cobb said that he wanted to discuss five major issues: 1) the effects of international trade on agriculture production; 2) preparations for the 1999 WTO ministerial meeting; 3) the Export Enhancement Program; 4) genetically modified organisms; and 5) the "corporatization" of agriculture in Australia.

Mr. Cobb asked the Codel to consider the effects that U.S. EEP sales have on the Australian farmer. He said that both EEP and DIEP undermine Australian sales in their traditional export markets. Mentioning that Secretary Glickman and Secretary Albright had come to Australia to make assurances that U.S. EEP sales are not designed to undermine Australia's interests, he expressed concern that U.S. food aid to Indonesia not interfere with Australian commercial sales there. Pointing to a map, he mentioned that the farther west one goes in New South Wales, the drier it gets. The biggest challenges for farmers in New South Wales are storing enough summer moisture to grow winter crops, defending the boundaries of their farms, and getting enough reliable, experienced casual labor in times when farmers are earning less and less return from their land. Mr. Cobb urged the Codel to resist subsidizing exports and to allow the market to deliver the right signals to the producers.

Mr. Cobb also warned that U.S. import restrictions on Australian lamb would hit NSW farmers very hard, and he indicated that his group is resisting the imposition of higher tariffs on Australian pork imports, even though some of his members might support this type of safeguard.

Chairman Crane said that many of these barriers could be put on the table if Australia and the United States were to begin negotiations to establish a free trade agreement. In his view, further trade liberalization in the region would help stabilize economies that are suffering the effects of the Asian financial crisis. Senator Grassley said that Australia and the United States have very few differences compared to all the trade issues on which the two countries agree and work together. He complemented the group for its leadership in helping the WTO overcome deadlocks which were blocking the Uruguay Round Agreement. Saying that the United States would get fast track "based on whether the President works for it," he indicated that the United States would look to the Cairnes Group and Australia to "fill the vacuum so that it's not taken over by the Europeans."

Chairman Crane said that the United States is prepared for serious negotiations on agriculture in the WTO that will lead to significant results for farmers.

There was general agreement on the need to develop a common set of rules around the world for genetically modified organisms and sanitary and phytosanitary standards. The Codel also concurred with concerns expressed about achieving market access in China, where non-tariff barriers to imports of agricultural products abound.

Saying that in his state of California, agriculture is about $17 billion industry of which 70% is exported, Congressman Dreier reiterated the importance of passing fast track trade negotiating authority. Congressman Herger talked about the significance of free trade for his district, which grows specialty crops such as peaches, walnuts and almonds.

Members of the Farmers Federation asked the Codel whether it would be possible to achieve a significant reduction in the levels of trade protection imposed by Europe on agricultural imports. Senator Grassley made the point that 70% of the European budget is used to support the common agricultural policy (CAP), and that tariff levels in Europe average about 80–100% for agricultural products, as opposed to 8–15% for manufactured goods. He said the EEP program must persist until Europe does away with its export subsidies and that, until a reduction in subsidies and protection is negotiated with Europe, the United States "must continue to fight on the battlefield."

Members of the Farmers Federation concluded the meeting with a short discussion on problems they face with conglomerate retail grocery chains, which control the sale of almost 80% of agricultural products in Australia. Saying that there were two issues involved, competition at the retail level and corporatization, Senator Grassley pointed out that the U.S. antitrust law is aimed at protecting consumers, rather than particular sections of the industry.

Meeting with Paul Kelly, Sydney, Australia

December 10, 1998

The delegation met with Paul Kelly, described as Australia's preeminent journalist.

Mr. Kelly described the three prongs of Australia's external engagement, which impact how Australia views itself in relation to the world. The first prong is the relationship with Great Britain. Australia was established in 1788 as a British colony and was dependent on Britain, emotionally as well as with respect to the economy and trade, long after its independence. Accordingly, Australia is a "derivative society." Gradually, Australia has evolved into "adulthood" with Britain.

The second prong is Australia's relationship with the United States. World War II began the modern basis for the relationship with the two countries. Australia was under attack from Japan, and the United States was instrumental in preserving Australia's territorial integrity. Today, security, trade, financial, cultural, and military links cement the relationship, and many Australians have direct relationships with the United States. The relationship is lopsided because the United States is more important to Australia than vice-versa.

The third prong is Australia's relationship with Asia. This relationship developed post World War II. Mr. Kelly gave some examples, including Australia's support for Indonesian independence from the Dutch, a strong 30-year relationship with Japan stemming from raw materials trade, and diplomatic relations with China beginning in December 1972 and a close relationship with the three Chinas. Australia is tied deeply in economic terms with Northeast Asia, with Japan as the largest trading partner, followed by the three Chinas and Korea. Southeast Asia is the focus of Australia's security concerns, particularly in light of the Asian financial crisis.

Mr. Kelly described that Australia has great strength as a commodity producer. Australia, although a price taker in commodity markets, was able to take its income from commodity sales to construct a tariff wall. Behind this wall, between the 1890s and the 1970s, Australia built a strong manufacturing sector. In the 1970s, however, Australian leaders realized that a closed market was not viable and opened its economy and became more competitive. As a result, Australia expanded beyond commodities to manufactured goods, services, information technology, and high tech. At the same time, Australia began to use multilateral or regional (not bilateral) fora to expand its clout. In response to a question from Congresswoman Dunn, Mr. Kelly explained that the decision to open the market in the 1970s was the result of an intellectual reassessment by a series of Australian leaders, particularly in the Labour Party. In both 1988 and 1991, Australia made far-reaching decisions to cut tariffs, to restructure the economy in a new compact for economic growth, and to expose Australia to market forces and test it. Today, Mr. Kelly stated, Australia is reaping the benefits of this policy—despite the Asian financial crisis, Australia is still growing and is at the top of the OECD growth range.

Mr. Kelly stated that Australia reflects the stress of modernity. With its European heritage, it is adjusting to global pressures. In addition, there has been a revival of significant protectionist elements in both Australian parties. At the same time, the dominant, universal theme within Australia concerning the United States is that the United States should maintain a global focus and stay committed to international organizations such as the World Trade Organization and the International Monetary Fund, as well as to its partners in Northeast and Southeast Asia, including Australia.

Congressman Dreier asked Mr. Kelly to explain the lessons for the United States in Australia's growth and development. He responded by stating that to maintain community support for trade and globalization, a country must address: (1) unemployment and job insecurity; (2) the equity problem (Australia is a very egalitarian society); and (3) the impression that there is a new division of labor between the new industries and the older industries which have not been traditionally global. Congressman Dreier stated that often workers are not aware of the benefits of trade. Chairman Crane said that this fact is often the fault of company leadership, which does not make globalization relevant to the workers. Congressman Dreier added that union pressures often make such communication difficult. Congresswoman Johnson further stated that job insecurity is a natural result of globalization, and the United

States does not deal with this well. Some CEOs, she stated, do well at retraining the workforce, giving workers confidence. The U.S. unemployment system, she said, currently based on layoffs and rehires, does not reflect the workplace reality. Profound changes, therefore, are necessary, she concluded.

Congresswoman Johnson then asked Mr. Kelly about the role of services in the Australian economy. He replied that services have grown in importance since the earlier days, in which Australia had "first world living standards but a third world economic system." Now Australia has a more broadly-based and diversified society, going beyond commodities to minerals, manufacturing, services, high tech, and information technology. Twenty years ago, Mr. Kelly stated, Australia would not have been able to survive a financial crisis like it is doing today. Australian banks are performing well, and Australia has one of the best-managed central banks in the world. In addition, the workforce is highly trained.

Congresswoman Dunn remarked that the welfare system, however, still reflects the old world. Mr. Kelly replied that Australian political consciousness came late while economic change came fast. The socialist movement in Australia was the leader for the world. Australian society is egalitarian and anti-authoritarian. As a result, the welfare system is seen as a fundamental right and is deeply entrenched. He said that a full 30% of Australian citizens receive some form of "welfare." However, Mr. Kelly added, there has been increasing awareness that the passive welfare state is a failure and needs reform. John Howard's government views welfare as a mutual obligation, in that the worker must take responsibility and has an obligation to the state. Mr. Kelly sees the beginnings of a move away from the passive welfare system, but he said that Australia will never go as far as the United States and that there will always be a strong social net in Australia.

Congressman Dreier asked Mr. Kelly about the Australian view toward the impeachment of President Clinton. Mr. Kelly responded that many Australians like President Clinton and believe that there should be a major separation between private and public life. The general view, he said, is that things have gotten out of hand with respect to the impeachment.

Reception Meeting with Council of Growing Companies, Sydney, Australia

December 10, 1998

Mr. Kym Bonnefin, CEO of the Council of Growing Companies, welcomed the delegation, and discussed the role of the Council. It is an organization representing CEOs who run fast growing companies in Australia. The organization was founded in the United States and has branches overseas. Its primary objective is to provide educational opportunities and an exchange of ideas among its members, and to be a voice for entrepreneurism with the Australian government. The reception also highlighted the artwork of Charles Billich, the official artist for the Australian Olympic Team at the games of the XXVI Olympiad.

Chairman Crane recounted his family's positive experience involving Australia and the strong bond between the U.S. and Australian peoples. He noted the primary purpose of the delegation to expand trade relations, and recounted the discussions the delegation had with officials of the Australian government over the past several days. He thanked Mr. Bonnefin for the warm hospitality shown to the delegation.

PARTICIPANTS FROM THE COUNCIL OF GROWING COMPANIES AND GOVERNMENT OF NEW SOUTH WALES

Kym Bonnefin, CEO, The Council of Growing Companies
Lynne Bonnefin, Director, The Council of Growing Companies
Michael Greenberg, Principal, Double Eagle Capital
Stephen Murphy, Director, SPIKE Wireless
Bruce Simpson, Managing Director, Sydney Point-of-Sale Products
Chris Rigney, Managing Director, The Infohouse
Barry Westlake, Managing Director, The Enterprise Market
Michael Inglis, Tax Consultant Barrister
John Brogden MP, New South Wales State Parliament
Howard Davy, Managing Director, HTD Australia Pty Ltd.
Karl Kazal, Managing Director, Australian World Traders
Jim Loupos, Manager, Australian World Traders
Roslyn Daveney, Managing Director, Boomerang Aboriginal Art
Chris McCaffery, Solicitor, Eakin McCaffery Cox
Ken Dodsworth, Managing Director, Gryphon Publishing
Chris Costigan, Manager, Corporate Policy, Pfizer
Patrick Duncan, CEO, Lucent Technologies
Greg Massey, Director, Pfizer
Jeff Rope, Director, Pfizer
Alan Taylor, Director, Pfizer
Jenny Higgs, Corporate Affairs, Bristol Myer Squibb
Andrew Gilkes, Chief Executive, Investment 2000

Meeting with the International Banks and Securities Association of Australia, Sydney, Australia

December 11, 1998

For a briefing and discussion of the Asian financial crisis, the delegation met with representatives of the International Banks and Securities Association of Australia. The briefing was provided by Bill Shields, Executive Director and Chief Economist of Macquarie Bank, who distributed copies of charts to the delegation related to the Asian financial crisis (see Attachment G).

The causes of the Asian financial crisis relate to the domestic policies of the affected countries. Countries in the region pegged their currency to the U.S. dollar. As the U.S. dollar rose, it undercut the competitiveness of Asian countries. When the rhetoric is cut away, the situation really is a classic case of economies growing too fast and relying increasingly on shorter term debt.

Mr. Shields noted that the Asian currencies began to decline in the fall of 1997, but all began to level off and rise by January 1998 except for the Indonesian rupiah. Each time Indonesia signed an agreement with the IMF, it reneged on its commitments, resulting in a loss of confidence in the economy and a withdrawal of capital investments from the country. As a result, the rupiah fell more than any other currency and has been slower than others to recover.

During the first half of 1997, the region underwent a shift from net asset lending to net deficit lending. This means that capital investment funds were withdrawn from the region and invested elsewhere. In particular, funds were reinvested in Russia and in Brazil, where investors could get a higher rate of return. The G7 is now trying to make short term capital flows more stable by imposing restrictions on the ability of investors to shift funds so dramatically.

Congresswoman Dunn asked about the nature and prudence of the advice given to countries by the IMF. Mr. Shields indicated that the response of Thailand, South Korea, and Malaysia to the IMF programs has restored confidence in the economies and hastened their recovery.

Mr. Shields noted that South Korea had early and immediate debt rescheduling to reduce its amount of short term debt. The debt has not been eliminated, but it has been rescheduled in the hope that the country will be able to pay in the future. South Korea is establishing an excellent track record in managing the debt rescheduling. Thailand has established a satisfactory record but has not been as up front about the problem and has been less aggressive in working to solve it.

Senator Grassley asked whether there is any evidence that the IMF sends signals to countries that they do not need to be responsible about their actions because the IMF will simply bail them out. Senator Grassley indicated that he believed if more transparency were introduced into the IMF, it would be more difficult for the IMF to go into countries where it is not needed. Mr. Shields replied that he believes there is no alternative than to have the affected governments adhere to some sort of restructuring, but that it is debatable whether or not this needs to be done through the IMF or could be handled in some other way. Mr. Shields did agree on the need for transparency and a defined role for the IMF.

Senator Grassley followed up by asking about middle class people in countries affected by the Asian financial crisis. He also inquired about the relationship in affected countries between the government and banks. Mr. Shields responded that the middle class has generally accepted wage cuts so that the burden of the crisis is borne broadly across society. Mr. Shields also indicated that the IMF restructuring programs in affected countries are intended to eliminate inappropriate relationships between the government and banks.

Congressman Dreier asked what reforms pursued by the IMF in the region are the most important. Mr. Shields indicated that the IMF has shown the greatest ability to establish financial stability, which it achieves through higher interest rates, responsible budgeting, regulation of financial institutions, and bankruptcy reform. The IMF has not been very successful in matters such as privatizations and tax reform.

Mr. Shields went on to explain that because South Korea has been so successful in implementing its IMF mandated reforms, its currency has appreciated, undercutting its ability to recover through exporting. As a result, South Korea is recovering through broader government spending.

He further noted that as Mexico continues to recover from its 1995 financial crisis, it has benefitted from the strength of the U.S. economy. However, unlike South Korea, Mexico's currency has remained low against the U.S. dollar. This has enabled Mexico to continue to recover without undertaking serious banking reform.

Congresswoman Johnson asked what action Mexico undertook and what it should have done. Mr. Shields responded that Mexico took steps early to deflate the economy to enhance its competitive position. The country still needs to undertake significant banking reform. The problem with the IMF is that it deals with short-term current account problems and is not equipped to deal with long-term recovery problems.

Senator Grassley asked about efforts to break up the chaebols in South Korea as part of that country's recovery. Mr. Shields said that the President of South Korea has taken a strong stance on the need to break up chaebols, but it will take a long time to accomplish. It is clear, however, that it will not happen unless the IMF forces South Korea to address the issue and very senior political officials put pressure on government and industry.

Mr. Shields continued his briefing by saying that 9 to 12 months ago, many analysts predicted that Australia would be adversely affected by the Asian financial crisis, but the Australian economy continues to grow by 5% per year. The reason has been that except for Japan, all other major economies continue to grow. Australian growth has continued due to domestic consumer spending. Domestic demand in Australia has remained high, as it has in the United States, because of cuts in domestic interest rates.

Senator Grassley noted that for the first time, the United States has a negative savings rate. Mr. Shields pointed out that in Australia everyone is required to save, but he noted that the savings rate has fallen. In the United States, growth will have to slow at some point given the mature level of the economy, but consumer spending can sustain positive economy growth longer than had been commonly expected.

Congressman Dreier asked whether Australia permits a mixing of banking and securities industries and noted the debate in the United States on Glass-Steagall reform. Mr. Shields said that Australia does permit mixing of banking and securities industries. This has boosted efficiency and delivered benefits to Australian consumers and business by reducing margins between costs and rates without reducing profitability.

PARTICIPANTS FROM THE INTERNAL BANKS AND SECURITIES ASSOCIATION (IBSA) OF AUSTRALIA

Mr. Robert Webster, Executive Director, IBSA
Mr. Bill Shields, Executive Director and Senior Economist, Macquarie Bank
Mr. Terry Francis, Bank of America
Mr. Russell Kennett, State Street Bank

Briefing by Professor Helen Hughes and Professor Wolfgang Kasper, the Centre for Independent Studies, on Social Security and Trade and Asian Economic Issues, Sydney Australia

December 11, 1998

Mr. Greg Lindsay, Executive Director, explained that the Centre for Independent Studies is an independent think tank and research institution, and he introduced the panelists.

Professor Hughes is a Senior Fellow at the Centre from the Department of Economics, Research School of Pacific and Asian Studies, Australian National University, and was present to discuss pensions and the superannuation system in Australia (see Attachment H for her detailed presentation). She began by saying that Australia was one of the first countries to create a pension system in 1908. Contributions in that system were set at 40% of average earnings (for couples). Benefits were income and means tested and paid out of current taxes. As a result, not everyone was covered by that system. In the 1980's, there was a move to a new superannuation system like that in Chile. Prior to that time, large companies had superannuation schemes, but this only covered about 40% of the workforce. The goal was to cover all workers. Today, about 90% of full time workers (mostly men) and 70% of part time workers (mostly women) are covered. Under this new system, the employer sets aside a percentage of the payroll into an individual account (like in Chile). The contribution rate is now set at 7%, going up to 9%, for employers and 3–6% for employees. Most accounts are held in industry funds (e.g., steel, construction) with each fund managed as a whole.

According to Professor Hughes, one problem with the new system is that it introduces moral hazard, i.e., people believe the government will bail out any failing funds and do not think they need to save any additional money. Another is that the system is burdensome for employers to manage. The complexity makes for high administrative costs, which siphon off resources. The financing scheme, based on payroll, discourages employment. Industry fund managers have been poor, and returns have averaged only 2.6%, worse than savings accounts. Some funds have engaged in some high risk investments. In addition, trade union influence has come to dominate certain industry funds. For example, the construction union fund became involved in high risk land speculation. This has become a large source of union power, and so-called "social investment" has become politicized. Professor Kasper added that Germany has a similar problem of corrupted industry funds. Another problem highlighted by Professor Hughes is the huge proliferation of funds, especially in relation to the size of the Australian economy. While there are about 385 large funds, there are 186,000 funds altogether. Only about 10% were audited last year, and about 30% of those had problems. In her view, current supervision is not working, and stronger prudential rules are called for. Professor Hughes said that workers need to be allowed to move their money between funds by choice.

Congressman Dreier asked about market risk and its potential to erode earnings. He was told that the system provides the potential to earn about 60% of average wages under optimal circumstances. Professor Hughes went on to say that the current system of industry funds is wrong. For her, individual accounts, like IRAs, are acceptable, but it is much better to have compulsory savings. However, she noted that the World Bank has endorsed the Australian system. She suggested that the key to lowering administrative costs for individual accounts is to give people freedom of choice to move among funds.

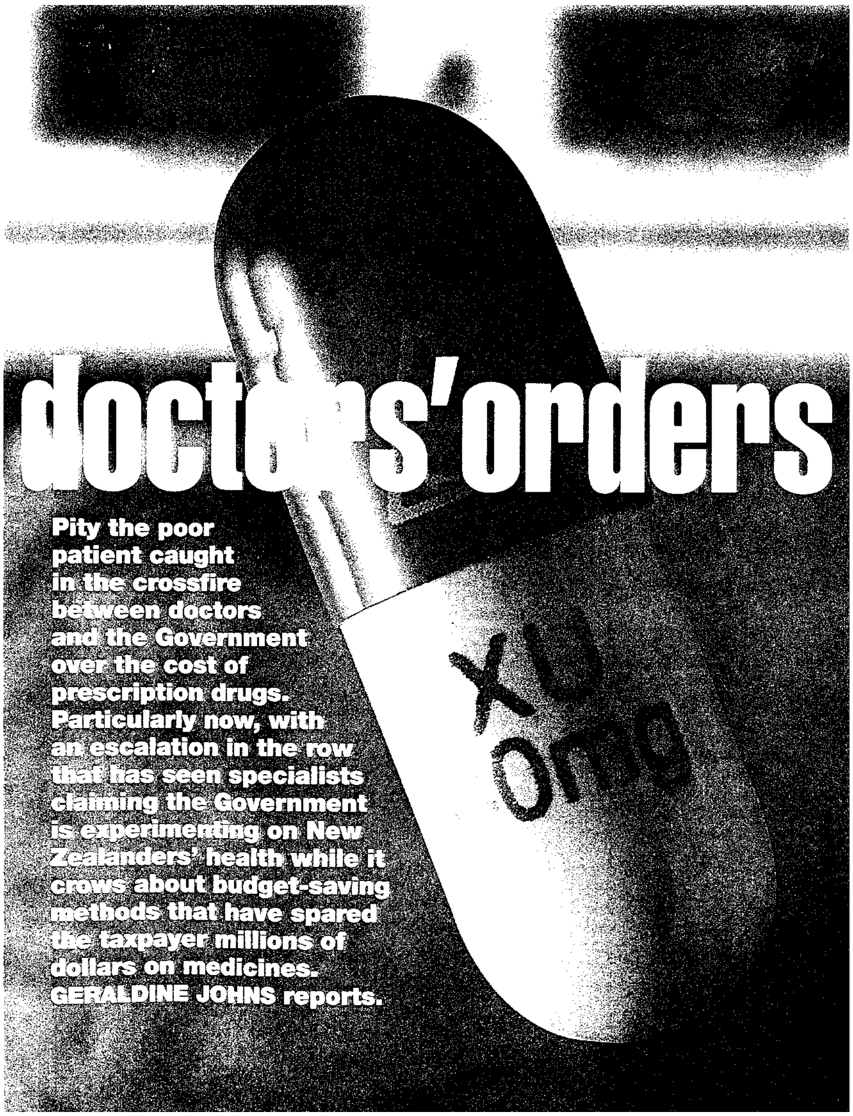
Chairman Crane asked about survivor benefits and was told that the system includes that feature. Congresswoman Johnson asked for a clarification about means testing of benefits in the system. Professor Hughes explained that there remain two systems: an old age pension system for those without other income paid for from current taxes, which was a safety net system, and the superannuation system. Benefits in the former system are computed based on a complex formula considering things such as home ownership.

Congresswoman Dunn asked if there should be a concern about changing demographics of an aging population. Professor Hughes disagreed, noting that as the population aged, it is staying healthier and working longer. Senator Grassley mentioned his concern about the mind set of early retirement. Professor Kasper pointed out that immigration helps with the ratio of workers to retirees. However, Congresswoman Thurman questioned whether anyone should be forced to work longer. Professor Hughes responded that people should have a choice: retire early and have a lower standard of living, or work longer and have a higher standard. She suggested looking at the Singapore model, where people have to work for 40 years to get a full benefit. She said that the U.S. scheme is in trouble because of a fundamental flaw: the low earnings rate in the system cannot support the expected level of benefits.

Professor Kasper then began a discussion of Australia's international trade status. He explained that at the turn of the century, substantial trade restrictions created a high cost economy. This caused transaction costs to get very high. The government's policies did not support world competitive forces. Now, although tariffs are much lower, transactions costs remain very high, which is a present problem for competitiveness. Globalization has put pressure on profits, but it has not affected the cost structure as much as it could. While the economy has been modernized, the underlying culture has not changed. Trade unionism, with high wages behind a protected market, caused "industrial malaise." While there is higher growth now, especially in high tech, it is not growing enough, in Professor Kasper's view. He believes that exports, at about 25% of GDP, should be around 35%. While exports are hampered by protections in place in the United States and the EU, it is mainly due to too many uncompetitive industries, e.g., wool. He believes that the economy must move more into service industries aimed at Asia. The good news for him is that the Asian crisis has caused exporters to become more agile. Professor Kasper's plea to the United States is not to turn inward. This would cause Australia to backslide; "protectionists are just waiting to come back."

Congresswoman Johnson asked about the impact of labor laws, work rules, etc. Professor Kasper described the prevalence of central wage fixing (with unions), problems with longshoremen, and costly work practices. For example, workers get premium pay for work on Sundays, holidays, and at night. Because of these "shift penalty rates," manufacturers are only using 20% of capacity. He cited the example of the auto industry, which loses money even behind protected markets. Because of central wage fixing, there is no wage competition. Under the national dismissal law, it is very hard to fire a worker, which serves to drive down employment in small business (too risky to hire the extra worker). Increasingly, courts are finding in favor of workers and Parliament has followed suit. He concluded by saying that Australia is "not a country for small business," which he believes is driving away European and Asian investors. He said that these policies serve only to hurt workers on the low end of the scale and the middle class. He cited, for example, the 47% marginal tax rate which begins at $38,000 of income.

Attachment A



doctors' orders

Pity the poor patient caught in the crossfire between doctors and the Government over the cost of prescription drugs. Particularly now, with an escalation in the row that has seen specialists claiming the Government is experimenting on New Zealanders' health while it crows about budget-saving methods that have spared the taxpayer millions of dollars on medicines. GERALDINE JOHNS reports.

It was raining the day Donald Bordessa, a 66-year-old retired radio engineer, got on his pushbike and set off on a six-kilometre ride to pick up his prescription drugs. His 1976 Vauxhall Viva had broken down, hence the need to cycle, but the journey ended prematurely when Bordessa fell off his bike and fractured his ribs. He was laid up for a few weeks, but it is the circumstances that led to his fall that have far more serious implications.

Donald Bordessa, who has been on cholesterol-lowering medication since suffering a heart attack two years ago, lives in Avondale. Although there is a local chemist, he had to travel to Glendene to have his prescription filled because the drug he had been prescribed, Zocor, is not available at all pharmacies.

His soaring cholesterol levels had been lowered with Zocor, but a decision by the Government's drug-buying arm Pharmac saw the subsidy on that pharmaceutical removed. If he wanted to continue obtaining free drugs, he had to switch to an alternative, Lescol. He did, and his cholesterol levels soared once more. So Donald Bordessa, who survives on a pension of $800 a month, switched back to Zocor on his doctor's advice. He now pays $26 a month towards the cost of this prescription. If his car had been working, he would have spent more money on petrol to get to the Glendene Village Pharmacy. "It's a lot of trouble and a lot of expense and a pain in the you-know-what," he grumbles.

To understand what happened to Bordessa, it is necessary to go back to a move by Pharmac to contain costs by lumping all same-based drugs together and then subsidising the cheapest version — a practice called reference pricing. In August this year a paper in the *New Zealand Medical Journal* specifically looked at the decision by Pharmac to remove the subsidy from one cholesterol-lowering drug — Zocor (Simvastatin) — in favour of another cheaper, version called Lescol (Fluvastatin). Zocor had already been proven highly effective in the prevention of death, heart attacks and strokes; Lescol was something of a new entrant whose long-term effects had not yet been monitored.

Significantly, the paper's authors heralded grave dangers in adopting a drug-swapping practice based on cost alone. The benefits to the taxpayer should be weighed carefully against the ethical responsibility to the patient and the potential to do harm, they suggested, noting that a cheaper form of treatment may prove more costly than all the savings from reference pricing.

Of equal significance was the fact that the paper was not written by cardiologists who are at the vanguard of the cholesterol-lowering drugs debate, but by a biostatistician, a professor of medicine and a senior registrar. This trio, from the Otago School of Medicine, also argued that their study had demonstrated Zocor to be more effective than Lescol in lowering cholesterol and further incidents of heart disease.

To get a closer look at this whole issue, let us lurch back from Dunedin to Green Lane Hospital in Auckland — regarded as a centre of excellence as far as cardiac care is concerned. And here we have Professor Harvey White, director of coronary care and cardiac research. White has an impeccable international reputation in his chosen speciality. After graduating from the Otago School of Medicine and training at Southland Hospital and Green Lane, he spent three years at Harvard Medical School in Boston. Harvey White says that Pharmac has got it all wrong, that the Government is experimenting on New Zealanders by allowing the introduction of cheaper, unproven medications in place of established, effective and safe drugs.

White and some of his colleagues go further than that. They see Pharmac's stance as one that signals a not-so-subtle withdrawal of the state from the provision of free and efficacious drugs to all. In its place, they say, is the insidious introduction of a two-tiered pharmaceutical system where the rich get what they pay for and the poor make do with second best.

Nobody is disputing the need for the Government to contain its pharmaceuticals bill; how it goes about it is where opinions radically differ. There are now four main statin drugs available: Lescol and Lipitor (Atorvastatin) for which there is no charge; also Zocor and Lipostat (Pravastatin) for which patients must pay a part charge.

Harvey White was at Green Lane before a brief trip to New York, Montreal and Boston as a guest lecturer in heart medicine. He sees it like this. "It's a Treasury-driven thing to drive down the cost of the health system. They're less concerned with outcomes than they are to drive the costs down and I think they really have an agenda to run down the public health system and improve the private health system.

"I truly believe Pharmac wants a two-tiered system whereby the public can choose to have either a second tier of pharmaceuticals or the top tier. The top tier is available free in Australia, but here you have to pay for it."

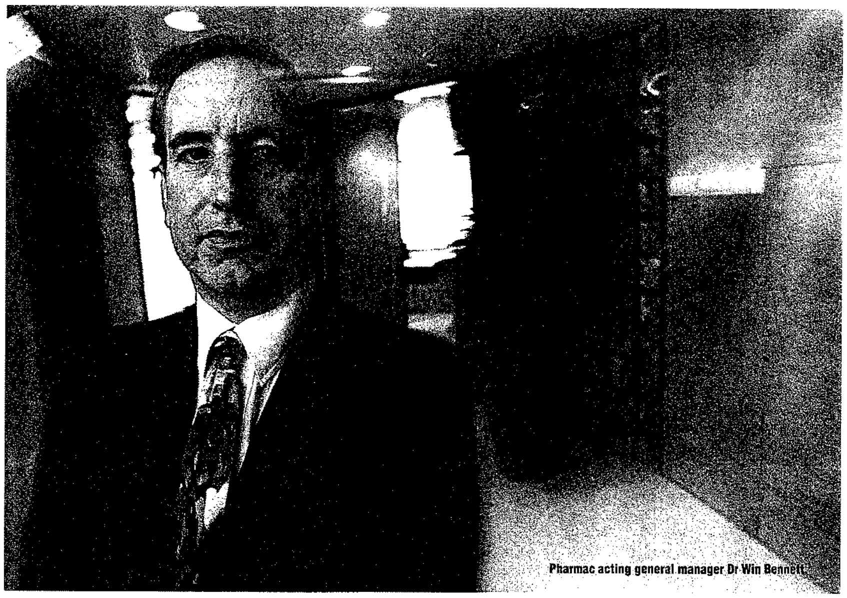
Pharmac should opt for evidence-based medicine when selecting what to subsidise, and put price second, says White. Pharmac, however, has opted for reference pricing. In the case of statins it meant the subsidy that previously made Zocor free to patients was removed in favour of Lescol. Patients who wanted to remain on Zocor had to make up the balance between the fully subsidised Lescol and their favoured drug themselves.

Pharmac maintains it conducted a lengthy study of its own before opting for the lower-priced drug. A committee of medical specialists was consulted and, as a result, Pharmac opted to subsidise Lescol under the reference pricing basis, said Pharmac acting general manager Dr Win Bennett. But not one of the members of that particular committee was a cardiologist. Pharmac had appointed a member of the Heart Foundation, endocrinologist Dr Boyd Swinburn, who has an interest in obesity, but minutes of the committee's last meeting reveal he had given his apologies.

Another committee member who was present, Dr Russell Scott, an expert in diabetes and fat metabolism, later went on National Radio and told Kim Hill of his utter dismay at the final outcome. Pharmac's decision was contrary to the committee's recommendations that it continue to subsidise Zocor. Calling Pharmac's response "most appalling", Scott told Hill he was resigning from the advisory subcommittee. He did, and today is even stronger in his criticisms: "The performance of Pharmac over the statin issue was one of bumbling incompetence. They successfully antagonised a large section of the medical profession and the general public."

Pharmac has defended its stance, maintaining that by opting to subsidise Lescol it opened up access to statins to a greater percentage of the population. "Reference pricing is a sensible way of getting value for money," Bennett maintains. That's all very well, except Zocor, manufactured by Merck Sharp and Dohme, was the subject of rigorous and extensive international clinical trials which had deemed it to be both effective and safe. Lescol, by comparison, has not been subjected to the same

PHARMAC'S DECISION TO RESTRICT ACCES



Pharmac acting general manager Dr Win Bennett

ZOCOR COULD KILL 2300 PEOPLE DURING THE NEXT FIVE YEARS.

scrutiny. Lescol's manufacturers, Novartis — another major league multi-national drug company — was able to offer the drug at a reduced rate to Pharmac and gave assurances on-going clinical trials were underway.

White says Pharmac can be applauded for seeking to open up statin access, given New Zealand's heart disease rate, which sees 20 people a day — seven of them in Auckland — die of cardio-vascular disease. But, he and others ask, what is the point of introducing a drug that is not as effective and which has not been proven to be safe in the long term?

"You have to have evidence that drugs work; decisions should not be based on a bio-chemical measurement of cholesterol levels in the blood alone," says White. "Some of the best evidence in medicine says Zocor reduces death from heart attacks. All we know about Lescol is it lowers cholesterol levels. We have no evidence it saves lives, or that it reduces costs associated with heart attacks and the need for bypass surgery. Most importantly, we don't know about safety. Favouring Lescol is against everything we agree with in medicine."

The evidence White is principally referring to is the 4S Study — the Scandinavian Simvastatin (Zocor) Survival Study which monitored the link between lowered cholesterol and death and disease from further cardiac incidents. The study, which has become something of an international benchmark, deemed Zocor to be highly effective. It should be pointed out that 4S was funded by MSD but the results of the five-and-a-half-year random trial, involving 4444 patients with coronary heart disease, were emphatic. For every 100 patients prescribed Zocor, two lives were saved, and four heart attacks plus seven coronary bypass operations or angioplasties were avoided. Two strokes were also prevented.

Each protagonist will wield their own set of statistics to illustrate their stance; what makes the 4S study stand out is its wide level of international recognition and the fact that New Zealand is the only western country where Zocor is not fully subsidised. Earlier this year, Australia's Pharmaceutical Benefits Scheme decided to *exclude* Lescol on the recommendation of its own advisory committee, as well as the Royal Australasian College of General Practitioners, the Australian Medical Association and the Royal Australasian College of Physicians. The advertisement gazetting the exemption said there were "sound clinical reasons" for the exclusion.

If White was a lone voice, he could easily be portrayed as something of an obsessive himself — something the Minister of Health, Bill English, has already attempted to do, as has Pharmac, although more obliquely. However, there is a strong body of medical evidence which supports his stance. The Cardiac Society raised a red flag when, in June last year, it forecast that Pharmac's decision to restrict access to Zocor could kill 2300 people during the next five years.

Speaking at the society's annual conference, Christchurch Hospital cardiologist Professor Hamrid Ikram as chair cautioned against Pharmac's decision to introduce Lescol. "Good evidence is available that proper implementation of the use of cholesterol-lowering drugs can save over 2300 New Zealanders' lives over five years and reduce demand for expensive interventions such as bypass surgery," Ikram said. Later, he was among a group of concerned cardiologists who warned of the ethical and potential medico-legal dilemma doctors were facing. "Doctors will have to advise patients that if they want to avoid the premium they will need to change from medicines which have been proven clinically to reduce the incidence of mortality or morbidity to one for which there is no such evidence. Patients changing from Simvastatin or Pravastatin to Fluvastatin will also need to be aware that, because of differing cholesterol-reducing efficacy, their cholesterol levels could increase by 10 per cent to 25 per cent. Their risk of myocardial infarction [heart attack] could increase by 20 per cent to 50 per cent," they warned.

Ikram is no longer chair of the society, but stands by what he said then. He stirs the pot further by suggesting that Pharmac's favouring of unproven drugs over evidence-based medicines has the potential for dire outcomes. "The whole question of Thalidomide may come to pass again. Pharmac have developed this philosophy called therapeutic groups. They think it's a very clever scientific thing, but nobody in the world understands their science at all because they're not therapeutically equal, any of these drugs. This may be a clever pricing strategy but in scientific terms these drugs are not necessarily equal in clinical outcome and safety.

"If you make it that a drug that is not tested is fully subsidised — as has happened here — then it will be a clear signal to the pharmaceutical industry that they don't need to bother with any elaborate safety testing; you can just get whatever you like, so long as it's cheap."

The pharmaceutical industry is already interpreting its own messages from the Pharmac stance. Earlier this year, Bristol-Meyers Squibb announced it was abandoning all further drug research programmes in New Zealand, saying Pharmac's pricing policies had cut its income by half. The company said that until there was a change in Government policy, it could not afford to fund any further research in New Zealand. In the past five years, BMS has invested more than $20 million in drug research in New Zealand — or about 20 per cent of its drug sales in this country.

But the decision to cease research came after Pharmac opted for Lescol over Bristol's statin, Lipostat. The company had spent millions of dollars testing and ensuring the safety and efficacy of Lipostat, said general manager Jeremy Kannemeyer.

The decision to cease all further research prompted the Researched Medicines Industry to say the BMS decision was disappointing but understandable. RMI general manager Terrence Aschoff said Pharmac's practices largely denied companies the opportunity to market new medicines. He would not be surprised if other drugs companies followed Bristol-Meyers Squibb's lead. And indeed they did. Next came SmithKline Beecham who in October announced a "reorganisation" of their operations and a reduction of 40 per cent of the positions in its pharmaceutical division. The reason, said general manager Dr Bruno Strigini, was Pharmac's pricing policies.

One week later came an announcement from Glaxo Wellcome that it too was restructuring its operations, with 46 people losing their jobs. Glaxo Wellcome New Zealand managing director Steve Skolsky said the reorganisation, which meant a 29 per cent reduction in its workforce, was due to reduced Government spending on new generation medicines. Commenting on similar moves by BMS and SKB, Steve Skolsky said he believed the losers in the retrenchment of these pharmaceutical industry leaders would be the New Zealand public.

So is Pharmac really the big bogey in all this, or is it putting the nation's best interests first in its quest for a fairer drugs deal for all? Acting general manager Dr Win Bennett has a 20-year history in general practice. He also displays the telephone demeanour of one well skilled in public relations non-speak. Bennett says Pharmac's goal is to get optimal value for money for pharmaceuticals. Its philosophy, he says, is to "manage the provision of pharmaceuticals to manage the health benefits to the community".

Is it solely driven by a cost containment initiative? No, says Bennett. "It's about health gain and getting maximum health gain from the money that's available. Cost is only part of the equation; the other half of the equation is about health gain, and it's about maximising health gain within the money that is available." By health gain he means "helping people to live longer and improving the quality of their life".

Pharmac's budget to the year ended June 1998 was $770 million. Its annual review for the year ended June 30 1998 trumpets savings to the taxpayer of $284 million. More is to come: $35 million next year and nearly $150 million the year after that. Bennett, like the Minister of Health, Bill English, has complete faith in Pharmac's handling of the statins issue. Unlike English, who was unaware there was no cardiologist on the sub-committee which advised on statins, Bennett says the committee provided the right mix of expertise.

There is no doubt in Bennett's mind that all four statins essentially did the same thing; it was only on price that they differed. Such is the beauty of reference pricing, the lowest-priced drug could thus win the contract. To illustrate his point, he offers the following analogy. "It's like any shopper. If you've got different goods, different brands, that essentially do the same thing, why would you pay more for one thing than the other unless you actually like paying more for fancy advertising?"

We pointed out to Dr Bennett that we are talking about the nation's health here — not a grocery list. Of course, says Bennett, that's why they sought expert opinion. Bennett repeatedly makes a plea for me to consider what he calls the big

THE WHOLE QUESTIO

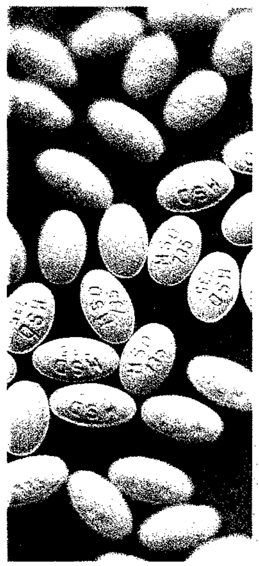
picture. "As the result of the review, we expect next year to be treating 30,000 people with statins rather than the 14,000 before the review. I think in the broad picture we're very pleased with the outcome and have no doubt the health of New Zealanders is a lot better because of the decisions that have been made."

Cardiologists, says Bennett, have a particularly narrow view of evidence-based medicine. Furthermore, some drug companies are involved in sponsoring drug research "and this has the potential to colour their views". Although repeatedly invited to identify by name the cardiologists he is referring to, Bennett deflects.

Ikram, White and their cardiology colleagues are extremely familiar with the Pharmac refrain of doctors being in the pocket of drug companies. "Most of the chaps you talk to will produce an opinion based on what they consider sound scientific evidence which will be offered and which is subject to challenge and reputation. It's not something you actually do covertly by letting a contract to somebody; would I influence Mr English's lot or Pharmac to buy a particular drug? I have no means to do that," says Ikram.

Bill English is one who is willing to talk about Harvey White; in fact it is he who raises his name — repeating it in a mantra-like fashion at the conclusion of our interview. English wants to know why *Metro* is doing a story on "fat white middle-aged men with high cholesterol". The minister says that at the same time as Harvey White is "ranting" about Zocor, he has two-year-olds dying of meningitis, "and you don't hear Harvey White complaining about that".

For the record, heart disease is more common in lower socio-economic classes and is more than five times more common a cause of death in women than breast cancer. It also occurs more commonly in Maori than non-Maori. More than 100 patients a year who die of coronary heart disease are under the age of 44. When Bill English's comments are put to him, White responds that he, like other doctors, is concerned about health delivery in general. "I am concerned about meningitis. I'm concerned about psychiatric illness — but I'm also concerned about heart disease. And I'm concerned about talking outside my area of expertise; that's why I don't jump up and down about meningitis."



THALIDOMIDE MAY COME TO PASS AGAIN.

Professor Jim Mann was the co-author of the *New Zealand Medical Journal* paper which sparked this story. Mann is professor of medicine and human nutrition at the Otago School of Medicine. He and Russell Scott also wrote the leading article in the same issue where they amplified the same argument. Pharmac's current guidelines are about five years out of date, they noted.

Mann supports and applauds Pharmac's stance in making therapeutic drugs available to as many people as possible who stand to benefit "but I also know in this day and age we are strongly arguing the case for evidence-based medicine. To deny us access to drugs for which the best evidence is available is not good."

And then there's Donald Bordessa, the patient who fell off his bike. He didn't want to be photographed, but is happy to be quoted. "As far as I'm concerned, Lescol is useless to me. It's almost like Pharmac is saying, 'We've got the best. Either you pay for it or you can go to hell.' " ●

★ On December 1, Win Bennett took up a post at the Health Funding Authority as service strategy manager, personal health. Pharmac's new general manager is former clinical director Wayne McNee.

A word of warning to those disposed to disease: stay away from it at all costs. And cost is the operative word, especially if you are inclined towards obesity, osteoporosis, impotence, herpes or heart disease for starters. Prostate cancer is proving costly too. There is indeed a price to pay for needing treatment these days, and never more so than if you are poor in the first place.

It is not just that some drugs are proving more expensive to obtain because of a subsidy removal; proven medications are also being entirely withdrawn from the market because drug companies say that without a subsidy they can no longer afford to stock them.

Consider the following:

- Thousands of genital herpes and shingles sufferers lost access to the drugs Valtrex and Famvir after Pharmac slashed their subsidies in September. Prescriptions would have cost between $30 and $60 had the drugs remained available, but manufacturers Glaxo Wellcome and SmithKline Beecham said it was no longer viable to keep them on the shelves. The newcomer, Acyclovir, was a cheaper alternative with less patient acceptability, said Dr Rick Franklin, clinical director of Auckland Sexual Health Service.
- Viagra, the impotent's wet dream, has been approved by Pharmac but is expected to cost $20-$25 a pop until Pharmac decides whether it should be subsidised.
- The statins row. (See main story.)
- Then there is the decision by Pharmac to withdraw the subsidy on Eulexin which is being used in a trans-Tasman cancer trial involving 650 men. Eulexin is an anti-prostate cancer treatment withdrawn by Pharmac in favour of another such drug, Flutamin, which is 60 per cent cheaper.
- In September, Pharmac listed 100 drugs it wanted to put out to tender, saying it wanted to save $15 million a year. The drugs included those for the above, as well as antibiotics, anti-depressants, laxatives, and nasal and eye preparations. ●

ANALYSIS

1994, No. 17

An Act to improve the conduct of fiscal policy by specifying principles of responsible fiscal management and by strengthening the reporting requirements of the Crown and, in particular,—

(a) By requiring the Minister of Finance to report regularly to the House of Representatives on the extent to which the Government's fiscal policy is consistent with the specified principles of responsible fiscal management and to justify in his or her report any departures made by the Government from those principles; and

(b) By requiring all the Crown's financial reporting to be in accordance with generally accepted accounting practice; and

(c) By requiring the Minister of Finance—

(i) To publish, at least 3 months before the start of each financial year, a budget policy statement containing the Government's long-term objectives for fiscal policy, its broad strategic priorities for the Budget for that

financial year, and its fiscal intentions for that and the next 2 financial years; and

(ii) To lay before the House of Representatives, on the day on which the first Appropriation Bill relating to a financial year is introduced, a fiscal strategy report assessing the consistency of the Budget with the budget policy statement and providing progress outlooks for the next 10 years, and an economic and fiscal update prepared by the Treasury for the next 3 years; and

(iii) To publish, in December of each financial year, an economic and fiscal update prepared by the Treasury for the next 3 years; and

(iv) To publish, before each general election, an economic and fiscal update prepared by the Treasury for the next 3 years; and

(v) To lay before the House of Representatives, towards the end of each financial year, a fiscal update prepared by the Treasury for that year, including forecast estimated actual financial statements for the Crown

[*27 June 1994*

BE IT ENACTED by the Parliament of New Zealand as follows:

1. Short Title and commencement—(1) This Act may be cited as the Fiscal Responsibility Act 1994.

(2) This Act shall come into force on the 1st day of July 1994.

2. Interpretation—(1) In this Act, unless the context otherwise requires, "Budget", in relation to a financial year, includes—

(a) The statement delivered by the Minister when moving the second reading of the first Appropriation Bill relating to that financial year; and

(b) The fiscal strategy report laid before the House of Representatives under section 7 (1) of this Act for that financial year; and

(c) The report containing an economic and fiscal update laid before the House of Representatives under section 8 (1) of this Act for that financial year; and

(d) The Estimates laid before the House of Representatives under section 9 (1) of the Public Finance Act 1989 for that financial year.

(2) In this Act, unless the context otherwise requires, the terms "commitment", "contingent liability", "Crown", "department", "expenses", "financial year", "generally accepted accounting practice", "Government", "Minister", "Secretary", and "Treasury" have the meanings given to them by section 2 (1) of the Public Finance Act 1989.

3. Act to bind the Crown—This Act shall bind the Crown.

4. Principles of responsible fiscal management—(1) Subject to subsection (3) of this section, the Government shall pursue its policy objectives in accordance with the principles of responsible fiscal management specified in subsection (2) of this section.

(2) The principles of responsible fiscal management are—

(a) Reducing total Crown debt to prudent levels so as to provide a buffer against factors that may impact adversely on the level of total Crown debt in the future, by ensuring that, until such levels have been achieved, the total operating expenses of the Crown in each financial year are less than its total operating revenues in the same financial year; and

(b) Once prudent levels of total Crown debt have been achieved, maintaining these levels by ensuring that, on average, over a reasonable period of time, the total operating expenses of the Crown do not exceed its total operating revenues; and

(c) Achieving and maintaining levels of Crown net worth that provide a buffer against factors that may impact adversely on the Crown's net worth in the future; and

(d) Managing prudently the fiscal risks facing the Crown; and

(e) Pursuing policies that are consistent with a reasonable degree of predictability about the level and stability of tax rates for future years.

(3) The Government may depart from the principles of responsible fiscal management specified in subsection (2) of this section, but when the Government does so—

(a) Any such departure shall be temporary; and

(b) The Minister of Finance shall, in accordance with this Act, specify—

(i) The reasons for the Government's departure from those principles; and

(ii) The approach the Government intends to take to return to those principles; and

(iii) The period of time that the Government expects to take to return to those principles.

5. Generally accepted accounting practice—All financial statements included in reports required under this Act shall be prepared in accordance with generally accepted accounting practice.

6. Budget policy statement—(1) The Minister shall, not later than the 31st day of March in each year, cause to be published a budget policy statement.

(2) The budget policy statement shall specify the Government's long-term objectives for fiscal policy and, in particular, for the following variables:

(a) The Crown's total operating expenses; and

(b) The Crown's total operating revenues; and

(c) The balance between the Crown's total operating expenses and the Crown's total operating revenues; and

(d) The level of the Crown's total debt; and

(e) The level of the Crown's net worth,—

and shall explain how these long-term objectives accord with the principles of responsible fiscal management specified in section 4 (2) of this Act.

(3) The budget policy statement shall, for the financial year commencing on the 1st day of July after it is published and the 2 financial years following that financial year,—

(a) Specify the broad strategic priorities by which the Government will be guided in preparing the Budget for that financial year; and

(b) Indicate explicitly, by the use of ranges, ratios, or other means, the Government's intentions regarding each of the variables specified in subsection (2) of this section.

(4) The budget policy statement shall—

(a) Assess the extent to which the intentions indicated under subsection (3) (b) of this section are consistent with the principles of responsible fiscal management specified in section 4 (2) of this Act and with the objectives specified under subsection (2) of this section; and

(b) Where the intentions indicated under subsection (3) (b) of this section are not consistent with the principles of responsible fiscal management specified in section 4 (2) of this Act or with the objectives specified under subsection (2) of this section or with both, specify—

(i) The reasons for the departure of those intentions from those principles or from those objectives or from both; and

(ii) The approach the Government intends to take to ensure that its intentions regarding each of the variables specified in subsection (2) of this section become consistent with those principles and those objectives; and

(iii) The period of time that is expected to elapse before the Government's intentions regarding each of the variables specified in subsection (2) of this section become consistent with those principles and those objectives.

(5) The budget policy statement shall—

(a) Assess the consistency of the objectives specified under subsection (2) of this section with the objectives specified in—

(i) The immediately preceding budget policy statement; or

(ii) Where the objectives specified in the immediately preceding budget policy statement were amended in the report most recently prepared under section 7 of this Act, the objectives specified in that report; and

(b) Where the objectives specified under subsection (2) of this section are not consistent with those in the immediately preceding budget policy statement or in the report most recently prepared under section 7 of this Act, justify the departure of the objectives specified under subsection (2) of this section from those in that immediately preceding budget policy statement or in that report.

(6) The budget policy statement shall—

(a) Assess the consistency of the intentions indicated under subsection (3) (b) of this section with the intentions indicated in—

(i) The immediately preceding budget policy statement; or

(ii) Where the intentions indicated in the immediately preceding budget policy statement were amended in the report most recently prepared under section 7 of this Act, the intentions indicated in that report; and

(b) Where the intentions indicated under subsection (3) (b) of this section are not consistent with those in the immediately preceding budget policy statement or in the report most recently prepared under section 7 of this Act, justify the departure of the intentions indicated under subsection (3) (b) of this section from those in that immediately preceding budget policy statement or in that report.

(7) The Minister shall not later than 3 sitting days after the date of the publication of a budget policy statement under subsection (1) of this section, lay a copy of the statement before the House of Representatives.

7. Fiscal strategy report—(1) The Minister shall, for each financial year, after the introduction of the first Appropriation Bill relating to that financial year, but on the day of the introduction of that Bill, lay before the House of Representatives a report on the Government's fiscal strategy.

(2) The fiscal strategy report shall include—

(a) An assessment of the extent to which the report containing an economic and fiscal update being laid before the House of Representatives under section 8 (1) of this Act is consistent with the intentions indicated under section 6 (3) (b) of this Act in the budget policy statement most recently published under section 6 (1) of this Act; and

(b) Where the economic and fiscal update departs from the intentions indicated under section 6 (3) (b) of this Act in that budget policy statement, an explanation of the reasons for the departure; and

(c) Where the Government's intentions under section 6 (3) (b) of this Act have changed from those indicated in that budget policy statement, an amended version of the intentions required by section 6 (3) (b) of this Act.

(3) The fiscal strategy report shall also include—

(a) Progress outlooks that—

(i) Include projections of trends in the variables specified in section 6 (2) of this Act, which projections shall illustrate, for stated significant assumptions, likely future progress towards achieving the longer-term fiscal strategy and objectives specified in the budget policy statement most recently published under section 6 (1) of this Act; and

(ii) Explain the reasons for any significant differences from previous progress outlooks; and

(b) An assessment of the consistency of the progress outlooks with the objectives specified under section 6 (2) of this Act in the budget policy statement most recently published under section 6 (1) of this Act; and

(c) Where the progress outlooks depart from the objectives specified under section 6 (2) of this Act in that budget policy statement, an explanation of the reasons for the departure; and

(d) Where the Government's objectives under section 6 (2) of this Act have changed from those specified in that budget policy statement, an amended version of the objectives required by section 6 (2) of this Act (which version shall accord with the principles of responsible fiscal management specified in section 4 (2) of this Act).

(4) The projections required by subsection (3) (a) (i) of this section shall relate to a period of 10 or more consecutive financial years commencing with the financial year to which the Appropriation Bill relates.

8. Economic and fiscal update—(1) The Minister shall for each financial year, after the introduction of the first Appropriation Bill relating to that financial year, but on the day of the introduction of that Bill, lay before the House of Representatives a report containing an economic and fiscal update prepared by the Treasury.

(2) The update shall contain economic and fiscal forecasts relating to the financial year to which the Appropriation Bill relates and to each of the following 2 financial years.

(3) The update shall contain a statement specifying the day on which the contents of the update were finalised, or the days on which the contents of different specified aspects of the update were finalised.

9. Economic forecasts—(1) The economic forecasts contained in the update shall, for each of the 3 financial years to which they relate, include forecasts of movements in New Zealand's—

(a) Gross domestic product, including the major components of gross domestic product:

(b) Consumer prices:

(c) Unemployment and employment:

(d) Current account position of the balance of payments.

(2) The economic forecasts shall also include a statement of all significant assumptions underlying them.

10. Fiscal forecasts—(1) The fiscal forecasts contained in the update shall, for each of the 3 financial years to which they relate, include forecast financial statements for the Crown.

(2) The forecast financial statements for the Crown shall include—

(a) A statement of the forecast financial position of the Crown at the balance date for each of those financial years:

(b) An operating statement reflecting the forecast revenue and expenses of the Crown for each of those financial years:

(c) A statement of cash flows reflecting forecast cash flows of the Crown for each of those financial years:

(d) A statement of borrowings reflecting the forecast borrowing activities of the Crown for each of those financial years:

(e) Such other statements as are necessary to fairly reflect the forecast financial operations of the Crown for each of those financial years and its forecast financial position at the end of each of those financial years.

(3) The forecast financial statements for the Crown shall also include—

(a) A statement of commitments of the Crown as at the day on which the forecast financial statements are finalised (other than the commitments included in the statements prepared under subsection (2) of this section):

(b) A statement of specific fiscal risks of the Crown as at the day on which the forecast financial statements are finalised, being the fiscal risks in relation to—

(i) The Government decisions and other circumstances required by section 11 of this Act to be incorporated in the economic and fiscal update; and

(ii) Any other contingent liabilities of the Crown, including any guarantees or indemnities given under any Act:

(c) A statement of all significant accounting policies, including any changes from the accounting policies contained in the annual financial statements of the Crown most recently laid before the House of Representatives or published under section 31 of the Public Finance Act 1989:

(d) In relation to each statement required by paragraphs (a) to (d) of subsection (2) of this section and, where appropriate, in relation to any statement required by paragraph (e) of that subsection,—

(i) Comparative budgeted and estimated actual figures for the financial year immediately before the first of the financial years to which the fiscal forecasts relate; and

(ii) Comparative actual figures for the financial year 2 years before the first of the financial years to which the fiscal forecasts relate.

(4) The forecast financial statements for the Crown shall be for the same reporting entity as the annual financial statements for the Crown to be prepared under section 27 of the Public Finance Act 1989 for the first of the financial years to which the fiscal forecasts relate.

(5) The fiscal forecasts shall also include a statement of all significant assumptions underlying them.

11. Disclosure of policy decisions and other matters that may influence future fiscal situation—(1) Every economic and fiscal update prepared under section 8 (1) or section 13 (1) or section 14 (1) of this Act shall incorporate to the fullest extent possible consistent with subsection (4) of this section all Government decisions and all other circumstances that may have a material effect on the fiscal and economic outlook.

(2) Where the fiscal implications of Government decisions and other circumstances referred to in subsection (1) of this section can be quantified for particular years with reasonable certainty by the day on which the forecast financial statements for the Crown are finalised, the quantified fiscal implications of those Government decisions and other circumstances shall be included in the forecast financial statements for the Crown.

(3) Where the fiscal implications of Government decisions and other circumstances referred to in subsection (1) of this section cannot be quantified for or assigned to particular years with reasonable certainty by the day on which the forecast financial statements for the Crown are finalised, those Government decisions and other circumstances shall be disclosed in the statement of specific fiscal risks of the Crown required by section 10 (3) (b) of this Act.

(4) Subsection (1) of this section and section 10 (2) (e) of this Act shall not apply to a decision, circumstance, or statement where the Minister determines that—

(a) To incorporate that decision, circumstance, or statement in an economic and fiscal update is likely—

(i) To prejudice the substantial economic interests of New Zealand; or

(ii) To prejudice the security or defence of New Zealand or the international relations of the Government; or

(iii) To compromise the Crown in a material way in negotiation, litigation, or commercial activity; or

(iv) To result in material loss of value to the Crown; and

(b) There is no reasonable or prudent way the Government can avoid this prejudice, compromise, or material loss—

(i) In the case of a circumstance, by making a decision before the day on which the forecast financial statements for the Crown are finalised; or

(ii) In the case of a decision or circumstance, by incorporating in the update the fiscal implications of that decision or circumstance, or the nature of that decision or circumstance but without reference to its fiscal implications; or

(iii) In the case of a statement, by incorporating that statement in the update.

12. Statement of responsibility—Every economic and fiscal update prepared under section 8 (1) or section 13 (1) or section 14 (1) of this Act shall be accompanied by a statement of responsibility signed by the Minister and the Secretary and comprising—

(a) A statement by the Minister that all policy decisions with material economic or fiscal implications that the Government has made before the day on which the contents of the update or of the relevant aspect of the update were finalised, and all other circumstances with material economic or fiscal implications of which the Minister was aware before that day have been communicated to the Secretary; and

(b) A statement by the Secretary that the Treasury has supplied to the Minister, using its best professional judgment on the basis of economic and fiscal information available to it before the day on which the contents of the update or of the relevant aspect of the update were finalised, an economic and fiscal update incorporating the fiscal and economic implications of those decisions and circumstances, but not incorporating any decisions, circumstances, or statements that the Minister has determined under section 11 (4) of this Act should not be incorporated in that update; and

(c) A statement of the Minister's responsibility—

(i) For the integrity of the disclosures contained in the update; and

(ii) For the consistency with the requirements of this Act of the information contained in the update; and

(iii) For the omission from the update under section 11 (4) of this Act of any decision, circumstance, or statement.

13. Half-year economic and fiscal update—(1) Subject to subsection (3) of this section, the Minister shall, not earlier than the 1st day of December nor later than the 31st day of December in each financial year, cause to be published a report containing an economic and fiscal update prepared by the Treasury.

(2) The economic and fiscal update shall—

(a) Include the information required by sections 8 (2), 8 (3), 9, 10, and 11 of this Act to be included in the economic and fiscal update prepared under section 8 (1) of this Act, except that the reference to estimated actual figures in section 10 (3) (d) (i) of this Act shall be read as if it were a reference to actual figures, and the actual figures required by section 10 (3) (d) (ii) of this Act shall not be required; and

(b) Be accompanied by the statement of responsibility required under section 12 of this Act.

(3) The Minister shall not be required to cause a report to be published under subsection (1) of this section in any financial year if, in that part of that financial year beginning on the 1st day of October and ending with the 31st day of December, an economic and fiscal update—

(a) Has been published under section 14 of this Act; or

(b) Is required to be published under section 14 of this Act.

(4) The Minister shall, not later than 3 sitting days after the publication of a report under subsection (1) of this section, lay a copy of the report before the House of Representatives.

14. Pre-election economic and fiscal update—(1) The Minister shall, except as provided in subsection (4) of this section, cause to be published, not earlier than 42 days, nor later than 28 days, before the day appointed as polling day in relation to any general election of members of Parliament, a report containing an economic and fiscal update prepared by the Treasury.

(2) The economic and fiscal update shall,—

(a) Except as provided in subsection (3) of this section, include the information required by sections 8 (2), 8 (3), 9, 10, and 11 of this Act to be included in the economic and fiscal update prepared under section 8 (1) of this Act; and

(b) Be accompanied by the statement of responsibility required by section 12 of this Act.

(3) Where, before the day on which an economic and fiscal update is required to be published under this section, the annual financial statements of the Crown for the financial year immediately before the first of the financial years to which the fiscal forecasts relate have been laid before the House of Representatives or published under section 31 of the Public Finance Act 1989, the reference to estimated actual figures in section 10 (3) (d) (i) of this Act shall be read as if it were a reference to actual figures, and the actual figures required by section 10 (3) (d) (ii) of this Act shall not be required.

(4) Where the day of the dissolution of Parliament is less than 35 days before the day appointed as polling day in relation to the general election of members of the House of Representatives, the Minister shall cause the economic and fiscal update required to be published under this section to be published not later than 14 days after the day of the dissolution of Parliament.

(5) The Minister shall, not later than 3 sitting days after the first meeting of the new Parliament, lay before the House of Representatives a copy of the report published under this section.

15. Current-year fiscal update—(1) The Minister shall, on the introduction of the first Appropriation Bill after the last day of March in each financial year, not being an Appropriation Bill that deals solely with matters relating to a previous financial year, lay before the House of Representatives a report containing a fiscal update for that financial year prepared by the Treasury.

(2) The update shall contain fiscal forecasts for that financial year and a statement of all significant assumptions underlying them.

(3) The fiscal forecasts shall include forecast estimated actual financial statements for the Crown for that financial year including—

(a) A statement of the forecast estimated actual position of the Crown at the balance date:

(b) An operating statement reflecting the forecast estimated actual revenue and expenses of the Crown for that financial year:

(c) A statement of cash flows reflecting forecast estimated actual cash flows of the Crown for that financial year:

(d) A statement of borrowings reflecting the forecast borrowing activities of the Crown for that financial year:

(e) A statement of all significant accounting policies, including any changes from those contained in the annual financial statements of the Crown most recently laid before the House of Representatives or published under section 31 of the Public Finance Act 1989:

(f) Such other statements as are necessary to fairly reflect the forecast estimated actual financial operations of the Crown for that year and its forecast estimated actual financial position at the end of that financial year:

(g) In relation to each statement required by paragraphs (a) to (d) of this subsection and, where appropriate, by paragraph (f) of this subsection, comparative budgeted and actual figures for the previous financial year.

(4) The forecast financial statements for the Crown to be prepared under subsection (3) of this section shall be for the same reporting entity as the annual financial statements for the Crown to be prepared under section 27 of the Public Finance Act 1989 for the financial year to which the fiscal forecasts relate.

16. Referral to select committee—There shall stand referred to any committee of the House of Representatives responsible for the overall review of financial management in government departments and other public bodies—

(a) Every budget policy statement published under section 6 (1) of this Act:

(b) Every fiscal strategy report laid before the House of Representatives under section 7 (1) of this Act:

(c) Every report laid before the House of Representatives under section 8 (1) of this Act:

(d) Every report published under section 13 (1) or section 14 of this Act:

(e) Every report laid before the House of Representatives under section 15 (1) of this Act.

17. Publication, inspection, and purchase of statements and reports—(1) The Minister shall, in respect of every statement or report referred to in section 16 of this Act, arrange for publication in the *Gazette* of a notice—

(a) Indicating, where the statement or report is published in advance of being laid before the House of Representatives, that the statement or report has been published; and

(b) Showing a place at which copies of the statement or report are available for inspection free of charge; and

(c) Showing a place at which copies of the statement or report are available for purchase.

(2) The Secretary shall, for at least 6 months after the date of the publication of the notice required by subsection (1) of this section, cause copies of the statement or report referred to in that notice to be available—

(a) For inspection by members of the public free of charge; and

(b) For purchase by members of the public.

18. Power of Secretary to obtain information—(1) The Secretary may from time to time request any department or any entity mentioned in section 27 (3) of the Public Finance Act 1989, or any entity that manages an asset or liability of the Crown, to supply to the Secretary such information as is necessary to enable the preparation of any of the fiscal forecasts referred to in sections 8, 10, 11, 13, 14, and 15 of this Act.

(2) Any request under subsection (1) of this section may specify the date by which and the manner in which the information requested is to be provided.

(3) Where a date is specified under subsection (2) of this section, that date shall be reasonable having regard to the time limits prescribed by this Act for the laying before the House of Representatives, or the publishing, of the report for which the information is being requested.

(4) Where any request under subsection (1) of this section is made to a department or entity, that request shall be in writing and that department or entity shall comply with that request.

19. Transitional provision—(1) The fiscal strategy report required to be laid before the House of Representatives under section 7 (1) of this Act for the financial year commencing on the 1st day of July 1994 shall include—

(a) The long-term objectives required by section 6 (2) of this Act and an explanation of how those long-term objectives accord with the principles of responsible fiscal management specified in section 4 (2) of this Act; and

(b) The intentions required by section 6 (3) (b) of this Act; and

(c) Progress outlooks that include projections of trends in the variables specified in section 6 (2) of this Act, which projections shall illustrate, for stated significant assumptions, likely future progress towards achieving the long-term objectives included under paragraph (a) of this subsection.

(2) Subsections (2) and (3) of section 7 of this Act shall not apply to the fiscal strategy report to which subsection (1) of this section applies.

(3) Subsection (4) of section 7 of this Act shall apply to the fiscal strategy report to which subsection (1) of this section applies as if the reference in section 7 (4) of this Act to subsection (3) (a) (i) of section 7 of this Act were a reference to subsection (1) (c) of this section.

This Act is administered in the Treasury.

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Attachment C

APEC New Zealand 99

Background Paper: APEC 1999: New Zealand Objectives

This paper sets out the key New Zealand objectives for our year in the APEC Chair. These stem from the four broad strategic goals the Government has identified for 1999:

- to achieve further substantive progress towards trade and investment liberalisation and facilitation;
- to shape a credible response to the economic crisis;
- to reinforce the capacity of institutions and human resources in the region to deal with the economic challenges they face;
- to build broader support for APEC among the wider community.

These goals are interlinked. The key focus of APEC work in response to the economic crisis is to reinvigorate growth and investment in the region. Pushing forward on trade and investment liberalisation and facilitation and on strengthening institutional and human capacity will together contribute significantly to a credible APEC response to the crisis.

Building on these broad goals the Government proposes three unifying themes for APEC initiatives in 1999:

- expanding opportunities for doing business throughout the APEC region;
- working with other economies to strengthen the functioning of markets
- broadening support for and understanding of APEC in the community.

Theme 1 : Expanding Opportunities for Business Throughout the Region

The twin pillars of APEC work are economic and technical cooperation (ECOTECH) and trade and investment liberalisation and facilitation (TILF). APEC's driving vision of free and open trade and investment, agreed at Bogor in 1994, is a medium to long-term goal. In 1999 initiatives planned to advance towards that goal include:

- **Early Voluntary Sectoral Liberalisation (EVSL).** APEC's agreement at Kuala Lumpur to take the first nine sectors[1] of EVSL to the World Trade Organisation (WTO) for expanding participation and binding negotiation was a significant

[1] Fish and fish products; forest products; environmental goods and services; toys; gems and jewellery; energy; chemicals; medical equipment and instruments; and telecommunications (mutual recognition arrangement).

step forward. Implementation of agreed facilitation and ECOTECH measures will begin next year. In addition APEC will need to finalise agreement on the remaining six sectors[2], including implementation of action on non-tariff measures, facilitation and ECOTECH elements. Progress in the WTO and on the remaining six sectors will be considered by Trade Ministers in June 1999.

- **APEC Food System.** Leaders in Kuala Lumpur agreed that APEC should study an ambitious long-term proposal from the APEC Business Advisory Council (ABAC) aimed at making regional agricultural markets function effectively. The proposal adopts a balanced approach including liberalisation, facilitation and ECOTECH elements. The first step will be to look at a possible work-plan in 1999 for taking the proposal forward.

- **Individual and Collective Actions Plans** (IAPs and CAPs). These are the core mechanisms for advancing APEC's trade agenda. Six economies: the US, Japan, Brunei Darussalam, the Philippines, Chinese Taipei and Australia have volunteered for the first time to subject their IAPs to peer review by other APEC economies next year. These reviews will provide an opportunity to check on progress made by economies on a voluntary basis towards achieving the Bogor goals. With next year marking five years since the Bogor goals were adopted, APEC has also agreed to undertake a review of progress to date through the IAP mechanism.

- **APEC support for the multilateral trading system.** With the WTO Ministerial meeting in November 1999 due to take place shortly after the APEC Leaders Meeting, APEC has a major opportunity next year to influence the shape of further multilateral trade negotiations under the WTO. New Zealand is keen to see comprehensive trade negotiations launched as soon as possible after November.

Theme 2 : Strengthening the Functioning of Markets

The economic crisis has shown up the need for work on strengthening markets to build confidence and resilience and speed the recovery of growth in the region. In Kuala Lumpur Leaders asked for work to be undertaken as a matter of urgency on strengthening financial markets in particular. As well as progressing trade and investment liberalisation and facilitation across borders, achieving APEC's goal of prosperity requires improving the functioning of all markets through a focus on internal competition and regulatory frameworks. Ministers in Kuala Lumpur agreed that next year APEC should "examine how competition and regulatory reforms can contribute towards facilitating trade and investment".

New Zealand has been convening APEC work in competition and regulatory issues for some time, and we are keen to push forward in this area. As a specific deliverable for

[2] Automobiles, civil aircraft, fertiliser, oilseeds, rubber and foodstuffs - essentially horticultural products and some processed food products.

1999 we are interested in developing a framework of **non-binding competition and regulatory principles** for endorsement by APEC Leaders.

Following up on Leaders' instructions from Kuala Lumpur, work in this area will also address institutional weaknesses and capacity shortages, particularly **skills shortages**, strengthening **social safety nets,** and on needs in the area of **economic governance**. There will be a close focus on **strengthening financial markets and investment flows** and on prudential supervision issues, including transparency over hedge funds. APEC will also carry forward work on **electronic commerce** and Y2K issues.

Theme 3 : Broadening Support for APEC

There is wide support within APEC for the need to communicate the benefits of market reforms and trade liberalisation to wider audiences, to broaden understanding of and support for APEC by the general public. As Chair, New Zealand intends to take a lead in carrying out a substantial programme of domestic outreach next year, as well as working with other economies on developing tools for more effective communication with communities. In 1999 the APEC programme will include:

- a **Women Leaders' Network** Meeting in Wellington 20-23 June;
- a seminar on communicating the benefits of **trade liberalisation** in Auckland on June 27;
- the **APEC Business Advisory Council** (ABAC) meeting in Auckland 11 September.

In addition, among the New Zealand outreach events next year will be:

- an **SME business symposium** alongside the SME Ministerial in Christchurch 26-28 April;
- a number of **Maori outreach** initiatives through next year;
- a private sector **CEO Summit** 10-12 September;
- initiatives aimed at **engaging with NGOs.**

The above represents the broad approach New Zealand proposes to take to APEC 99. As Chair, our first responsibility will of course be to carry forward the existing APEC agenda, including the instructions provided by Leaders and Ministers in Kuala Lumpur. The APEC approach of consensus means we will only be able to pursue objectives which have the support of all member economies.

Ministry of Foreign Affairs and Trade
November 1998

Attachment D

Australia Funding

Over the past five years, funding provided to post for the operation of Embassy Canberra and Consulates in Melbourne, Perth and Sydney has remained fairly constant.

While a few years have been leaner than others, a year-to-year comparison shows that the funding levels have just kept pace with inflation. With roughly 88% of the total Diplomatic and Consular Programs (DCP) budgets expended in local currency, exchange rate fluctuations account for most of the yearly variances.

DCP Funding

FY-94	U.S. $6,215,400
FY-95	U.S. $6,075,400
FY-96	U.S. $6,143,000
FY-97	U.S $6,912,240
FY-98	U.S. $6,362,200
FY-99	U.S. $5,927,586*

Routine Maintenance and Repair (M&R) funding for Government Owned/Long-Term Leased properties has likewise remained constant and has kept up with inflation. To obtain a more accurate picture of purchasing power, the Australian Dollar equivalent is shown as well as the U.S. Dollar allotment figures.

M&R Funding

FY-94	U.S. $311,800	A$439,000
FY-95	U.S. $311,800	A$422,800
FY-96	U.S. $250,000	A$322,000
FY-97	U.S. $287,000	A$370,800
FY-98	U.S. $287,000	A$441,400
FY-99	U.S. $281,400*	A$484,289

The same trend holds true in regard to Representation funding. While the U.S. Dollar amount allotted over the past three years has steadily diminished, post has benefitted from a weaker Australian Dollar to offset the U.S. Dollar reduction.

Representation

FY-94	$68,500	A$96,448
FY-95	$72,300	A$98,038
FY-96	$69,700	A$89,773
FY-97	$65,200	A$84,238
FY-98	$59,400	A$91,357
FY-99	$51,600*	A$88,804

*FY-99 figures are current targets figures, with Australian Dollar amounts shown at FY-99 budget rate of 1.721 (December 1998 rate average 1.6)

STAFFING LEVELS AT EMBASSY CANBERRA AND CONSTITUENT POSTS: MELBOURNE, PERTH, SYDNEY

The staffing complement of the U.S. mission to Australia is 306 positions country-wide, comprising 172 U.S. direct-hire positions and 134 foreign national positions. These numbers include all PIT (part-time, intermittent, and temporary) and PSC (personal services contract) positions. They represent many agencies and offices, including State, DoD, DIA, USIS, US&FCS, Agriculture, FBI, DEA, FAA, NASA, and the intelligence community. The positions are located as follows:

Canberra:	130 U.S.	72 F.N.
Melbourne:	15 U.S.	19 F.N.
Perth:	3 U.S.	7 F.N.
Sydney:	22 U.S.	36 F.N.

The current country-wide complement has been downsized significantly in the past five years, with a total of 38 positions having been eliminated since 1993. The closure of USIS branch offices netted four position reductions in Melbourne and two in Perth. The closure of the USTTA eliminated four positions in Sydney; and the closure of the Consulate General in Brisbane in 1996 resulted in the reduction of another five positions. But the largest single reduction of positions came in response to the Presidential mandate to reduce the size of the Federal government; 11 State positions were abolished in the downsizing exercise.

The breakdown of position reductions by agency is as follows:

State:	12 U.S.	14 F.N.
USIS:		8 F.N.
USTTA:		4 F.N.

AMERICAN EMBASSY CANBERRA

A SECURITY PROFILE

The American Embassy in Canberra rests on a 15 acre compound. The Chancery shares this acreage with the Ambassador's residence, GSO facilities, the Financial Management Center, APO and other administrative offices.

The greatest security asset this Embassy enjoys is the outstanding cooperation and assistance the Australian security forces provide. The Australian Federal Police, Australian Protective Services, Protective Services Coordination Center, Special Intelligence Diplomatic Liaison and State Police together provide this Embassy with personnel and intelligence to help us combat potential threats to our facilities and personnel throughout Australia. Since the bombings in Nairobi and Dar Es Salaam Australian Security forces have increased their efforts to assist us in our security preparedness.

In conjunction with the Australians efforts we have taken numerous steps to improve our security posture. We now inspect all vehicles entering our compound. We have hired additional local guards to accomplish this and to increase our coverage of the Ambassador's residence and the rest of the compound. We have installed countersurveillance equipment to detect any attempt to monitor the comings and goings of Embassy personnel. The Emergency Action Committee meets bi-weekly to review security issues. The Regional Security Officer has traveled to various U.S. sites throughout Australia to brief, instruct and encourage improved security practices. These trips have helped bring together all U.S. sites into the picture regarding security concerns in Australia.

With the recent approval of additional security funding by Congress we plan to install new vehicle barriers, new and improved window film (mylar) and new grill work where it is needed. Our Consulate in Perth should soon have an approved public access project underway.

We will continue to review our posture and make appropriate requests for funds when needed, or take steps using our own resources to correct any deficiencies that are identified. All of us realize that this is a continuous effort. We must be proactive to meet today's threats.

Attachment E

Trade issues in hibernation

Australia could be left out in the cold unless it wakes up, writes **Peter Cook.**

Has the momentum for liberalising world trade now stalled? Are we entering a new dark age where the idea of opening world markets to generate more vibrant global growth is retreating in the face of the combined forces of the Asian crisis, Japan's malaise, emerging political drift in the United States and a European Union preoccupied with absorbing new members and bedding down the ECU?

And what does this mean for Australia? These are questions that arise from last month's APEC debacle. Unfortunately, no one seems to be asking them. They do not even seem to have occurred to the Prime Minister.

Indeed, Canberra's spin on APEC has been that John Howard is more astute at foreign relations than Al Gore, and because the PM's offer of Aussie dollars to "educate" Asian countries on financial management was snapped up, Australia scored a diplomatic triumph.

This is all further proof that Howard thinks in miniature. It is a long, long way from the main game. There are at least two real things that Australia could have done at the summit.

First, we could have worked over the last 12 months to create a substantial program for this summit. Dr Mahathir was never going to do this. Since 1996 Australia has withdrawn from the role of APEC "point man". Presidents and prime ministers attend summits if there are worthwhile outcomes to announce. Those outcomes don't get invented on the spot, they get pulled together by hard work in the year leading up to the big occasion. Australia used to do that work: no one does it now.

Australia should come out of hibernation and help broker the deals that will give APEC's trade goals fresh impetus. Next year, APEC's future is largely in New Zealand's hands. They will do a good job. But it is a huge task and Australia must actively back up the Kiwis if APEC is to survive in the future.

Second, APEC needs to stick to its knitting. Trade is its core. Realisation of the APEC agenda is worth another $44.7 billion to the Australian economy.

Inexplicably, just days before the KL summit the Prime Minister announced Australia was going to switch its approach from trade to economic issues. Why? Isn't trade a central economic issue? Or do we believe trade liberalisation is something to flirt with only in the economic good times?

This is peculiar thinking. Surely what we are on about is encouraging an economic renaissance in Asia. Opening markets and liberalising trade will help achieve that.

It is not as if Australia didn't have some practical options to put forward in KL. Agricultural reform, for example. Ten of the 21 APEC countries are members of the Cairns Group. Next year is the WTO year of agricultural reform. This was a golden opportunity for Australia to set the world stage for real progress in this sector. It was a chance to quicken the pace of agricultural reform in Europe, not to mention revisiting agricultural issues with the US and north Asia inside APEC. Nothing was done.

The outlook for trade reform in the world is now decidedly bleak. No doubt if no real gains are made in agriculture next year, the issues will be referred off to the so-called Millennium Round. But will there be a Millennium Round? This is a far from settled issue.

President Clinton has no congressional approval to participate and, while there is an emerging consensus for a new round, there are notable opponents that prevent such support from hardening into a commitment.

The present hiatus is worrying. Australia cannot solve the problem. That does not mean to say Australia should limply wait for someone else to try, particularly when it is difficult to see from where the momentum might come to muster any sort of convincing effort.

A bold hand needs to be played. Progress toward a Millennium Round will not be achieved by merely calling for it. What such a round can achieve needs to be articulated. Goals should be set. The economic advantage to the world of a successful outcome can be demonstrated.

Such a round should continue the eternal push for freer markets, but deal as well with competition policy, trade in services, information technology and the new exotics like trade in genetic materials.

Additionally, it needs to revisit the structure of a global rules-based trading system. The WTO is far from a universal organisation and neither Russia nor China is a member. Taiwan is an outsider. These economies have to be brought into the system and the Millennium Round is a vehicle for this.

If the world trading system is allowed to continue to wallow, we will witness the rise of regional trade markets – the EU for Europe, NAFTA for the Americans and maybe some version of Dr Mahathir's East Asian Economic Caucus for our region. Australia, with New Zealand, would be left out in the cold.

■ *Senator Peter Cook is the Shadow Minister for Trade and Deputy Leader of the Opposition in the Senate.*

Attachment F

Inter-Parliamentary Union

Australia National Group

Australia/United States of America Parliamentary Group

Date: u 14 January, 1999 14:39	Total Number of Members	122

Chairman	Senator Jeannie Ferris
Vice-Chairman	The Hon Dr Andrew Theophanous MP
Secretary	Mr Bob Charles MP
	Senator the Hon Eric Abetz
	Mr Anthony Albanese MP
	The Hon Neil Andrew MP
	Mr Kevin Andrews MP
	The Hon Bruce Baird MP
	Mr Phillip Barresi MP
	Mr Kerry Bartlett MP
	Senator Andrew Bartlett
	The Hon Arch Bevis MP
	Mr Bruce Billson MP
	Ms Julie Bishop MP
	Senator Mark Bishop
	Senator the Hon Nick Bolkus
	Senator Vicki Bourne
	Hon Laurie Brereton MP
	Mr Mal Brough MP
	Senator the Hon David Brownhill
	The Hon Alan Cadman MP
	Senator Paul Calvert
	Mr Ross Cameron MP
	Senator George Campbell
	Senator Grant Chapman
	Senator Jacinta Collins
	Senator Helen Coonan

Senator Barney Cooney
The Hon Janice Crosio MBE MP
Senator Trish Crossin
Senator the Hon Rosemary Crowley
Mr Michael Danby MP
Mrs Trish Draper MP
The Hon Graham Edwards MP
Senator Alan Eggleston
Ms Annette Ellis MP
Senator Chris Ellison
Mrs Kay Elson MP
The Hon Gareth Evans QC MP
Senator Chris Evans
Mr Martyn Evans MP
Senator Alan Ferguson
Mr John Forrest MP
Senator Michael Forshaw
Mr Petro Georgiou MP
Senator Brenda Gibbs
Senator the Hon Brian Gibson
Ms Julia Gillard MP
Mr Gary Hardgrave MP
Mr Michael Hatton
Mr David Hawker MP
Senator Bill Heffernan
Senator John Hogg
Mr Colin Hollis MP
Senator Stephen Hutchins
Ms Julia Irwin MP
Mr Harry Jenkins MP
The Hon David Jull MP
Mrs De-Anne Kelly MP
The Hon Duncan Kerr MP
Senator Sue Knowles
The Hon Michael Lee MP
The Hon Lou Lieberman MP
Mr Peter Lindsay MP
Mr Jim Lloyd MP
Senator Kate Lundy
Senator Sandy Macdonald

Mr Ian Macfarlane MP
Senator David MacGibbon
Senator Sue Mackay
rs Jenny Macklin MP
The Hon Stephen Martin MP
Mrs Margaret May MP
Mr Stuart McArthur MP
Senator Julian McGauran
The Hon Leo McLeay MP
Mr Allan Morris MP
Senator Shayne Murphy
Mr Gary Nairn MP
Mr Garry Nehl MP
Mr Paul Neville MP
Ms Michelle O'Byrne
Mr Gavan O'Connor MP
Senator the Hon Kay Paterson MP
Senator Marise Payne
Ms Tanya Plibersek MP
Mr Roger Price MP
The Hon Geoff Prosser MP
Mr Christopher Pyne MP
Mr Harry Quick MP
Senator John Quirke
Senator the Hon Margaret Reid
The Hon Michael Ronaldson MP
Mr Kevin Rudd MP
The Hon Philip Ruddock MP
Mr Rod Sawford MP
Senator the Hon Chris Schacht
Mr Alby Schultz MP
The Hon Con Sciacca MP
The Hon Bruce Scott MP
The Hon Peter Slipper MP
Mr Warren Snowdon MP
The Hon Alex Somlyay MP
Dr Andrew Southcott MP
Mr Stuart St Clair MP
The Hon Sharman Stone MP
Senator Natasha Stott Despoja

The Hon Kathy Sullivan MP
Mr Wayne Swan MP
Senator Karen Synon
Senator the Hon Grant Tambling
Senator John Tierney
Senator Judith Troeth
The Hon Mark Vaile MP
Mrs Danna Vale MP
Senator the Hon Amanda Vanstone
Mr Barry Wakelin MP
Senator John Watson
Senator Sue West
Mr Kim Wilkie MP
Mr Greg Wilton MP
The Hon Trish Worth MP

Attachment G

MACQUARIE

Presentation to

US CONGRESSIONAL DELEGATION

at

IBSA

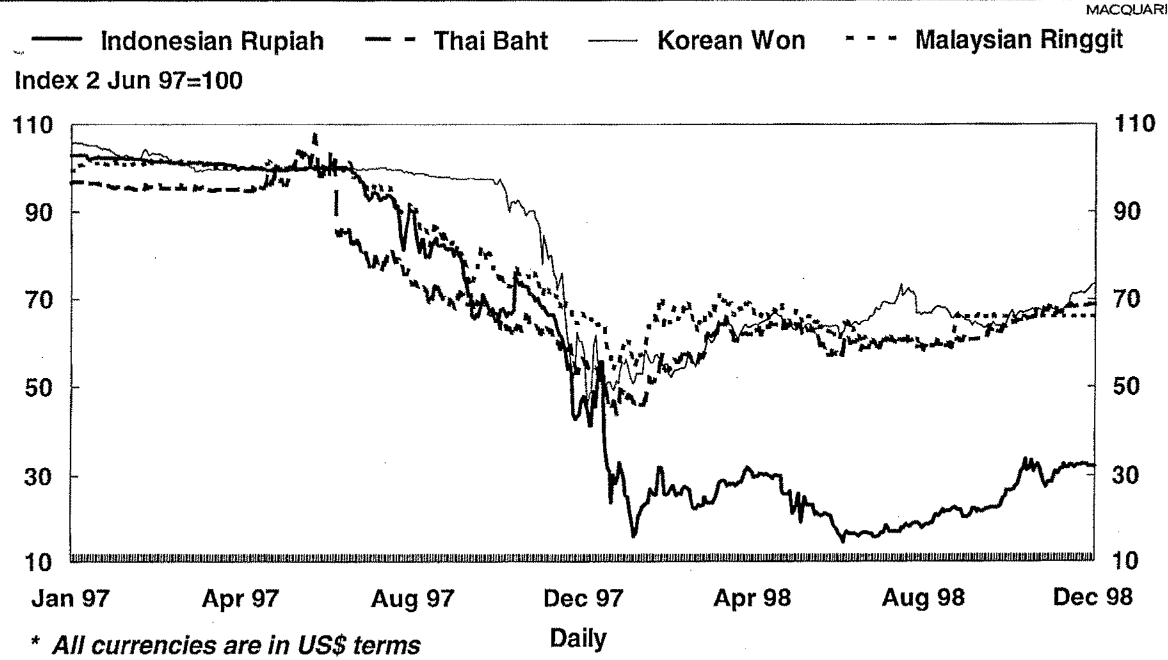
by

Bill Shields

Executive Director and Chief Economist

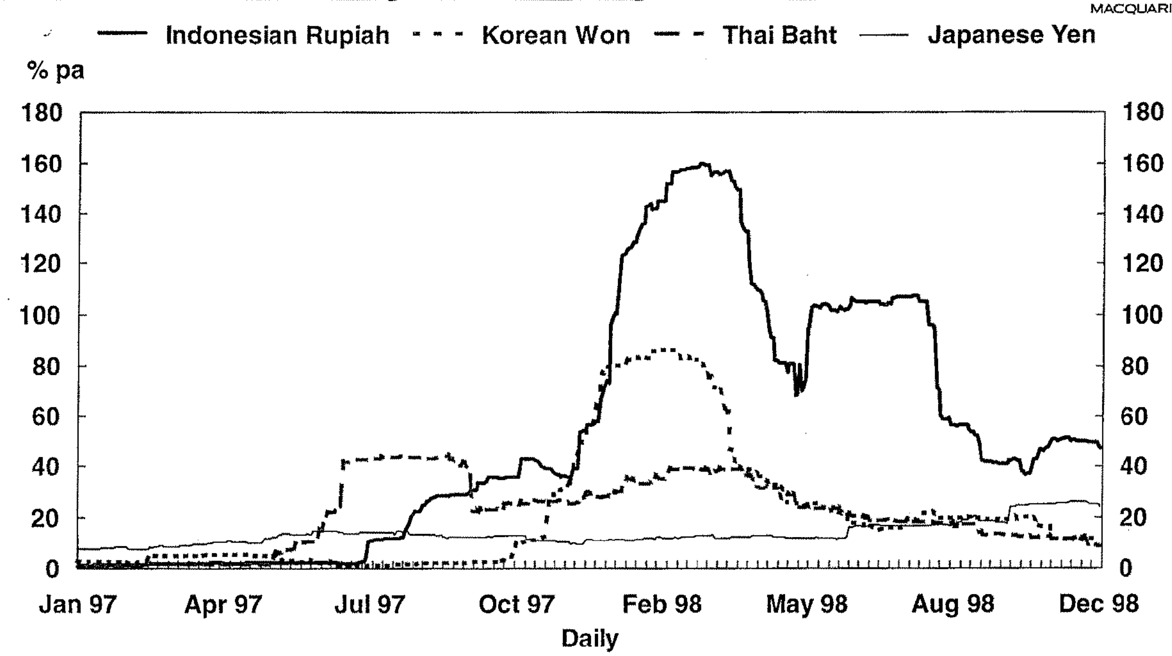
11 December 1998

Asian currencies



Economics & Fixed Interest Research Division

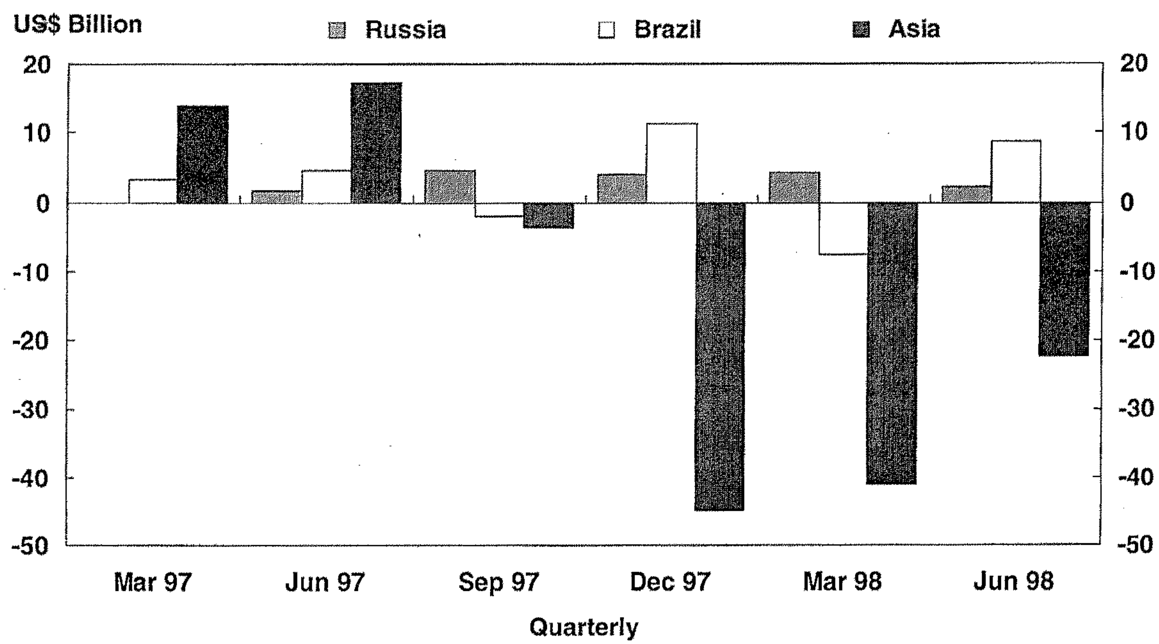
Asian currency volatility



Economics & Fixed Interest Research Division

Net international bank lending

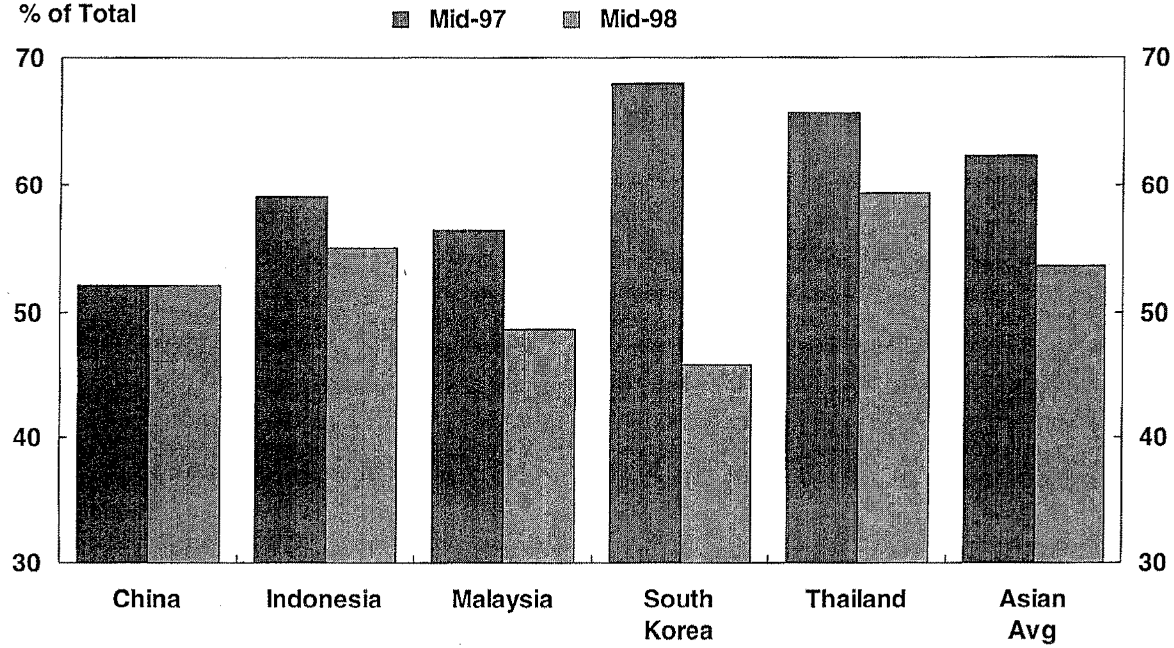
MACQUARIE



Economics & Fixed Interest Research Division

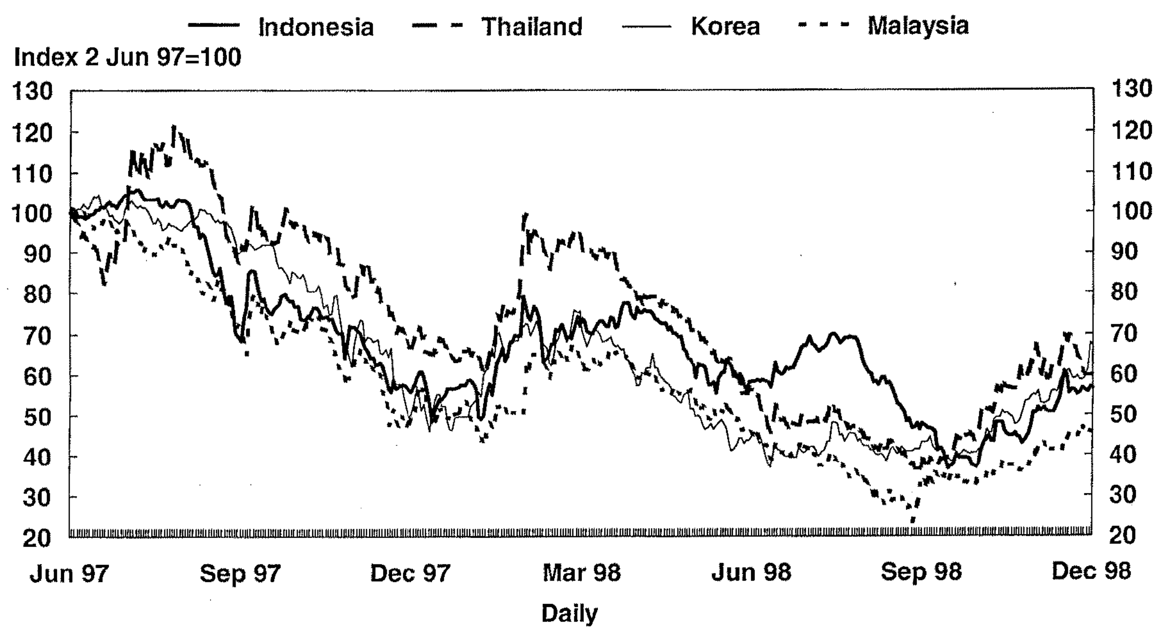
Bank loans due within 1 year

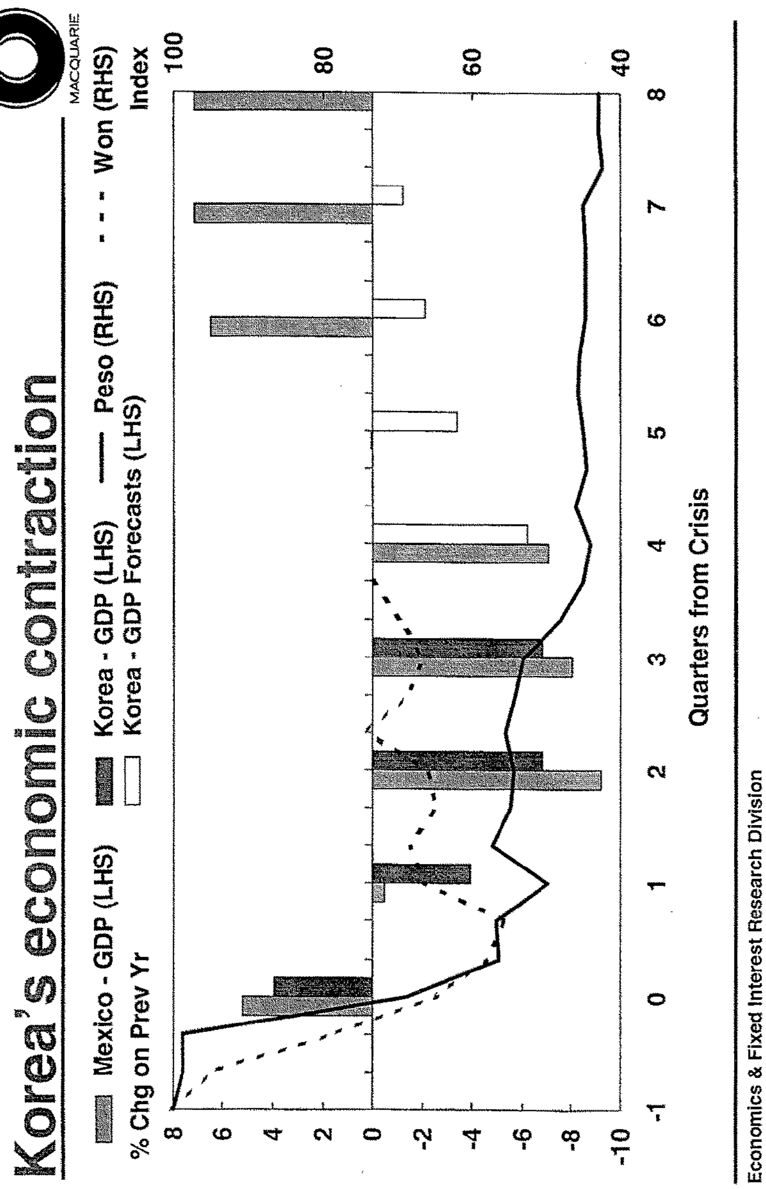
MACQUARIE



Economics & Fixed Interest Research Division

Asian stockmarkets




Korea's economic contraction
MACQUARIE
Mexico - GDP (LHS)
Korea - GDP (LHS)
Peso (RHS)
Won (RHS)
% Chg on Prev Yr
Korea - GDP Forecasts (LHS)
Index
8
6
4
2
0
-2
-4
-6
-8
-10
100
80
60
40
-1
0
1
2
3
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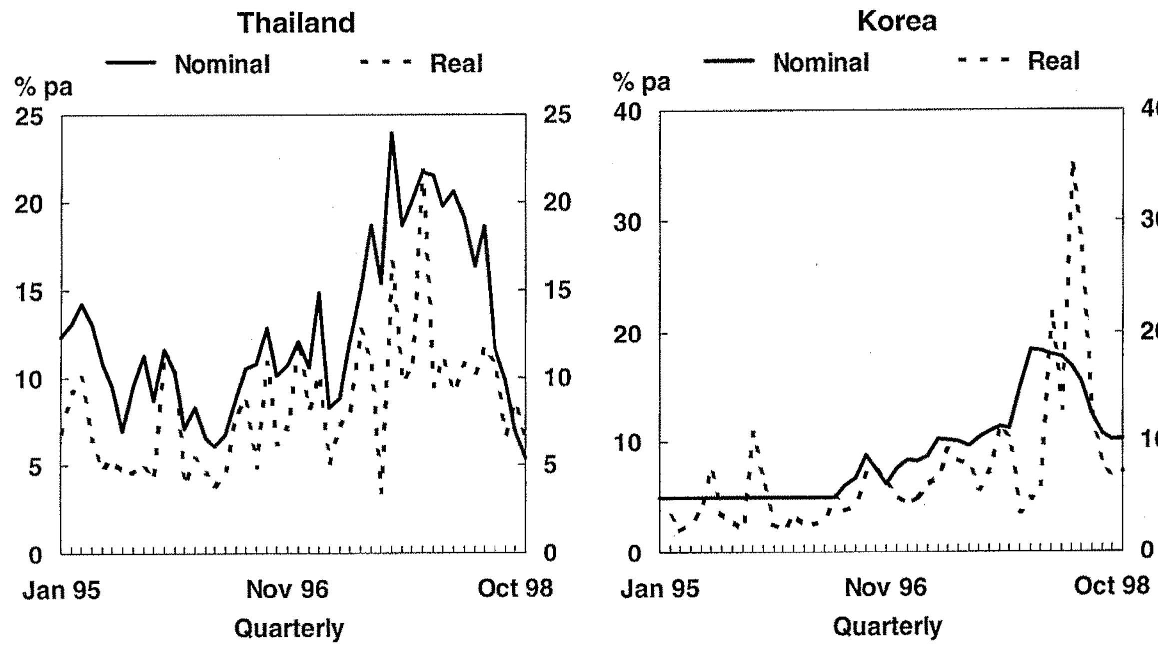
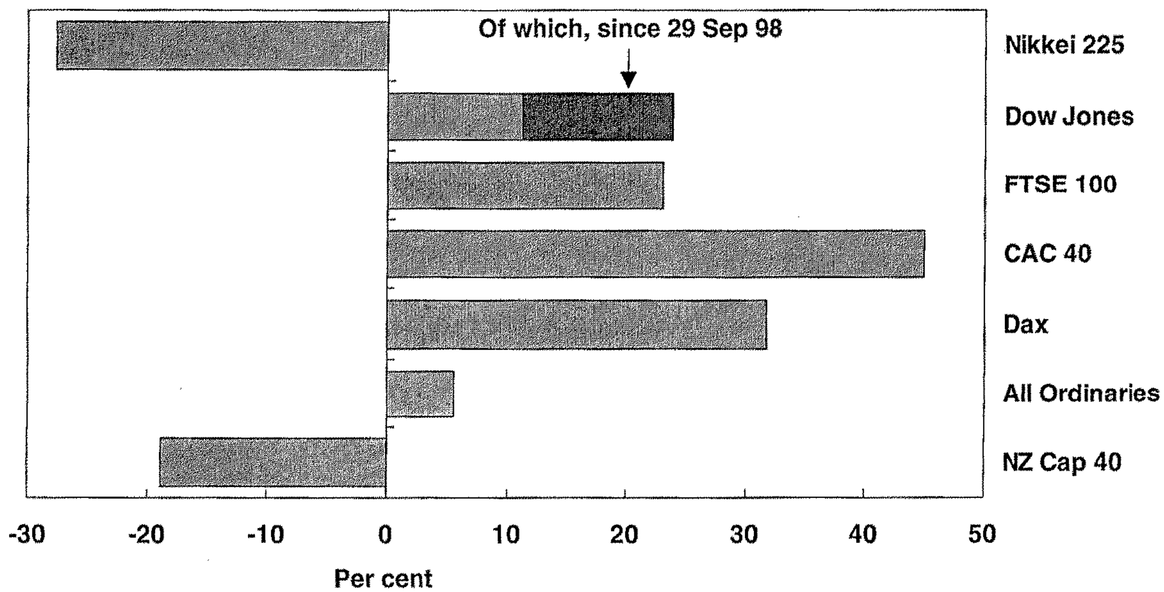
5
6
7
8
Quarters from Crisis
Economics & Fixed Interest Research Division

Financial stabilisation



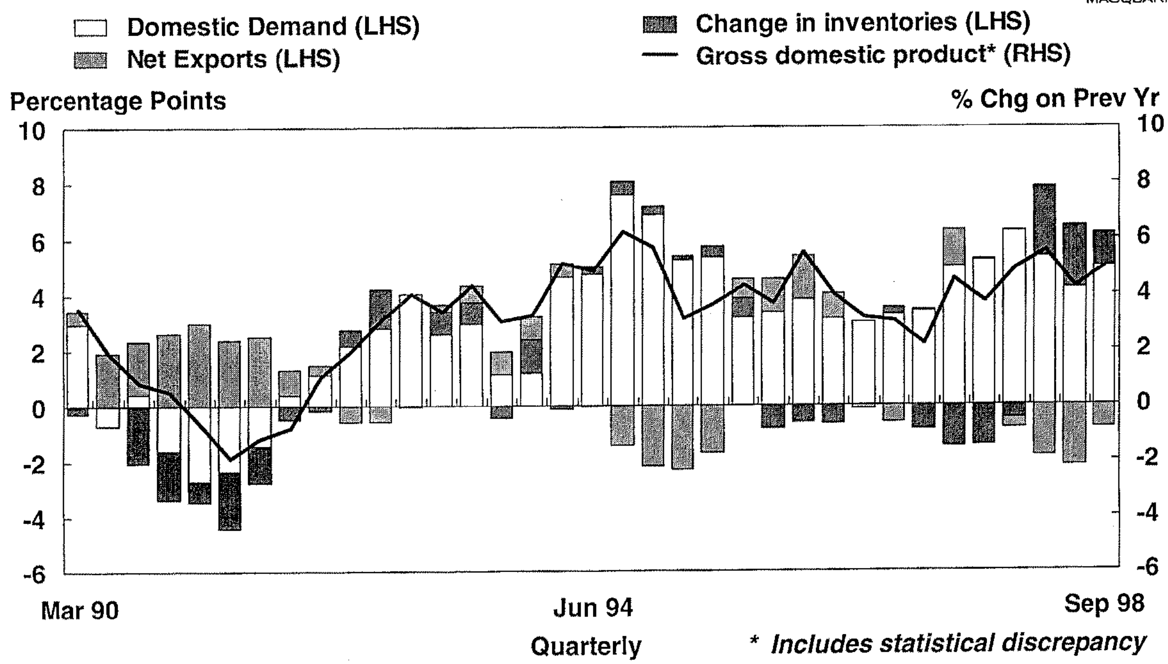
Asia's impact on investors

Per cent change since 2 June 1997



Economics & Fixed Interest Research Division

Australian Growth



* *Includes statistical discrepancy*

Economics & Fixed Interest Research Division

Asia's impact on our exports

MACQUARIE

Exports*

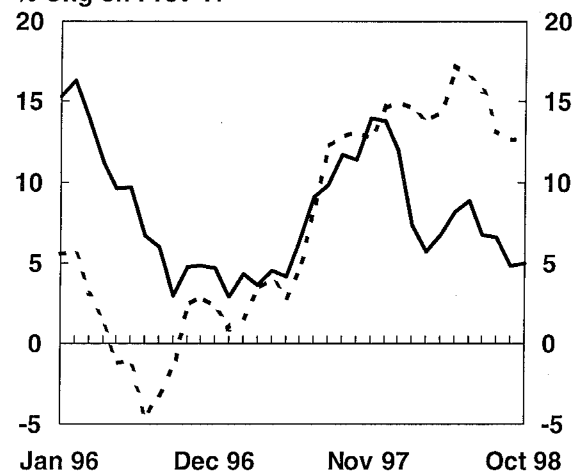
Destination	Growth to Oct 98	Export Shares 1997	Export Shares 1998
ASEAN	-23.8	16.8	12.8
NE Asia	-4.0	24.1	22.1
Japan	6.6	21.7	21.9
NZ	-10.8	8.3	6.9
US	37.4	8.1	10.2
Europe	47.7	11.4	14.9
Other	26.9	9.6	11.2
Total	6.5	100.0	100.0

* 10 mths to Oct 98 compared with 10 mths to Oct 97

Goods & Services

— Exports* - - - Imports

(3 month moving average)



* Excl RBA Gold Sales & NZ Frigate

Attachment H

Centre for Independent Studies: Pensions and superannuation in Australia

11 December 1998

Summary

Under the Australian Superannuation Guarantee scheme, employers have to contribute 7 per cent (rising to 9 per cent by 2002), of their payroll into individual employees' accounts in Industry Superannuation Funds. Arbitration awards, enterprise agreements legislation and regulation by the Insurance and Superannuation Commission underwrite the scheme.

At present there is no employee contribution though a potential 3 to 6 per cent is planned. In small enterprises, not subject to arbitration awards or enterprise agreements, employers can opt to pay the superannuation charge to other approved superannuation accounts. Industry Funds, however, are envisaged to be the principal superannuation vehicles for employees in medium and large-scale firms.

Coverage of full time employees is 90 per cent and of part-time employees, mainly women, is over 70 per cent.

It is estimated that if employees contribute continuously for 40 years, if the contributions rise to 15 percent of the payroll and if the Industry Fund earnings reach average financial market returns, employees would receive 60 per cent of average earnings. This compares to 40 per cent of average earnings paid out at present by the non-contributory 'safety net' pension scheme (subject to income and asset tests). On present indications the 60 per cent target is not likely to be reached. Many superannuation recipients are likely to have incomes only equivalent to the present old age pension scheme.

Superannuation Guarantee Scheme problems.

1. The Superannuation Guarantee scheme is not related to employees' savings or investment efforts and therefore has a major moral hazard element.

2. The scheme is burdensome on employers because of its high compliance costs; it discourages additions to employment.

3. The complexity of the scheme makes for high administrative and management costs that dissipate the sums accruing in the accounts of unskilled, part time and casual workers.

4. Industry Funds managers have been chosen from trade union and employer officials who do not have the required skills to manage trust funds. Current returns in a strongly growing economy average 2.6 per cent, less than half earned by private savings. Employees would be considerably better off if they placed their funds in a bank savings account. The trade unions have been noticeably quiet on this issue.

5. For the unions, which dominate Fund management, the Industry Funds represent a power base of increasing strength. Total superannuation assets are projected to grow to $A800 billion by 2010, $A1,500 billion by2020 and so on.

6. In sum, the United States and other countries would be ill advised to adopt the Australian model:

*individual responsibility for retirement income, (even with the choices envisaged), is not achieved, leading to moral hazard

*accounts can not be tailored to individual requirements,

*high compliance costs discourage employment creation,

*Funds are so administration intensive that contributions are dissipated for low income workers, part-time workers and as workers change jobs,

*Funds have unduly low financial earnings, and

*Funds pose a threat of the political rather than commercial direction of large sums of accumulated savings.

The Superannuation environment in Australia

Old age pensions

Australia introduced old age pensions in 1908, one of the first countries to do so. Old age pensions remain a safety net for the elderly. Pension receipt is subject to income and asset tests (excluding homes) at age 65 for men and 60 for women. The latter is in the process of being pushed up to 65.

Old age pensions are 25 per cent of average earnings for single people and 40 per cent for couples. More than three quarters of 65+ year olds own their homes. The assumption that the ownership of a home, plus the receipt of an old age pension, plus free medical services, provide a 'decent' standard of living for aged low income Australians, is reasonable. A very small proportion of the population falls through this safety net into 'absolute poverty'. Private, public and charity accommodation for people unable to live on their own is pension based. Medical benefits apply to all.

Pensions are funded out of current tax receipts. This was sound economics in 1908 and is still so to day as all pensions have to be paid out of current income. As Australia becomes wealthier and as a smaller proportion of the population becomes dependent on pensions, the cost of pensions becomes more affordable in spite of population 'ageing'

Public service superannuation

The Commonwealth and State Governments have been building superannuation funds since the 19th century. They are contributory in the sense that both employers and employees contribute. They are often defined benefit schemes: retirees, invalids, widows and widowers and orphans receive benefits related to the earnings of the employee superannuated. Such sums are also related to years worked and levels of contributions.

Public sector employees account for 21 per cent of all employees in Australia. Because they have been long established, almost all these Funds are in reasonable actuarial shape. Some have been transformed so that superannuation benefits are no longer defined but are determined by Fund earnings. When public utilities have been corporatised or privatised and labour has been shed, special funding has financed superannuation pay outs. It is understood that remaining funds will be 'topped up' by State and Commonwealth funding if the need arises.

Private sector superannuation

Some large private firms have superannuation funds going back to the 19th century. Corporate superannuation tended to be subject to more qualification than the public sector's (length of employment, level of seniority etc). It generally took the form of defined benefits (such as a given proportion of retiring salaries). Employee and employers' contributions were normally actuarially determined, but employers topped up funds as necessary.

Many large, medium and even small firms now have superannuation funds for their employees, accounting for the bulk of the more than 186,000 superannuation funds in existence to-day. Additionally, banks, life insurance and other private financial institutions sell superannuation products or their equivalents.

In 1987 superannuation coverage in the private sector was 32 per cent of employees.

The Superannuation Guarantee Scheme

In 1986 the Commonwealth Government, by agreement with the Australian Council of Trade Unions, introduced a new system of Industry Superannuation Funds through the arbitration system. In 1991 the scheme was extended legislatively, making it compulsory for employers to make contributions on their employees' behalf to Industry Superannuation or other Government approved superannuation funds. The principal groups not now covered by superannuation arrangements are the self-employed, who of course, have access to private superannuation arrangements.

Employers contribute 7 per cent of the gross earnings for each employee into individual employee accounts in Industry Funds. This is to rise to 9 per cent by 2002. Employees (and or Government) are to contribute another 3 to 6 percent. All employees aged 18 65 with earnings of more than 450 a month are covered. The funds are fully vested and portable. Private sector superannuation coverage rose to nearly 70per cent of employees by 1991, and has since risen to over 90 per cent for full time and over 70 per cent for part-time, mainly women, employees.

Industry Superannuation Funds are managed by Trustees appointed by trade unions and employers. The Trustees generally appoint financial industry specialists to manage the funds.

The Howard Government has introduced legislation to enable employees to make limited choices among investment funds, but implementation has been delayed by the administrative burden this will place on employers and the Industry Funds.

Employees may choose lump sums, pensions, or annuities when they exit a fund.

Impact on national savings

Australia has somewhat lower private savings ratios (17 per cent of GDP) than the G 7 average. The ratio has been dropping in the 1980s and 1990s. Most household savings are for housing. The Superannuation Guarantee scheme appears to have had no impact on savings levels.

Some Problems

Industry funds are basically flawed because they can not meet individual workers' needs and preferences, for example for short-term versus long-term investments, high versus low risk investments, disability versus death benefits, and other features. Competitive superannuation providers, in contrast, can tailor the conditions of individual superannuation accounts to employee needs.

The compulsory, mandated nature of the scheme is worrying. While there is an argument for compulsory superannuation savings up to a level that would provide a reasonable pension, how individuals want to apportion the rest of their savings and expenditures should be their business.

The system is riddled with 'moral hazard'. The bottom line is that should an Industry Fund fail, the government would have to rescue it.

Efficiency and Effectiveness

Theoretically, it would take 40 years of full time work to enable Industry Fund members to receive 60 per cent of average earnings prevailing in the economy when they retire, if contributions were 15 per cent and if returns averaged investment earnings throughout the period.

At the planned 9 per cent employer contribution, even with a 3 per cent additional members' contribution, this level of pay out will not be achieved. The Labour Government therefore proposed an additional 3 per cent Government contribution.

The industry funds at present average 2.6 per cent earnings per annum, well below average investment earnings. At this rate of earnings, the superannuation pay outs are expected to be little above the present non contributory pensions. (A few funds are performing exceptionally well by participating in high risk investments with 'insider' knowledge).

For part timers, casual workers, young workers and those periodically unemployed, administrative costs eat up a great deal of the contributions made on their behalf. Portability is very costly.

The Funds' working environment, combining legislation, industrial award/enterprise agreement conditions and the Insurance and Superannuation Commission are so complicated that they impose heavy compliance costs on employers and employees and are a management and administrative nightmare.

*The high compliance costs that face employers administering the scheme, discourage the addition of new workers.

*The funds management and compliance costs are much higher than the costs of managing individual superannuation accounts.

The main beneficiaries of the Superannuation Guarantee scheme are the trade union and corporate managers who have been sidelined into Industry Superannuation Fund management, mainly as an alternative to forced retirement.

For trade unions, superannuation funds are a substantial political power base for potential investment in 'politically correct' projects that may, or may not, turn out to have high returns. Advisory and service providers, such as Industry Fund Services, owned by four Industry Funds, are very influential in Fund management.

Superannuation Regulation in Australia

The Insurance and Superannuation Commission regulates the industry in Australia. On July 1 1998 it became part of the Australian Prudential Regulation Authority.

In the financial year 1997-8, the Insurance and Superannuation Commission reviewed 1,100 superannuation funds, trustees and accountants, involving 13 per cent of total funds and 1.6 million members. Prudently managed funds, with only minor shortcomings, accounted for only 65 per cent of these funds..

○