

NORTH, SOUTH, EAST AND WEST

**AUSTRALIA'S TRADE RELATIONS
WITH EUROPE**

A Personal Perspective

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During a five-week study tour of the United Kingdom and Europe in June and July 1993, I had the opportunity to look at Australia's trade relations with Europe.

The main objectives of the tour were to:

- * inquire actively into the operation of the Common Agricultural Policy (CAP) and see first-hand how it operated on farm;
- * see how General Agreement on Tariffs and Trade (GATT) negotiations were progressing and assess the importance of the Uruguay Round for world trade: Was the feeling optimistic or pessimistic on the question of whether a successful outcome to the Uruguay Round would be achieved?
- * evaluate the economic and political climate in the European Community (EC), the United Kingdom and in Central Europe;
- * assess the significance of trade opportunities for Australian exporters in Central Europe, particularly in the areas of wool, mining and environmental technology;
- * investigate what factors encouraged and discouraged foreign investors from investing in Australia, including the confusion and political instability created by Mabo and the republic issues?

THE EUROPEAN COMMUNITY

The European Community represents 40% of world trade. The regions of Central and Eastern Europe account for an additional \$320 billion of gross domestic product. The European market comprises more than 500 million consumers and a GDP of \$6.3 trillion. There are more than 1200 Australian businesses currently trading in Europe - about 400 of which have offices in their own right, while the remainder use partnerships with local businesses to market Australian products.

The European economy is currently shrinking and there are increasing problems with unemployment. It has been predicted there will be 20 million people in the jobless queues in the EC in 1994.

The whole EC economy will shrink this year by 0.5% - the first decrease since 1975. Economists predict Germany will record the sharpest fall in output, while only Ireland and the UK are expected to register positive growth in their economies.

There remains wide scope for capitalising on opportunities which exist for Australian exporters in Europe. The pre-occupation of government policy-making in recent years has been largely in the Asia Pacific region at the expense of our more traditional European markets.

Europe is a market which should not be overlooked because it is growing, despite the recession. The establishment of the Single European Market within the EC saw the lowering of tariff barriers which has increased business efficiency, competition and liberalised trade between EC member states. A single market is expected to give the EC an annual boost of \$60 billion over the next five years. This should prompt Australian businesses to focus their efforts in Europe.

To be globally competitive, it is important that Australia is active in the most competitive markets in the world - these are in Europe. Europe is an affluent market and if Australia

is not able to meet the demanding requirements in respect of competition and quality control, then our exporters will simply miss the boat and we will be left behind.

The UK maintains a competitive edge in the EC, due in part to the fact that it has "opted out" of the social chapter of the Maastricht Treaty. The UK economy, however, is "bumping along the bottom of a recessionary dip" although its suspension from the Exchange Rate Mechanism has meant UK has not felt the recession as much as other EC member states.

Farmers in the UK and Scotland have the benefit of large agricultural subsidies. One 450 acre farm I visited earned about 60,000 pounds sterling (\$Aus136,000) in subsidies, including 100 pounds (\$226) per cow and 40 pounds (\$90) per ewe. Farmers can also earn up to 100 pounds (\$226) per acre for set aside land. By law, a total of 15% of farm land must be "set aside" and not cultivated. Farmers are then paid a subsidy on the "set aside" acreage.

Business groups in the UK are concerned that Mabo and the republic debate in Australia have caused some instability and lack of investor confidence. This is a considerable problem for Australia as our major source of direct investment is the EC.

There are vast opportunities for Australian exporters in Central Europe, particularly in Poland and the Czech Republic. Opportunities include niche markets for wool, mining technology, environmental clean-up, building and construction services and telecommunications.

The Czech economy appears to be sounder and a little more stable than Poland's. However, the Polish market is larger and there are more opportunities for Australia because of the massive reforms and the infrastructure needed for the establishment of an open market economy.

Woollen mills in the Czech Republic are equipped with modern machines and there are opportunities for Australian joint venturers.

There are stringent EC environmental controls and directives coming from Brussels. Although these are designed to be universally applied and administered among EC member states, different levels of environmental controls do exist, with some countries being far more strict than others.

Reform of the CAP remains high on the agenda. There are 10 million farmers who are members of COPA (the Committee of Agricultural Organisations in the European Community - the equivalent of the NFF in Australia). It is estimated that 20% of the active population in the EC live on farms and are in some way associated with agriculture. The average size of an EC farm is 22 hectares. The agricultural lobby, despite the fact that the farm population is dwindling by 3.5% each year, remains an extremely strong political movement.

The EC cannot afford to maintain agricultural subsidies but neither can it afford to abolish them. This appears to be the real problem for the EC - it recognises the detrimental effects of subsidising prices but also realises how much the farm population depends on them. To dismantle them quickly would be devastating for European farming communities.

GATT negotiations are crucial to world trade, with the current Uruguay Round concerned largely with improving market access and removing internal and external support systems. There are grave concerns, particularly with the virtual collapse of the ERM and the European monetary crisis, that a successful completion to GATT will not be made by the December (1993) deadline.

Message for Australia

The message is clear: Australian businesses cannot expect the world to hand them opportunities on a plate - to give us GATT reform, to give us more access to markets or to give us new markets for our products.

The world does not owe us a living. We should not blame ongoing GATT negotiations for our declining trade performances. We cannot use the excuse about agricultural subsidies in the EC and USA, nor can we blame distortions in world trade.

Australian businesses must seek opportunities and grasp them. However, we cannot possibly do this until the economic parameters in Australia are conducive to business prosperity and production.

We need to reform industrial relations, business costs, taxation and the horrific costs of transport if we are to capitalise on trade opportunities.

This is the role of government and is crucial if we are to maintain and improve our trade position. The Federal Government must establish a framework in which businesses and exporters can prosper and take advantage of opportunities as they arise.

Government must clean up its own backyard before it can expect any producer to be able to compete on the world markets.

HISTORY OF THE EUROPEAN COMMUNITY

France and West Germany pooled their coal and steel industries under an independent, supernational authority in 1951. They were joined by Belgium, Luxembourg, the Netherlands and Italy the same year under the Treaty of Paris which established the European Coal and Steel Community (ECSC) in 1952.

This first "European Community" was established after World War II and was aimed at ensuring continual peace and political stability on the continent by a merging of the nations' essential interests.

The Treaty of Rome (1957) proposed further moves for European economic integration and established the European Economic Community (EEC). This treaty was intended to remove all obstacles to free movement, goods, people and services between member states. It also established a common external trade policy and common policies for agriculture and fisheries, including the Common Agricultural Policy (CAP).

The Treaty was aimed at protecting common interests: protecting food in France (essentially the basis of CAP) and industry in Germany. France in particular desired self-sufficiency. At this time, people were leaving the countryside in droves and governments were eager to keep people on farms and in villages.

In 1969, the heads of government of the six (France, Germany, Belgium, Luxembourg, the Netherlands and Italy) met and decided to widen the EEC.

In 1970, Britain, Denmark, Ireland and Norway were invited to make applications to join the EEC. The four countries signed the Treaty of Accession in Brussels in 1972, but Norway subsequently withdrew following a national referendum.

Greece, Portugal and Spain were the next countries to join the community. The unification of Germany brought the former German Democratic Republic into the EC in October 1990.

Since the establishment of the Single Market, there is expected to be further enlargement of the EC. Applications for membership have been received from Austria, Cyprus, Finland, Malta, Sweden, Switzerland and Turkey, and are expected from a number of other European states including the new Central European republics.

THE EC currently comprises 12 member states: France, Germany, Italy, Belgium, the Netherlands, Luxembourg, Denmark, Ireland, the United Kingdom, Greece, Spain and Portugal.

AUSTRALIAN TRADE WITH THE EC

In 1990, about 79% of total trade between Australia and Europe was to the EC, which is Australia's third largest destination for exports and our most important market for services. Our major source of direct investment is the EC, with \$77 billion in accumulated investments as at June 1992. Total trade between Australia and the EC in 1991/92 was \$17.2 billion, with exports of \$6.9 billion.

Although I support efforts to expand our trade in the Asia Pacific region, it should not be at the expense of our traditional markets in Europe. Ralph Evans, managing director of Austrade, said recently:

"Don't write off the role of Europe in Australian trade and investment ... Europe is a market worth \$8 billion in export income. New opportunities are emerging as boundaries disappear in the West and as new economies develop in the east ..."

To be globally competitive, it is important that Australia be in the most competitive markets in the world. These are in Europe, an affluent market. If Australian exporters cannot capture new markets and capitalise on new opportunities in Europe, there is little chance they will be successful in Asia in the long run.

Among major exports to the EC are wool (20% of total exports to the EC), coal, iron ore, copper, hides, motor vehicle engines, lead and meat.

Opportunities exist in the EC for expanded trade in the following:

- * wool
- * coal and mining technology
- * meat and other processed foods
- * fruit and vegetables
- * other agricultural products and rural commodities
- * scientific and medical equipment
- * building and construction services
- * automotive components
- * environmental management and cleanup services
- * tourism
- * computer services
- * telecommunications
- * aerospace equipment.

CAP continues to impose major trade access barriers in the agricultural sector and a number of other commodities, particularly coal. The EC applies non-tariff barriers to 243 Australian export items.

Australian products which have enjoyed considerable success in Europe include marine technology (fast aluminium ferries), a market now worth more than \$200 million for Australia; cars and automotive components, worth \$1.1 billion; and the engineering systems sector which includes the telecommunications and mining equipment industry.

THE COMMON AGRICULTURAL POLICY

Australian agricultural exporters continue to face major access barriers in Europe and further reform of CAP is needed to improve trade relations. CAP has a major depressing effect on world commodity prices, with EC subsidised exports displacing many Australian exports in several key markets.

CAP reform is vital to reduce market barriers, internal support prices and export subsidies. The stated objectives of CAP are to:

- * increase agricultural productivity by promoting technical progress and by ensuring the rational development of agricultural production and the optimum utilisation of the factors of production, in particular, labour
- * ensure a fair standard of living for the agricultural community, in particular by increasing the individual earnings of persons engaged in agriculture
- * stabilise markets
- * assure the availability of supplies
- * ensure that supplies reach consumers at reasonable prices.

The CAP initiatives were designed to shield EC agricultural prices from world markets to avoid excessive fluctuations. CAP allows for trade within the EC, preference for member countries and joint financial responsibility.

As a result of farm policies of the EC, the price of farm land has risen and world market prices have been destabilised and reduced. Other international effects include distortion of prices and production. Even in 1985, it was estimated that CAP cost the Australian economy \$1 billion every year.

The Australian Bureau of Agricultural and Resource Economics (ABARE) estimated in 1991 that the cost for Australia's grain producers resulting from EC protection was \$695 million, \$430 million of which was for wheat.

The CAP has led to an oversupply of many agricultural commodities. Farm-gate price, and hence the cost of food, has been maintained at higher levels than would otherwise have been achieved.

This means the ultimate cost is not just to exporters on international markets but to the consumers and taxpayers of the EC who are paying more for the price of their food due to ramifications of the CAP.

The high levels of protection have allowed agriculture to sustain a larger number of people than could otherwise have earned a living in farming in the EC. In the Highlands of Scotland, for example, whole communities exist because of agricultural subsidies. It would be impossible in economic terms to farm sheep in the highlands if farmers were not paid a subsidy.

Generally, CAP price support has three mechanisms:

- 1 imports are subject to an import tax, usually in the form of a variable import levy, which is designed to bridge the gap between the prevailing world market price and an EC-determined minimum import price
- 2 exports are subsidised
- 3 various intervention mechanisms, such as intervention buying, usually apply to sustain domestic market prices.

Other measures include voluntary import restraints; deficiency payments; import duties; minimum import prices, minimum producer prices and production stabilisers. The cost of maintaining the CAP for the EC is constantly increasing. In 1990-91, CAP still accounted for over 60% of total EC budget spending. EC expenditure on agriculture trebled between 1980 and 1988. Agricultural subsidies in the EC last year totalled 88 billion pounds, an increase of six per cent on the previous year.

A recent study of the OECD revealed:

- * the financial burden of maintaining CAP on a family of four had risen to more than 1,000 pounds (\$2,265) per year;
- * the amount of agricultural support last year was equivalent to more than 10,000 pounds (\$22,650) per full-time farmer in the EC;
- * this support was equivalent to 634 pounds (\$1,436) per hectare of farmland, nearly four times the OECD average.

Although there were some recent reforms to CAP, there remains doubt about whether CAP reform will be successful.

Farmers in the UK are paid a subsidy of up to 40 pounds per ewe just to run them and up to 100 pounds per acre in "set aside" not to grow crops. Other subsidies include approximately 120 pounds for every tonne of cereal grown in England and 140 pounds for every hectare of cereals if 15% of land is taken out of production.

The "set aside" policy stipulates that land must be set aside for seven months and cannot be used for any purpose. It is supposedly aimed at overcoming problems with over-production and there are also environmental considerations. However, surplus food products continue to be stockpiled which, in turn, keeps food prices high for consumers. At the end of May, 1993, unsold stocks of the UK's Intervention Board included more than 1.3 million tonnes of barley, 160,000 tonnes of boneless beef and 11,000 tonnes of butter. In the dairy sector where milk supply is limited by EC quotas, producers have several companies competing for their milk.

Although farmers do have the benefit of agricultural subsidies and other support mechanisms, they are subject to fairly rigid rules regarding environmental restrictions placed on them by the EC. This will have important ramifications if Central Europe joins the EC.

THE UNITED KINGDOM

Australia's trading links with the UK are stronger than with any other European nation, with the UK being our sixth largest export market. Total Australian exports to the UK in

1992 stood at \$2276 million. Overall, the UK is our fourth largest trading partner, as well as our eighth largest merchandise export market. It is Australia's third largest supplier.

Among leading Australian exports to the UK are coal, lead, copper, wool, gold, wine and processed foods. In the manufacturing sector, major exports are fashion apparel, aerospace products, telecommunications equipment and automotive products.

Bottled wine has enjoyed considerable success, with Britain now the largest export market for Australian wine. Elaborately Transformed Manufactures (ETMs) have also been successful, with strong growth in this sector in recent years leading to the UK now being Australia's fifth largest market for ETMs.

A number of prospects have been earmarked as key priority areas for improved Australian trade with the UK. These include: information technology products and computer software; fresh and processed foodstuffs; automobiles and auto parts; marine products; telecommunications; aerospace; mining and environmental systems; textile, clothing and footwear products; services, especially tourism, financial and computer.

The CAP remains a major impediment to trade with the UK, particularly with respect to Australia's access to the UK agricultural and primary foodstuffs markets. It has been acknowledged by the Australian Government that it and US Government must work together in an effort to maintain pressure on the EC to reform the CAP.

Recycling and environmental awareness is becoming an issue of national concern, especially as available land fill sites are fully utilised. One project with an Australian connection is the Thermal Oxide Reprocessing Plant (THORP) at Sellafield, north west of Manchester. After several years in a nuclear reactor, the fuel becomes less efficient and is replaced with fresh fuel. The fuel removed can be reprocessed to reclaim the valuable and re-useable uranium and plutonium. In another project, effluent discharges to the Irish Sea have been reduced to levels only 1% of those in 1970.

The Secretary of State for Foreign and Commonwealth Affairs, Mr Hurd, in a speech in July (1993) on the UK's trade performance, said Britain exported about 20% of its GNP and imported about 24%. That was more than Japan or the United States. In the European Community, Britain was one of the few countries maintaining its share of world trade. In regional markets, Britain's share of exports remained consistently above all community partners bar Germany. Its share of invisible exports to Asia outstripped all except the United States and it planned to improve market share.

Mr Hurd said protectionism prevented trade and wealth creation. Existing barriers, including those in agricultural sectors, had to be reduced and a successful conclusion of the Uruguay Round of GATT talks remained a priority. Success would bring a potential boost to world output of some \$200 billion, achieved without introducing the inflationary pressures that most other forms of intervention would produce, he said.

FRANCE

France is a competitive and economically sound nation and has been described as one of the "twin power houses of Europe". However, with the current recession, unemployment was rising above 11%.

France had a GDP almost four times that of Australia; it was the EC's largest electricity exporter; the most important agricultural producer and exporter in the EC; the second most important industrial power in Europe; the largest EC country in area; the

second strongest economy in the EC, producing 20% of wealth and 16% of total exports; was among Europe's four largest retailers; and some French companies, eg, Michelin (tyres) and L'Oreal (cosmetics), were among the best in the world in their field. Despite trade and access restrictions caused by CAP, Australia's main exports to France are primary products, particularly coal, iron ore and wool for which there is significant potential for growth. In 1992, Australian exports to France increased by 16% to \$996.6 million.

France is Australia's twelfth largest trading partner and its twelfth largest source of foreign investment.

Considering the size of the affluent French market, its location in Western Europe, the sophisticated infrastructure and its economic power, France is an attractive destination for Australian investment. There is significant scope for increased investment by Australian businesses in France.

Agriculture employs almost 7% of the workforce and farmers have political clout. This is why reform to CAP has been slow and remains a major source of friction in the bilateral relationship between France and Australia.

The Blair House Accord on agriculture between the EC and USA, signed in November, 1992, saw the EC agree to the major elements of the Dunkel package in return for the US accepting some changes. (Arthur Dunkel is director general of GATT). The French perspective, however, is that the Blair House Accord is unacceptable in its present form and France has consistently argued for a balanced agreement preserving the principles of CAP by exempting agriculture from the general subsidies mentioned in the Uruguay Round. The French attitude is that, no matter what, farmers must have security and their income must be maintained.

The French economy has low inflation and the highest rate of growth of any G7 country, about 2% in 1992. The biggest problem is unemployment.

Key strategic priorities identified by the Australian Government to improve trade relations with France include: obtaining multilateral commitments to remove major distortions to world trade and ensure the Single European Market does not lead to increased external protection; maintaining and expanding exports with a focus on education services, high speed ferries, seafood products, computer software, automobile parts, scientific and medical equipment; and increasing and encouraging two-way investment.

BRUSSELS

The capital city of Belgium, Brussels, is the seat of the main EC institutions and other international organisations such as NATO. Australian Business in Europe (ABIE) also has a branch in Brussels. Brussels is also the headquarters of COPA which maintains it is opposed to high agricultural support. CAP, however, is viewed as being an essential tool for the retention of European rural society, which ensure environmental and tourism rewards. However, COPA has also maintained that the USA will not be adversely affected by the Blair House Accord while the EC will be.

The European Commission is also located in Brussels. Some 22,000 bureaucrats are involved in the operation of the EC but there are more lobbyists in Brussels than bureaucrats. The EC runs on a budget of about 100 billion pounds - more than half of which is allocated to agricultural protection under CAP policies.

CENTRAL EUROPE

Despite the recession gripping Central Europe, the region remains an important market for a number of commodity exports, and there are prospects for significant opportunities for Australian investment and trade in the longer term.

Two-way trade between Australia and Central Europe may be limited in the short term while the economies pick up and governments undertake necessary reform. Opportunity exists for Australian exporters to supply equipment and services in the building and communications arenas to meet the needs for rapid infrastructure development.

Until 1989, Poland was a significant export market for Australian commodities, particularly wool, hides and skins. Exports in 1989/90 were \$95 million, but this fell to \$13.9 million in 1991/92. Despite being gripped by recession, economic change and hardship, Poland is steadily developing new markets. The Polish market is large and there are significant opportunities for Australia because of the massive reforms and the infrastructure needed for the establishment of an open market economy. Labour costs are extremely low (about \$1 per hour) - about one-tenth of those in the USA, one-18th of those in Japan and one-13th of labour costs in Germany.

Inflation has been as high as 40% and with increasing wage demands, my concern is how Poland can maintain international competitiveness in an already competitive world.

Austrade has identified opportunities for increases in Australian trade in automotive, wool, hide, skins, food processing and professional services. There is also potential to develop Australian export markets in energy, mining equipment and services; environmental equipment and services; building and construction supplies; and information technology and telecommunications equipment and services. Benefits to Australia of an increased market share in Poland include reducing the wool stockpile and increasing competitiveness of Australian wool. It is estimated by Austrade that the Polish textile industry is currently working at no more than 30% capacity. Australia can also capitalise on the opportunities to introduce "Western" goods and services to growing local and domestic markets but the absence of direct Australian banking representation in Poland remains a critical problem.

Trade opportunities exist in all areas of Central Europe but much groundwork needs to be done by Australian businesses to capitalise on these. A constant problem is distance and transport delays. The average freight time from Australia is 2.5 months, and this compares unfavourably with a 14-day freight duration from South Africa. Australian trade officials have indicated that unless this problem is rectified, direct sales of Australian wool to the Czech, Slovak and Polish markets will decline.

The Czech Republic is also an important market for Australian wool. The yearly expected consumption of greasy wool is 10,000 to 12,000 tonnes, with direct sales accounting for about 4,000 tonnes.

OPPORTUNITIES FOR AUSTRALIAN WOOL

The Australian wool industry is currently at an all time low. The average wool grower has suffered business losses of more than \$100,000 over the past three years and last year, more than 90% of wool growers had negative incomes. Wool has also lost market share to cotton and man-made synthetics. In 1950/51, wool represented 10% of total market share, cotton was 74% and man-made fibres 16%. In 1990/91, wool accounted for just 4.4% of the market, cotton 50.5% and man-made fibres 45.1%

Short term problems facing the Australian industry include the over-supply of wool due to

the stockpile problem and the effect this is having on market value. The Garnaut Report attempts to address this problem, but advocates a fixed schedule of reduction in the stockpile. There are concerns such a schedule might put downward pressure on the already depressed auction market.

Eastern and Central Europe used to represent 20% of Australian wool exports at a time when total wool production was 670,000 tonnes. In the 1992/93 season, total production is expected to be 800,000 tonnes. The collapse of communism in Central Europe in 1989 led to the collapse of Australia's wool trade with the region. Sales of Australian wool to Poland, for example, dropped from \$104 million to just \$1 million, while wool sales to Czechoslovakia tumbled from \$71 million to \$17 million.

However, there remains many opportunities within Central Europe for increased trade in Australian wool. Given the depressed economic outlook in this region, promotion of wool as an innovative and high quality fibre is critical. Opportunities exist to boost sales to Poland but there is a need for further reform of the Polish textile industry, improvements in the region's financial and import credit system and for the introduction of new technologies to increase efficiency in the work place, including management. Privatisation of wool mills in Central Europe is another way to boost Australian investment. Some Australian investors are considering entering joint venture partnerships.

The headquarters of the International Wool Secretariat is at Ilkley, Yorkshire. The IWS was established in 1937 by the wool boards of Australia, New Zealand and South Africa and now has branches in more than 30 nations around the world. Its aim is to increase consumer demand for wool consistently at prices acceptable to woolgrowers.

Three main strategies are used -

- * successful market-led product innovation versus alternative fibres
- * cost-effective wool product manufacturing pipeline versus the competition
- * effective consumer advertising to create demand and put pressure on retailers to stock Woolmark products.

In the clothing market, there is potential growth for wool in the UK market and in some Central European countries. An important role of the IWS is to research the market place to create a new awareness of what consumers are demanding. Research has revealed that wool products are becoming increasingly dependent on older customers. Casual, lively and sporting-look garments for younger age groups are a growing sector, but wool is weak in this category.

IWS has also identified a number of key opportunities for wool - versatility; cool wool; consumers aged between 21 and 35; added value blends; improved easy care; and competitive fibre price. The greatest opportunities are likely in cool wool and high quality, value-added wool blends - a response to the need to promote wool as being comfortable, soft, lightweight and easy to care for. The two main consumer complaints have been the prickliness of wool fabrics and the inability to wash easily and tumble dry.

The IWS aims to create an active preference for wool among young adults and to make the Woolmark more significant and sought after. The main objective in developing new markets is to ensure the wool industry is in a position to supply demand efficiently in domestic and export markets for good quality, well styled woollen products.

The IWS branch in France reported consumers would continue to buy wool products as long as processors were inventive technically in colours, textures and new treatments. There was a need to change the image of wool from the traditional couture look to modern, casual and easy-to-wear. Priorities to shift wool should be (i) new, innovative, performing wool fabrics and (ii) consumer information and in-store service.

Natural factors, such as land availability, weather and population do not give a definite edge to the Australian wool industry. However, Australia has favourable factors which have sustained its development as the wool world market leader. These include wool preparation, marketing efficiency, breed selection, strength of support industries and workforce education. On average, more than 90% of Australian production is exported in raw or semi-processed form, providing more than half the world's traded wool. Australia is in a good position to capitalise on trade opportunities and there is no time to waste.

THE MAASTRICHT TREATY

The Maastricht Treaty, if ratified by all EC member states, will provide for the development of more integrated EC policies in a number of areas including home affairs and justice, a common foreign and security policy and some economic policies.

The treaty would permit a single currency by 1999 for EC countries meeting certain economic criteria and also provide for the establishment of a European Central Bank to manage the currency, independent of political pressure but guided by general economic goals set by EC politicians.

As part of the treaty, it is proposed gradually to converge the EC economies, particularly interest and inflation rates, public spending and government debt, in the lead-up to the single currency. This process has already begun.

Major provisions of the Maastricht Treaty include:

- * a cohesion fund set up by the richer and more affluent countries to assist the poorer ones and to improve the economies of the latter;
- * more social legislation governing the work-place (a provision with which Britain disagrees);
- * more inter-governmental co-operation in foreign policy and defence. There are even suggestions that co-ordination of foreign and defence policies could eventually lead to a common defence policy and a joint army;
- * more inter-governmental co-operation in justice, crime and immigration affairs;
- * European citizenship - citizens of any country will have the right to vote in whichever other EC country they happen to be living. They will also have the right to EC diplomatic protection;
- * more co-operation in environmental protection and setting up cross-border transport, telecommunications and energy networks.

Areas not dealt with in the treaty include wage and tax policies, social security and health benefits. The treaty does not transfer significant authority from national governments to a central, multinational bureaucracy and adds little to the European Commission's existing powers. Nonetheless, this has been one of the major concerns among people in the EC.

Although Denmark has now passed the treaty, the first blow to the Maastricht Treaty and the momentum for EC integration came in June, 1992, when Danish voters rejected the treaty in a referendum, much to the shock of EC leaders. In September, 1992, just 51% of French voters endorsed the Treaty. Newsweek said of the referendum result: "The razor-thin margin in a cornerstone EC country showed the depth of popular disaffection".

Although the British Parliament approved the Maastricht Treaty in May, 1993, the right was reserved for a last debate on the social chapter.

1993 - THE LAST HURDLES FOR MAASTRICHT

Legal challenges to Maastricht are still underway in both Britain and Germany.

The British challenge claims that the treaty would override existing statute without the specific consent of the Parliament, contravening the Constitution, even though Britain has in the past ratified treaties without the benefit of a vote in Parliament.

The German Parliament approved of the Maastricht Treaty in December, 1992. Its chief argument in the legal challenge, however, is that any transfer of authority to Brussels would violate a legal principle that "all authority emanates from the people", an immutable guarantee not subject to constitutional amendment.

The major concerns with the Maastricht Treaty in Europe are:

- * Loss of sovereignty of member states when a single currency is introduced. This will mean that nations sacrifice their sovereignty and lose the ability to manipulate their currencies for political and economic reasons. I have doubts whether Germany or the UK, for example, would feel happy about passing their sovereignty to a centralised operation in Brussels.
- * The social chapter: The UK retains a competitive edge in the labour market because they opted out of the social chapter - some EC nations are concerned about this.
- * Most Europeans do not want the Maastricht Treaty to result in greater centralised power to the European Commission - they believe the EC should operate more on a regional level than a multi-national level. Although people have been assured that the provisions of the treaty do not significantly increase the commission's powers, this remains the central concern.

EUROPEAN ECONOMY IN CRISIS

The collapse of the Exchange Rate Mechanism (ERM) has placed in doubt the question of whether the European Monetary System (EMS) will survive.

The ERM brought exchange rate stability to Europe and helped the less self-disciplined of Europe's governments reduce their country's inflation rates. It was also a step in the direction of economic and political union. Its collapse has therefore placed in jeopardy some of the visions for closer economic and monetary unions among European nations.

European Monetary System

The EMS is based on a system of fixed but adjustable exchange rates, resting on a variety of intervention and credit mechanisms. Member State central banks must intervene if the currencies threaten to move beyond margins that are set around these rates.

The core of the EMS is the European Currency Unit which is based on a basket of European currencies. Its value is determined by using the current market rate of each member currency.

The first stage, the consolidation of the EMS, involves the liberalisation of capital movements. It is proposed under the Maastricht Treaty that a single currency, the European Currency Unit (ECU), managed by an independent central bank will be introduced as early as 1997 if seven member states meet strict economic criteria and at the latest in 1999.

Bringing EC economies in line will start with the second stage in 1994, when the European Monetary Institute will be established. By the end of 1996, the Heads of State and Government will decide by qualified majority which countries are eligible for full economic and monetary union.

Some economic analysts have argued it was always only a matter of time before the EMS was removed from the world's financial structure. It appears that the EC is determined to hold on to the EMS, at least in some form, because of its fundamental significance to plans for greater economic and monetary union and, in particular, for the introduction of a single currency.

The collapse of the ERM started in September 1992 when Britain (and later Italy) withdrew in order to free itself from Germany's high interest rates. An editorial in **The Australian Financial Review** at the time commented:

"The French, however, remained as enthusiastic about the ERM as ever, and were more than willing to wear the high interest rates and high unemployment necessary to maintain their exchange rate with the German Mark. In the end, the financial markets judged French unemployment (11.5% and rising) to be politically unsustainable."

The UK, having withdrawn from the ERM while maintaining its ability to sell into an enlarged EC and its ancillary markets, has the best of both worlds. Meanwhile, complaints have continued from other EC nations that the UK has an unfair advantage due to a combination of both these factors and of UK opting out of the social chapter of the Maastricht Treaty.

CHRONOLOGY OF RECENT EVENTS IN THE EXCHANGE RATE MECHANISM

June 2, 1992:

Danish voters narrowly reject the Maastricht Treaty by referendum leading to the emergence of exchange rate tensions within the ERM and rises in short term interest rates in several Member States.

July 2, 1992:

The US Federal Reserve announces the seventh consecutive reduction in its discount rate to only 3 per cent, accelerating the recent rapid depreciation of the dollar relative to Community currencies.

July 16, 1992:

The Bundesbank raises its discount rate by 0.75 of a percentage point, but leaves the Lombard rate unchanged at 9.75 per cent.

August 25, 1992:

Publication of first polls suggesting a negative vote in the French referendum.

August 28, 1992:

Fuelled by growing fears over the unsustainability of the Italian budget deficit, the lira falls to its floor in the ERM.

September 3, 1992:

The UK, under growing pressure to increase interest rates in defence of sterling's weakness, chooses instead to arrange lending facilities for an amount equal to seven and a quarter billion pounds to bolster its external reserves.

September 4, 1992:

The US further reduces the federal funds rate by 1/4 of a percentage point to 3 per cent and the dollar falls to a record low relative to the DM. Italy raises interest levels sharply in an attempt to raise the lira above its ERM floor, and announces that it will be making use of the Very Short Term Financing facility.

September 6, 1992:

The informal EcoFin Council in Bath reaffirms its commitment to existing exchange rate parities in the ERM. A succession of opinion polls points to the possibility of a rejection of the Maastricht Treaty in the French referendum.

September 8, 1992:

Finland floats the Markka and Sweden increases its short-term rates.

September 14, 1992:

In an effort to relieve ever mounting tensions within the ERM and to reduce massive speculative attacks on the lira, a 7 per cent devaluation of the lira is agreed. The Bundesbank reduces the Lombard rate and the Discount rate by 1/4 and 1/2 of a percentage point respectively and announces a reduction in the rate for securities repurchase agreements of 1/2 a percentage point.

September 16, 1992:

Notwithstanding massive central bank intervention and a cumulative 5 point increase in the minimum lending rate, sterling falls substantially and the Chancellor announces its suspension from the mechanism. The lira also suffers further massive speculative attacks and also falls to its new ERM floor. The Swedish Central Bank increases its marginal lending rate to 500 per cent.

September 17, 1992:

Italy abandons attempts to maintain the lira within the EM and temporarily suspends its participation in the mechanism. The Spanish peseta is devalued by 5 per cent. The Danish drone, French franc and Irish punt are all subject to speculative attacks requiring central bank intervention and rises in interest rates.

September 20, 1992:

The narrow approval of the Maastricht Treaty in the French referendum fails to dissipate doubts on the prospects for its eventual ratification by all Member States and tensions intensify within the ERM over the following days.

September 23, 1992:

Joint statement by the French and German authorities that "no change in the central rates is justified".

November 19, 1992:

Following several weeks of relative calm and a gradual return to pre-September interest rate levels within the ERM, tensions are revived following Sweden's decision to abandon its peg to the ECU.

November 22, 1992:

The Spanish peseta and the Portuguese escudo are both devalued by 6 per cent, while pressure continues to mount against the French franc, the Danish krone and in particular the Irish punt. Conversely, short-term money market rates continue to fall in Germany, Belgium and the Netherlands.

December 10, 1992:

The Bundesbank increases its M3 monetary target for 1993 by one percentage point at both extremes to a range of 4 1/2 per cent to 6 1/2 per cent. Norway suspends its ECU peg putting pressure on the DKR and the FF.

December 13, 1992:

The European Council in Edinburgh announces a growth initiative in order to aid recovery. A formula to accommodate the Danish rejection of the Maastricht Treaty and a new Cohesion Fund to promote growth in the less developed Member States are also agreed.

Early January 1993:

Tensions are again revived in the ERM after the Christmas lull on financial markets and interest rates are raised in France and Ireland. The French and German authorities reaffirm their commitment to the existing DM/franc parity. The Bundesbank reduces its repurchase rate by 15 basis points (to 8.60 per cent) with corresponding reductions in Belgium and the Netherlands.

January 30, 1993:

The Irish punt is devalued by 10 per cent.

Source: "EC Background" Annual Economic Report, 1993

SINGAPORE

Singapore has one of the most open economies in the world, with few restrictions on trade and capital flows.

It is sometimes said there are "dual engines of growth" in Singapore: the financial and business services and the high technology manufacturing sectors. Singapore in recent years has also been promoted as a regional and global centre for finance, shipping, air transport, telecommunications and information technology.

Singapore cannot match the lower costs of labour, land and natural resources its regional competitors enjoy. It must, therefore, endeavour to establish a more lasting competitive advantage in selected industries.

Singapore has a highly sophisticated infrastructure and a highly skilled work force. It is one of the world's most trade-dependent countries, with total two-way trade exceeding GDP at a ratio of just under three to one. It has a very lean public sector.

As a consequence, Singapore is highly vulnerable to external economic fluctuations and developments, particularly those affecting major markets such as the United States (21% of total exports).

Singapore is Australia's sixth largest trading partner and third largest export destination. Exports to Singapore in 1992 amounted to \$3.75 billion. It is our largest market for gold and continues to be an important market for refined petroleum products and crude oil.

Other Australian export items which are important include: fruit, vegetables, processed foods and beverages, metal roofing and cladding, traffic light control systems and hot water systems. Austrade has highlighted potential opportunities for Australian exporters, including pharmaceuticals, household products, clothing and footwear, sport and recreational products and a wide range of service industries including design.

During 1992, strong growth in Australian exports to Singapore was largely due to a significant increase in gold purchases. Exports of ETMs have also grown strongly and now account for 22% of total exports.

Australian companies that enjoy an active presence in Singapore include the ANZ Bank, the Commonwealth Banking Corporation, the National Australia Bank the Westpac Banking Corporation, Boral Ltd, Sebel Furniture, Allen Allen and Hemsley (legal services), Australian Consolidated Press, OTC Australia, BHP Lysaght SE Asia, BHP Trading (SE Asia), Qantas and TNT. The Singapore-Australia Business Council is also active.

Key priorities for Australia, as outlined by the Department of Foreign Affairs and Trade in its draft report "Australian Trade and Investment Development" include:

- * expand exports of elaborately transformed manufactures, particularly in growth sectors such as information technology and communications;
- * expand export of services, including education, tourism, banking, insurance, design, architecture, health, legal, public relations, transport and project management;
- * promote Singaporean investment in Australia;
- * promote co-operation and strategic alliances between Singaporean and Australian companies;
- * improve Australia's image as an efficient and capable economic partner.

Because Singapore has one of the world's most open economies, Australian exporters and investors face very few barriers in this market. But there are some problems with the Australian image in Singapore. An editorial in Singapore's government-controlled Business Times stated:

"Asians think of Aussies as lazy bums who would rather be on strike or on the dole ... If Australians want to be part of Asia, the onus will have to be on them to change their ways."

The Singapore Business Times warned that, in looking to Asia, Australians would have to show a greater appreciation of the region's varied cultures. "They will have to show more sensitivity and not try to foist on their neighbours their European-centred notions."

The Asia Pacific region now takes about 60% of Australia's total exports and accounts for eight of our top ten markets. The opportunities which lie within the region, Singapore included, abound.

ASIA PACIFIC ECONOMIC CO-OPERATION

Australia initiated the Asia Pacific Economic Cooperation (APEC) process in 1989 in an effort to advance the expansion of free trade and economic interdependence in the Asia Pacific region.

Among APECs stated objectives are to:

- * sustain regional growth and development;
- * enhance the gains from increasing economic interdependence;
- * reduce barriers to trade in goods and services; and
- * to strengthen the multilateral trading system.

The member nations of APEC are Australia, Brunei, Canada, the People's Republic of China, Chinese Taipei, Hong Kong, Indonesia, Japan, the Republic of Korea, Malaysia, New Zealand, Philippines, Singapore, Thailand and the United States.

APEC, with a combined population of two billion people and a combined gross national product of US \$13 trillion, is now the leading trade forum in the region. The economies of APEC cover 25% of the earth's surface and make up 40% of the world's population. APEC includes the fastest growing economies in the world and trade among APEC members now accounts for about 40% of world trade and 50% of world production.

Despite some concern and statements to the contrary, APEC is not a trading bloc. It is concerned with open trade liberalisation.

It has been widely acknowledged that if APEC is to be successful in liberalising trade and improving the climate for business in the Asia Pacific region, the private sector has a vital role to play. Two regional co-operation bodies, Pacific Economic Co-operation Council (PECC) and the Pacific Basin Economic Council (PBEC) have been actively working towards increasing regional dialogue and co-operation.

APEC policy is set at the annual ministerial meetings and senior trade officials meet four or five times in between to review programmes, approve the budget, set guidance for the secretariat and advise ministers.

The APEC secretariat, staffed by 22 people, was established in Singapore in January 1993 to promote and co-ordinate APEC activities and manage APEC's finances. All APEC members are duty-bound to contribute to a fund each year, with the total contribution for the first year not being more than \$2 million. Member countries make contributions based on their gross national product, the ceiling (applied to both Japan and the US) being 18% and the minimum 2.5%.

There is a real desire for APEC to be more than a "talk-fest" among international trade officials. Nor should it model itself on European examples.

APEC's initial goal to achieve a trade and investment database with a view eventually to lowering tariff barriers in a common trading area (without making member nations a trading bloc) is an admirable and achievable one. I shudder at the thought of APEC ever becoming another EC with all the associated problems.

The challenge for APEC to promote "open regionalism" in trade is by no means easy.

Earlier this year (1993), a government study compiled as part of the APEC work programme revealed a wide range of hidden trade barriers confronting Australian exporters trying to capture a market share in the Asia/Pacific region. The report confirmed that non-tariff barriers, such as export subsidies, import licensing, quarantine limits, local content requirements and technical standards, remain considerable impediments to free trade.

Although the Uruguay Round does deal with some of these measures, there are many which do not come within the realm of GATT and provide APEC with an opportunity to act as a forum for the solution of those problems.

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