

2000 Country Reports on Economic Policy and Trade Practices

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AUSTRALIA

Key Economic Indicators

(Billions of U.S. dollars unless otherwise indicated) 1/

	1998	1999	2000	2/
<i>Income, Production and Employment:</i>				
Nominal GDP 3/	364.5	392.2	373.2	
Real GDP Growth (pct)	5.1	4.3	4.0	
GDP by Sector: 4/				
Agriculture	11.5	12.9	11.5	
Manufacturing	89.5	93.5	87.7	
Services	248.3	266.9	262.4	
Government	14.6	14.6	13.4	
Per Capita GDP (US\$)	20,300	21,200	19,600	
Labor Force (000s)	9,340	9,470	9,680	
Unemployment Rate (pct)	8.0	7.2	6.8	
<i>Money and Prices (annual percentage growth):</i>				
Money Supply (M3)	7.6	10.1	10.1	
Consumer Price Inflation	1.6	1.8	3.0	
Exchange Rate (Aust\$/US\$ annual average)	1.59	1.56	1.70	
<i>Balance of Payments and Trade:</i>				
Total Exports FOB	55.9	55.7	55.2	
Exports to U.S.	5.3	5.4	6.5	
Total Imports CIF	60.8	65.1	58.7	
Imports from U.S.	13.5	13.6	13.5	
Trade Balance	-4.80	-9.3	-3.5	
Balance with U.S.	-8.2	-8.2	-7.0	
External Public Debt	30.2	18.7	13.5	
Fiscal Surplus/GDP (pct)	0.2	0.7	1.2	
Current Account Deficit/GDP (pct)	5.0	5.8	5.0	
Debt Service Payments/GDP	1.8	1.9	1.9	
Gold and Foreign Exchange Reserves	15.4	22.0	16.0	

1/ Exchange rate fluctuations must be considered when analyzing data. Percentage changes calculated in Australian Dollars.

2/ 2000 figures are estimates based on available monthly data in October.

3/ Income measure of GDP.

4/ Production measure of GDP. "Manufacturing" includes manufacturing, mining, utilities, and construction.

1. General Policy Framework

Australia's developed market economy is dominated by its services sector (65 percent of GDP), yet it is the agricultural and mining sectors (7 percent of GDP combined) that account for the bulk (58 percent) of Australia's goods and services exports. Australia's comparative advantage in primary products is a reflection of the natural wealth of the Australian continent and its small domestic market; 19 million people occupy a continent the size of the contiguous United States. The relative size of the manufacturing sector has been declining for several decades, and now accounts for just under 12 percent of GDP.

The Australian economy has recorded annual growth of above four percent since 1997, coming through the Asian economic downturn relatively unscathed. The resultant improvement in the labor market has seen unemployment fall below seven percent for the first time in a decade, with little hint of wage inflation. Other inflationary pressures, however (e.g., a depreciating Australian dollar, strong domestic demand, and higher oil prices), have forced the Reserve Bank of Australia (RBA) to raise official interest rates 150 basis points since November 1999. The introduction of the Goods and Services Tax (see Section 3 below) in July 2000 has also had a one-off effect on prices, though its impact was less than expected.

The Liberal/National coalition government continued its program of fiscal consolidation and debt reduction in its budget for the 2000-2001 fiscal year, announcing a planned budget surplus of \$3 billion.

2. Exchange Rate Policies

Australian dollar exchange rates are determined by international currency markets. There is no official policy to defend any particular exchange rate level, although the RBA does operate in currency markets. The RBA is active in what it describes as "smoothing and testing" foreign exchange rates, in order to provide a generally stable environment for fundamental economic adjustment policies.

Australia does not have any major foreign exchange controls beyond requiring RBA approval if more than A\$5,000 in cash is to be taken out of Australia at any one time, or A\$50,000 in any form in one year. The purpose of this regulation is to prevent tax evasion and money laundering; authorization is usually automatic.

3. Structural Policies

The government is continuing a program of economic reform, begun in the 1980s, that includes the reduction of import protection and microeconomic reform. Initially broad in scope, the program now focuses on industry-by-industry changes and reform of the labor market. The government is also continuing with the privatization of public assets. Federal government

ownership in telecommunications carrier Telstra has been reduced (via two public floats) to 51 percent.

The General Tariff Reduction Program, begun in March 1991, has reached its conclusion, with most existing tariffs now at five percent or below. However, the passenger motor vehicles, textiles, clothing and footwear industries are still protected by high tariffs (15 and 25 percent respectively), where they will remain, pending further review, until 2005.

July 2000 saw the introduction of the Goods and Services Tax (GST), accompanied by significant cuts to personal income taxes. The GST is a broad-based consumption tax levied at 10 percent (exempting only basic food, education, health, and charities), and replaces the Wholesale Sales Tax and several other minor excises and taxes.

4. Debt Management Policies

Australia's net foreign debt has averaged between 30 and 45 percent of GDP for the past decade, and in mid-2000 totaled \$200 billion (43 percent of GDP). Australia's net external public debt is \$16 billion, or around 4 percent of GDP. The Federal Government is using its privatization receipts and budget surpluses to further reduce its debt obligations. The net debt-service ratio (the ratio of net income payable to export earnings) has remained at or below 10 percent since 1997, down from 21 percent in 1990.

5. Significant Barriers to U.S. Exports

Australia is a signatory to the WTO, but is not a member of the plurilateral WTO Agreement on Government Procurement.

Services Barriers: The Australian services market is generally open, and many U.S. financial services, legal and travel firms are established there. The banking sector was liberalized in 1992, allowing foreign banks to be licensed as either branches or subsidiaries. Broadcast licensing rules were also liberalized in 1992, allowing up to 20 percent of the time used for paid advertisements to be filled with foreign-sourced material.

Local content regulations also require that 55 percent of a commercial television station's weekly broadcasts between the hours of 6:00 a.m. and midnight must be dedicated to Australian-produced programs (the United States regrets that this requirement was recently increased from 50 percent). Regulations governing Australia's pay-TV industry require that channels carrying drama must devote 10 percent of their annual program budget to new Australian-produced content (though they are not required to actually screen the programs produced, and many licensees spend very little or nothing on production).

Labeling: Federal law requires that the country of origin be clearly indicated on the front label of some types of products sold in Australia. Various other federal and state labeling requirements are being reconsidered in light of compliance with GATT obligations, utility and effect on trade. A new mandatory standard for foods produced using biotechnology came into

effect in May 1999. The standard prohibits the sale of food produced using gene technology, unless the food has been assessed by the Australia New Zealand Food Authority (ANZFA) and listed in the standard. The Australia New Zealand Food Standards Council has directed ANZFA to require labeling for virtually all foods produced using biotechnology, and labeling regulations have been in place since mid-1999. ANZFA was expected to release the protocol on compliance with the Council's directive in October, but has not yet done so. The requirements would become mandatory 12 months from publication.

Commodity Boards: The export of wheat, rice, and sugar remains under the exclusive control of commodity boards. The privatization of the Australian Wheat Board (AWB) in July 1999 saw its export controls transferred to the Wheat Export Authority, with veto rights over bulk export requests retained by the grower-owned former subsidiary of the AWB, AWB (International) Ltd. A review of wheat export arrangements is currently underway. While domestic marketing of barley has been deregulated, the export monopoly administered by the Australian Barley Board has been extended until 2001. Approximately 95 percent of dairy exports are made by the private sector and about 5 percent by an arm of the Australian Dairy Corporation. Australia terminated its export support payment scheme for dairy producers in 1995, replaced by an internal support program (since terminated). The Australian government has made a structural adjustment package available to dairy producers since June 30, 2000.

Sanitary and Phytosanitary Restrictions: Australia's geographic isolation has allowed it to remain relatively free of exotic diseases. Australia imposes extremely stringent animal and plant quarantine restrictions. The WTO SPS agreement requires, among other things, that Australia's restrictions undergo a risk assessment to ensure that any restrictions are science-based, rather than disguised non-tariff barriers. Concerns remain with Australia's restrictions on chicken (fresh, cooked and frozen), pork, California table grapes, Florida citrus, stone fruit, apples, and corn.

Investment: The government requires notification of (but normally raises no objections to) investment proposals by foreign interests above certain notification thresholds, including: acquisitions of substantial interests in existing Australian businesses with assets of A\$5 million or more (A\$3 million for rural properties); new businesses involving an investment of A\$10 million or more; portfolio investments in the media sector of 5 percent or more; all non-portfolio investments irrespective of size; takeovers of Australian companies valued at either A\$20 million or more, or for more than 50 percent of the target company's total assets; and direct investment of foreign governments irrespective of size. Investment proposals for entities involving more than A\$50 million in total assets are approved unless found contrary to the national interest. Special regulations apply to investments in the banking sector, the media sector, urban real estate and civil aviation.

Divestment cannot be forced without due process of law. There is no record of forced divestment outside that stemming from investments or mergers that tend to create market dominance, contravene laws on equity participation, or result from unfulfilled contractual obligations.

Government Procurement: Since 1991, foreign IT companies with annual sales to the GOA of more than A\$40 million have been expected to enter into the Partnerships for Development (PFD) scheme. Under a PFD, the headquarters of the foreign firm agrees: to invest 5 percent of its annual local turnover on research and development in Australia; to export goods and services worth 50 percent of imports (for hardware companies) or 20 percent of turnover (for software companies); and to achieve 70 percent local content across all exports within the seven-year life of the PFD.

Recent changes to Australian government procurement policies have seen a significant decentralization of purchasing procedures, with the introduction of Endorsed Supplier Arrangements (ESA). Companies wishing to supply IT products and major office machines to the Australian government must gain endorsement under the ESA. The industry development component of the new ESA requires evidence of product development, investment in capital equipment, skills development and service support, and sourcing services and product components, parts and/or input locally. In addition, applicants must demonstrate performance in either exports, research and development, development of strategic relationships with Australian or New Zealand suppliers/customers, or participation in a recognized industry development program.

The Australian Government maintains its commitment to source at least 10 percent of its purchases from Australian small to medium size enterprises. The government will continue to require tenderers to include industry development objectives in tender documents, with model guidelines to be developed in consultation with industry.

6. Export Subsidies Policies

Australia is a member of the WTO Agreement on Subsidies and Countervailing Measures.

The coalition government has severely curtailed assistance schemes to Australian industry as part of its fiscal consolidation program. Under the Export Market Development Grants Scheme, the government gives grants to qualifying firms of up to A\$200,000 to assist in offsetting marketing costs incurred when establishing new export markets. There are also schemes available for drawbacks of tariffs and sales and excise taxes paid on the imported components of exported products.

7. Protection of U.S. Intellectual Property

Australia is a member of the World Intellectual Property Organization (WIPO), and most multilateral IPR agreements, including: the Paris Convention for the Protection of Industrial Property; the Bern Convention for the Protection of Literary and Artistic Works; the Universal Copyright Convention; the Geneva Phonogram Convention; the Rome Convention for the Protection of Performers, Producers of Phonograms, and Broadcasting Organizations; and the Patent Cooperation Treaty. In August 2000 Australia took final action to implement the 1996 WIPO Copyright and World Performances and Phonograms Treaties. The United States is

concerned over Australian's limitations on its protection of test data for certain chemical entities, its removal of restrictions on parallel imports, and over copyright piracy, among other issues.

Patents: Patents are available for inventions in all fields of technology (except for human beings and biological processes relating to artificial human reproduction). They are protected by the Patents Act (1990), which offers coverage for 20 years subject to renewal. Trade secrets are protected by common law, such as by contract. Design features can be protected from imitation by registration under the Designs Act for up to 16 years (upon application).

Test Data: In 1999, the government passed legislation providing five years of protection of test data for the evaluation of a new active constituent for agricultural and veterinary chemical products. No protection is provided for data submitted in regard to new uses and formulations.

Trademarks and Copyrights: Australia provides TRIPS-compatible protection for both registered and unregistered well-known trademarks under the Trademark Act of 1995. The term of registration is ten years. Copyrights are protected under the Copyright Act of 1968 for a term of the life of the author plus 50 years. Computer programs can receive copyright protection, although the Parliament has enacted legislation to permit decompilation. In recent years, the government has passed legislation removing parallel import protection for sound recordings and for goods whose protection was based on the copyright of packaging and labeling. It is now proposing to remove restrictions on books and computer software. Steadily growing parallel importation of DVDs is of increasing concern to the motion picture industry. U.S. copyright interests have stressed concern about the digital agenda bill that the Australian government passed on August 17, 2000. The industry is worried that the law would allow for unfettered worldwide trafficking in devices and services aimed at hacking encryption, password protection and other technologies copyright owners use to manage access to and use of their works. The Australian government has not updated its laws to impose stiffer fines to discourage copyright piracy.

New Technologies: Infringement of new technologies does not appear to be a significant problem.

8. *Worker Rights*

a. *The Right of Association:* Workers in Australia fully enjoy and practice the rights to associate, to organize and to bargain collectively. In general, industrial disputes are resolved either through direct employer-union negotiations or under the auspices of the various state and federal industrial relations commissions. Australia has ratified most major international labor organization conventions regarding worker rights.

b. *The Right to Organize and Bargain Collectively:* Approximately 32 percent of the Australian workforce belongs to unions. The industrial relations system operates through independent federal and state tribunals; unions are currently fully integrated into that process. Legislation reducing the powers of unions to represent employees and of the Industrial Relations Commission to arbitrate settlements was passed by Federal Parliament in November 1996.

Further changes in industrial relations are under consideration in draft legislation currently before Parliament.

c. Prohibition of Forced or Compulsory Labor: Compulsory and forced labor are prohibited by conventions that Australia has ratified, and are not practiced in Australia.

d. Minimum Age for Employment of Children: The minimum age for the employment of children varies in Australia according to industry apprenticeship programs, but the enforced requirement in every state that children attend school until age 15 or 16 maintains an effective floor on the age at which children may be employed full time.

e. Acceptable Conditions of Work: There is no legislatively-determined minimum wage. An administratively-determined minimum wage exists, but is now largely outmoded, although some minimum wage clauses still remain in several federal awards and some state awards. Instead, various minimum wages in individual industries are specified in industry "awards" approved by state or federal tribunals. Workers in Australian industries generally enjoy hours, conditions, wages and health and safety standards that are among the best and highest in the world.

f. Rights in Sectors with U.S. Investment: Most of Australia's industrial sectors enjoy some U.S. investment. Worker rights in all sectors are essentially identical in law and practice and do not differentiate between domestic and foreign ownership.

Extent of U.S. Investment in Selected Industries—U.S. Direct Investment Position Abroad on an Historical Cost Basis—1999

(Millions of U.S. dollars)

Category	Amount
Petroleum	3,344
Total Manufacturing	7,646
Food & Kindred Products	862
Chemicals & Allied Products	2,924
Primary & Fabricated Metals	471
Industrial Machinery and Equipment	693
Electric & Electronic Equipment	166
Transportation Equipment	957
Other Manufacturing	1,573
Wholesale Trade	2,146
Banking	2,705
Finance/Insurance/Real Estate	8,465
Services	2,190
Other Industries	7,167

TOTAL ALL INDUSTRIES

33,662

Source: U.S. Department of Commerce, Bureau of Economic Analysis.