

2001 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/

	1999	2000	2001	2/
<i>Income, Production and Employment:</i>				
Nominal GDP 3/	392.7	377.8	338.4	
Real GDP Growth (pct)	4.2	1.5	2.5	
GDP by Sector: 4/				
Agriculture	12.8	10.8	9.6	
Manufacturing	47.7	43.2	38.7	
Services	280.2	281.8	252.5	
Government	14.6	14.1	12.6	
Per Capita GDP (US\$)	21,800	19,900	16,900	
Labor Force (000s)	9,470	9,700	9,800	
Unemployment Rate (pct)	7.0	6.3	6.9	
<i>Money and Prices (annual percentage growth):</i>				
Money Supply (M3)	10.1	4.5	10.6	
Consumer Price Inflation	1.8	5.8	4.0	
Exchange Rate (Aust\$/US\$ - annual average)	1.56	1.74	1.99	
<i>Balance of Payments and Trade:</i>				
Total Exports FOB	55.7	63.6	62.9	
Exports to United States	5.4	6.3	5.8	
Total Imports CIF	65.1	67.4	65.4	
Imports from United States	13.6	13.3	12.6	
Trade Balance	-9.4	-9.3	-3.5	
Balance with United States	-8.1	-7.0	-6.8	
External Public Debt	24.0	12.2	7.6	
Fiscal Surplus/GDP (pct)	0.7	2.0	0.3	
Current Account Deficit/GDP (pct)	5.8	4.0	3.5	
Debt Service Payments/GDP	1.7	2.0	1.6	
Gold and Foreign Exchange Reserves	22.0	18.8	19.0	
Aid from United States	0	0	0	
Aid from All Other Sources	0	0	0	

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

2/ 2001 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 (55-60 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; 20 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.

Australia was one of the OECD's fastest-growing economies throughout the 1990s, and, after a short downturn in late-2000, continues to grow faster than the OECD average. 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. Price inflation, however, remains above average (around five percent p.a.) following the July 2000 introduction of a broad-based 10 percent consumption tax and the continued depreciation of the Australian dollar. Cuts by the Reserve Bank of Australia (RBA) to official interest rates (150 basis points over 2000), while bolstering economic growth, will probably prevent the inflation rate returning to its long-term trend level (around two-three percent p.a.) until well into 2002.

The Liberal/National coalition government continued its program of fiscal consolidation and debt reduction in its budget for the 2001-2002 fiscal year, announcing a planned budget surplus of \$0.8 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. It is now in the process of selling the remaining federally-owned airports around Sydney.

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 and 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-2001 totaled \$160 billion (48 percent of GDP). Australia's net external public debt is \$7 billion, or around two 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 eased 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 stations' 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.

Labeling: Various 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, with labeling of affected products to become mandatory on 7 December 2001.

Commodity Boards: The export of almost all 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 (WEA), with veto rights over bulk export requests retained by the grower-owned former subsidiary of the AWB, AWB (International) Ltd. After review during 2000, the Federal government extended the WEA's export monopoly until 2004. Having terminated export support payment schemes and internal support programs for dairy producers, the Australian government has made a structural adjustment package available to dairy producers since June 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, in a number of instances without the WTO-required science-based justification. 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 California table grapes, Florida citrus, stone fruit, chicken (fresh, cooked, and frozen), pork, apples, and corn.

Investment: The government requires notification of investment proposals by foreign interests above certain notification thresholds, including: acquisitions of substantial interests, 15 percent by a single foreigner and 40 percent in aggregate, in existing Australian businesses with total assets over A\$50 million; plans to establish new businesses involving a total investment of over A\$10 million or more and takeovers of offshore companies whose Australian subsidiaries are valued at A\$50 million or more, or account for more than 50 percent of the target company's global assets; and, direct investments by foreign governments or their agencies, 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 media sector, urban real estate or land, 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 Government of Australia 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 five 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 information technology (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.

On 1 June 2001, the Government of Australia released a discussion paper on the Strategic Industry Development Agreement Program, to replace the PFD scheme at some point in the second half of 2001. The proposed framework requires all companies wishing to supply Information and Communication Technology (ICT) products and services to the Government of Australia (including subcontractors and resellers) to be endorsed under the Endorsed Supplier Arrangement. Companies supplying more than A\$10 million in ICT goods and services will be required to commit to industry development activities, such as research and development, export and value-added manufacturing initiatives, and technology transfer.

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.

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 Berne 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 Australia's removal of restrictions on parallel imports, copyright piracy issues and with Australia's limitations on its protection of test data for certain chemical entities.

Australia has allowed the parallel importation of sound recordings since 1998, and of branded goods (e.g. clothing, footwear, toys, and packaged food) since 2000. During July 2000, the Cabinet approved a proposal to remove the restriction on parallel imports for books and computer software. Although passed by the House in June 2001, the legislation is unlikely to be approved by the Senate in 2001.

During December 2000, the Australian House of Representatives' Standing Committee on Legal and Constitutional Affairs released its report entitled "Cracking down on copycats: enforcement of copyright in Australia." The Committee concluded that even though the level of copyright infringement in Australia is low by international standards, it does impose a significant and costly burden to many Australian industries that rely on creative endeavor. The Committee recommended amendments be made to the Copyright Act to make it easier for copyright holders to defend their rights in civil actions and to increase the criminal penalties for commercial infringement. It is unlikely these recommendations will be enacted in any form during 2001.

In August 1999, the Australian Parliament enacted legislation permitting limited software recompilation. The impact of this legislation remains unclear; the U.S. government continues to monitor the potentially serious impact of software decompilation.

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: Australia provides Trade-Related Aspects of Intellectual Property Rights (TRIPs) compatible protection for both registered and unregistered well known trademarks under the Trademark Act of 1995. The term of registration is ten years.

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 26 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 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 -- 2000

(Millions of U.S. Dollars)

Category	Amount
Petroleum	6,992
Total Manufacturing	7,964
Food & Kindred Products	1,197
Chemicals & Allied Products	2,624
Primary & Fabricated Metals	472
Industrial Machinery and Equipment	705

Electric & Electronic Equipment	159	
Transportation Equipment	1,446	
Other Manufacturing	1,360	
Wholesale Trade		2,627
Banking		2,627
Finance/Insurance/Real Estate		8,145
Services		2,242
Other Industries		4,843
TOTAL ALL INDUSTRIES		35,324

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