



# “more jobs - more leisure”

A REMINDER OF THE LAST TIME AUSTRALIA ADJUSTED ITS WORKING TIME ARRANGEMENTS

**W**e are now in the midst of an ACTU attempt to raise the cost of overtime hours worked. The aim is to reduce the number of hours any individual employee can work during specific periods of time. By some coincidence, it is now the twentieth anniversary of the last occasion when the union movement won its Pyrrhic victory to reduce working hours in Australia . It is a precedent worth keeping in mind.

It may take some remembering at this stage, but throughout the whole of 1981, Australia was besieged by an ACTU campaign to shorten the length of the standard working week from 40 hours to 35. The Arbitration Commission, as the Industrial Relations Commission was then known, finally agreed to the introduction of the 38-hour week in December, 1981. The deepest recession since the Great Depression was the immediate result.

The shorter-hours campaign was run under the banner “More Jobs – More Leisure” . In 1981 Australia was experiencing “high” rates of unemployment – the unemployment rate mid-year was 5.5 per cent! The union campaign was aimed at sharing the workload. If the average work day was shortened, the ACTU argued, then the number of persons employed would have to rise to allow the same amount of work to be done. And if wages were maintained, then living standards would be maintained.

In typical cargo cult fashion, the ACTU saw the result of their campaign leading to more people working, no reduction in anyone’s standard of living and additional time away from the workplace (hence “more leisure”).

Great theory – not so great in practice. As it happened, 1982 turned out to be one of the worst years ever for the Australian economy. Unemployment shot up to 10.5%. Inflation took off. Investment stopped dead. GDP rolled backwards.

## I N S I D E

**Climate Change – The Marrakech Accords.** The most recent United Nations meeting on climate change may see the Kyoto Protocol come into force next year. Should this occur, there are significant consequences for Australian business and the economy generally. While some technical procedural issues have now been resolved, there remain fundamental problems that should preclude Australia from ratifying the treaty. These are the coverage of the Protocol, and the need for an economic assessment of how the rules of the Kyoto Protocol will impact upon the Australian economy.

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**Australia’s Free Trade Agreement Agenda.** While bilateral agreements can add value to our international trade agenda, they can never be a complete substitute for a comprehensive multilateral trade round which moves the world closer to being a global free trade area. The best free trade agreement is thus one involving the whole world. In simple terms, the aim is to construct a single global FTA of 140 or more countries, ahead of a patchwork of hundreds of bilateral free (and lesser) trade agreements of uneven quality and rigor.

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Undoubtedly, it came as a huge surprise to the ACTU. It was no surprise amongst employers. Large increases in the cost of labour cause economies to run into walls, as we have learned to our cost time and again.

But to confirm the cause and effect relationship between the fall in working time and the subsequent rise in unemployment, ACCI's predecessor organisation, the Confederation of Australian Industry, distributed a questionnaire during the ACTU campaign asking businesses to state their expected reaction to a shortening of the work week. The response showed what everyone should anyway have known: that a reduction in the standard working week would lead to higher unemployment and a reduction in economic activity.

Well, the past is history. The standard work week was reduced and the Australian economy did go into deep recession. The recession was contributed to by other factors, including drought and a slowdown in the international economy. But what made the downturn in Australia extraordinarily severe were the increases in labour costs. And to determine just how important these had been, at the beginning of 1983, a second follow-up questionnaire was distributed seeking to determine the effect on Australian firms of the introduction of the shorter work week.

The results of the survey showed that the shorter work week led to an average increase in the cost of labour of 7.8%. This increase in labour costs led to reductions in employment levels, reductions in economic activity and an increase

in prices. The results also showed that union promises to offset the increases in labour costs through changed work practices came to nothing.

We are yet again in the midst of another union attempt at adjusting hours of work, this time through concerns about allegedly excessive levels of overtime. Both from knowledge of the effects of cost increases on activity and from survey returns, the likelihood is that curtailing overtime hours will raise business costs and lead to job losses. It would not be as bad as in 1981 since the cost increases are not as high, but the effect, although less than it was then, will be in the same direction. Fewer people will be employed if the union claim succeeds.

In answering the present union claim, we now, however, have the evidence from the past to call upon. We have seen the effects of the shorter working week on the economy. We have seen just where "More Jobs – More Leisure" leads to.

A shorter working week may have been desirable. It was just not affordable. Fewer hours of work may also be desirable. But it, too, is unaffordable. To agree to reducing overtime per employee will only make it more difficult to manage an enterprise and will reduce real incomes and lower employment growth.

Twenty years ago it was the 38-hour week. Now it is a desire to limit the number of hours of overtime. Those who do not learn from the past are condemned to repeat it. What follows are the statistics gathered in 1983, surveying the consequences of that previous union claim on working

hours. It should provide a timely reminder of where following the union lead is likely to take us.

### **Report on the Effects of Hours Reductions Results of a Survey Conducted in 1983**

Attached are the results of a questionnaire, conducted in early 1983, on the effects of the introduction of the shorter working week. The sample was comprised only of companies that had reduced hours of work between January 1981 and the beginning of 1983. There were 153 companies in the sample.

The results of the questionnaire show that the reduction in hours of work was as costly for individual companies, and for the economy as a whole, as had been anticipated prior to its introduction.

*Question 1* asked companies to state the proportion of employees that had received a reduction in hours of work. As shown, the average proportion was 75.6 per cent. This was comprised of many companies that had had 100 per cent of employees receiving reductions in hours. However, the statistic also included firms that had had only a single employee having had a reduction in hours because of a variation in an award, while the remaining employees had maintained their previous hours of work.

*Question 2* shows that the most common change in hours was from 40 hours per week to 38 hours. This was the change experienced by three-quarters of the sample. Next most common was the change from 40 hours to 37 1/2 hours which occurred in almost one-fifth of companies.

*Question 3* shows that the most common format for implementation of reduced hours of work was the nineteen day month, occurring in two-fifths of companies in the sample. The shorter working day and the shorter working week were next most common having occurred in about one company in five.

*Question 4* shows the effect on employment levels of reduced hours. The most common response was the increased use of overtime and a reduction in employment levels. This occurred in 28.4 per cent and 27.9 per cent of companies respectively. And in contrast to the ACTU's view that shorter hours would bring more jobs, only 5.6 per cent of respondents stated that reduced hours led to increased employment.

*Question 5* shows that three-quarters of the companies surveyed raised prices as a result of reduced hours of work.

*Question 6* shows that two-thirds of companies reduced production in response to the reduction in hours of work.

*Question 7* shows that 87.3 per cent of the companies surveyed could reduce costs if hours were returned to their previous levels.

*Question 8* asked companies to estimate the reduction in labour costs which would occur if hours were returned to their previous level. This question was asked in order to estimate the cost to employers of having introduced reduced hours of work. The respondent companies estimated that labour costs would fall by 7.8 per cent if hours of work returned to their previous level.

It is important to understand that this figure of 7.8 per cent is in real terms. This estimate indicates that the increase in labour costs was 7.8% higher than the inflation rate.

*Question 9* asked companies whether the agreement for shorter hours had come as a result of an undertaking by unions to provide cost offsets. Of the companies surveyed, 32.9 per cent had had such an undertaking from the unions involved.

*Question 10* asked the extent to which such offsets had occurred. Over three-quarters of the sample stated that only 0-20 per cent of cost increases were offset by changes in work practices. That is, the majority of firms received virtually no cost offsets, even though these had been promised.

*Question 11* shows that the format for the introduction of reduced hours was not the preferred method in 43.3 per cent of sampled companies.

*Questions 12* indicates that of those companies that preferred an alternative arrangement for shorter hours the format most preferred by companies would have been the shorter working day.

### Effects of Hours Reductions — Survey Results

- |   |  |                      |                               |                    |                           |                    |                    |                  |   |   |      |                                      |      |                          |     |       |     |
|---|--|----------------------|-------------------------------|--------------------|---------------------------|--------------------|--------------------|------------------|---|---|------|--------------------------------------|------|--------------------------|-----|-------|-----|
| <p>1. Average proportion of employees in each company that have received a reduction in their hours of work:</p> <p>75.6%</p>   | <p>4. Effect on employment of the reduction in hours of work:</p> <table border="0"> <tr> <td>Increased Employment</td> <td>5.6</td> </tr> <tr> <td>Reduced Employment</td> <td>27.9</td> </tr> <tr> <td>Increased Overtime</td> <td>28.4</td> </tr> <tr> <td>Reduced Overtime</td> <td>9.4</td> </tr> <tr> <td>Shorter Working Week below Net Standard</td> <td>5.1</td> </tr> <tr> <td>Increased Use of Part-time employees</td> <td>15.7</td> </tr> <tr> <td>Reduced number of shifts</td> <td>3.6</td> </tr> <tr> <td>Other</td> <td>1.5</td> </tr> </table> | Increased Employment | 5.6                           | Reduced Employment | 27.9                      | Increased Overtime | 28.4               | Reduced Overtime | 9.4   | Shorter Working Week below Net Standard | 5.1  | Increased Use of Part-time employees | 15.7 | Reduced number of shifts | 3.6 | Other | 1.5 |
| Increased Employment  | 5.6  |                      |                               |                    |                           |                    |                    |                  |   |   |      |                                      |      |                          |     |       |     |
| Reduced Employment  | 27.9   |                      |                               |                    |                           |                    |                    |                  |   |   |      |                                      |      |                          |     |       |     |
| Increased Overtime  | 28.4   |                      |                               |                    |                           |                    |                    |                  |   |   |      |                                      |      |                          |     |       |     |
| Reduced Overtime  | 9.4  |                      |                               |                    |                           |                    |                    |                  |   |   |      |                                      |      |                          |     |       |     |
| Shorter Working Week below Net Standard   | 5.1  |                      |                               |                    |                           |                    |                    |                  |   |   |      |                                      |      |                          |     |       |     |
| Increased Use of Part-time employees  | 15.7   |                      |                               |                    |                           |                    |                    |                  |   |   |      |                                      |      |                          |     |       |     |
| Reduced number of shifts  | 3.6  |                      |                               |                    |                           |                    |                    |                  |   |   |      |                                      |      |                          |     |       |     |
| Other   | 1.5  |                      |                               |                    |                           |                    |                    |                  |   |   |      |                                      |      |                          |     |       |     |
| <p>2. Extent of the reduction in standard hours of work:</p> <table border="0"> <tr> <td>From 40 hours to 38 hours</td> <td>76.3%</td> </tr> <tr> <td>From 40 hours to 37 1/2 hours</td> <td>18.4%</td> </tr> <tr> <td>From 40 hours to 35 hours</td> <td>2.6%</td> </tr> <tr> <td>Other</td> <td>2.6%</td> </tr> </table>                            | From 40 hours to 38 hours  | 76.3%                | From 40 hours to 37 1/2 hours | 18.4%              | From 40 hours to 35 hours | 2.6%               | Other              | 2.6%             | <p>5. Effect of the reduction in hours of work on prices:</p> <table border="0"> <tr> <td>Higher Prices</td> <td>73.7</td> </tr> <tr> <td>Prices Unaffected</td> <td>25.0</td> </tr> <tr> <td>Lower Prices</td> <td>1.3</td> </tr> </table> | Higher Prices                           | 73.7 | Prices Unaffected                    | 25.0 | Lower Prices             | 1.3 |       |     |
| From 40 hours to 38 hours   | 76.3%  |                      |                               |                    |                           |                    |                    |                  |   |   |      |                                      |      |                          |     |       |     |
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| From 40 hours to 35 hours   | 2.6%   |                      |                               |                    |                           |                    |                    |                  |   |   |      |                                      |      |                          |     |       |     |
| Other   | 2.6%   |                      |                               |                    |                           |                    |                    |                  |   |   |      |                                      |      |                          |     |       |     |
| Higher Prices   | 73.7   |                      |                               |                    |                           |                    |                    |                  |   |   |      |                                      |      |                          |     |       |     |
| Prices Unaffected   | 25.0   |                      |                               |                    |                           |                    |                    |                  |   |   |      |                                      |      |                          |     |       |     |
| Lower Prices  | 1.3  |                      |                               |                    |                           |                    |                    |                  |   |   |      |                                      |      |                          |     |       |     |
| <p>3. Method of implementation of reduced hours of work:</p> <table border="0"> <tr> <td>Shorter Working Day</td> <td>22.4</td> </tr> <tr> <td>Shorter Working Week</td> <td>19.1</td> </tr> <tr> <td>Nine Day Fortnight</td> <td>8.6</td> </tr> <tr> <td>Nineteen Day Month</td> <td>40.1</td> </tr> <tr> <td>Other</td> <td>9.8</td> </tr> </table> | Shorter Working Day  | 22.4                 | Shorter Working Week          | 19.1               | Nine Day Fortnight        | 8.6                | Nineteen Day Month | 40.1             | Other   | 9.8                                     |      |                                      |      |                          |     |       |     |
| Shorter Working Day   | 22.4   |                      |                               |                    |                           |                    |                    |                  |   |   |      |                                      |      |                          |     |       |     |
| Shorter Working Week  | 19.1   |                      |                               |                    |                           |                    |                    |                  |   |   |      |                                      |      |                          |     |       |     |
| Nine Day Fortnight  | 8.6  |                      |                               |                    |                           |                    |                    |                  |   |   |      |                                      |      |                          |     |       |     |
| Nineteen Day Month  | 40.1   |                      |                               |                    |                           |                    |                    |                  |   |   |      |                                      |      |                          |     |       |     |
| Other   | 9.8  |                      |                               |                    |                           |                    |                    |                  |   |   |      |                                      |      |                          |     |       |     |

<p>6. Effect of the reduction in hours of work on production:</p> <table border="0"> <tr> <td>Increased Production</td> <td>1.3</td> </tr> <tr> <td>Production Unaffected</td> <td>32.2</td> </tr> <tr> <td>Reduced Production</td> <td>66.4</td> </tr> </table> <p>7. Would a return to the previous standard hours of work reduce your company's labour costs?</p> <table border="0"> <tr> <td>Yes</td> <td>87.3</td> </tr> <tr> <td>No</td> <td>12.7</td> </tr> </table> <p>8. If yes, by what percentage would a return to the previous standard of work reduce your company's labour costs:</p> <p>7.8%</p> <p>9. Did the reduction in hours come as a result of an agreement by unions to provide offsetting cost reductions through changed work practices?</p> <table border="0"> <tr> <td>Yes</td> <td>32.9</td> </tr> <tr> <td>No</td> <td>67.1</td> </tr> </table>	Increased Production	1.3	Production Unaffected	32.2	Reduced Production	66.4	Yes	87.3	No	12.7	Yes	32.9	No	67.1	<p>10. If the reductions in hours came about as a result of an agreement by unions to provide offsetting cost reductions through changed work practices, what per cent of increased costs were in fact offset by various changes in work practices:</p> <table border="0"> <tr> <td>100% or more</td> <td>2.2</td> </tr> <tr> <td>80% to 100%</td> <td>6.7</td> </tr> <tr> <td>60% to 80%</td> <td>-</td> </tr> <tr> <td>40% to 60%</td> <td>6.7</td> </tr> <tr> <td>20% to 40%</td> <td>6.7</td> </tr> <tr> <td>0% to 20%</td> <td>77.8</td> </tr> </table> <p>11. Is the format for the implementation of reduced hours of work the preferred means of providing shorter hours?</p> <table border="0"> <tr> <td>Yes</td> <td>56.7</td> </tr> <tr> <td>No</td> <td>43.3</td> </tr> </table> <p>12. If no, what method of implementing reduced working hours would have been preferred:</p> <table border="0"> <tr> <td>Shorter Working Day</td> <td>42.9</td> </tr> <tr> <td>Shorter Working Week</td> <td>14.3</td> </tr> <tr> <td>Nine Day Fortnight</td> <td>4.8</td> </tr> <tr> <td>Nineteen Day Month</td> <td>16.7</td> </tr> <tr> <td>Other</td> <td>21.4</td> </tr> </table>	100% or more	2.2	80% to 100%	6.7	60% to 80%	-	40% to 60%	6.7	20% to 40%	6.7	0% to 20%	77.8	Yes	56.7	No	43.3	Shorter Working Day	42.9	Shorter Working Week	14.3	Nine Day Fortnight	4.8	Nineteen Day Month	16.7	Other	21.4
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# climate change the marrakech accords

**i**n the midst of the federal election and the war on terrorism, relatively little attention has been paid to the outcomes of the most recent United Nations meeting on climate change which may see the Kyoto Protocol come into force next year. If this happens, there are significant consequences for Australian business and the economy generally.

Since November 1997, the *ACCI Review* has featured seven articles on climate change. The theme has been constant. Australia should not ratify the Kyoto Protocol unless ratification it is in our best interests. While some technical procedural issues have now been resolved, there remain some fundamental problems that we believe should preclude Australia from ratifying the treaty. These are the coverage of the Protocol, and the need for an economic assessment of how the rules of the Kyoto Protocol will impact upon the Australian economy.

The global policy outcome of reducing greenhouse gases cannot be achieved if the countries responsible for around 70-75 per cent of global emissions by 2008, are not included – the United States by choice, and developing nations such India, China, Korea, Taiwan and Indonesia by design of the Protocol.

ACCI is committed to Australia contributing equitably to reducing greenhouse gases based on our contribution to the problem, provided that any action Australia takes leads to an overall reduction in world emissions. Australia has already made an impressive effort at the federal government level to abate greenhouse gases. Indeed, in Marrakech it was acknowledged that Australia, more than most developed nations, had already put

in place policies and programs designed to meet our target.

With over six years before the start of the 2008-2012 first commitment period under the Protocol, Australia has time to assess thoroughly the likely impact on the economy of the operation of the Kyoto Protocol and to develop integrated economic, energy and investment policies to maintain Australia's economic growth while at the same time meeting the emissions target agreed at Kyoto.

The most recent meeting of the Conference of the Parties to the United Nations Framework Convention on Climate Change was held in Marrakech in November (COP7). The purpose of the meeting was to try to seek final agreement on the rules to implement the Kyoto Protocol.

The Kyoto Protocol under the United Nations Framework Convention on Climate Change was signed in Kyoto, Japan in late 1997. It is a treaty commitment by 39 developed nations, known as Annex 1 nations, to reduce their combined greenhouse gas emissions by at least five per cent compared with 1990 levels by the period 2008 –2012. Over 100 developing nations are party to the agreement but they do not have binding targets under the Protocol. Not surprisingly most of

the developing nations have signed and ratified the Protocol.

Over the last four years there have been Conference of the Parties' meetings in Buenos Aires, Berlin, The Hague, Bonn and Marrakech with many technical meetings in between to try and resolve the rules to implement the Kyoto Protocol.

After the Marrakech meeting, most developed nations have announced they will ratify the Protocol with a view to try to bring the Protocol into force at the World Summit for Sustainable Development in September 2002 in Johannesburg. The Summit will be the 10th anniversary of the first World Summit in Rio de Janeiro where the United Nations Framework Convention on Climate Change was agreed. Given that the ratification process in most developed nations requires legislation, 2002 is an ambitious aim, with 2003 being more likely.

The timing of the Marrakech Conference meant that as the federal election had been called, Australia was in caretaker mode, and consequently we were not represented at Ministerial level. This meant that Australia did not chair the "Umbrella Group" which the former Environment Minister, Senator the Hon Robert Hill, had done so effectively at previous meetings.

The "Umbrella Group" is one of the three major groupings of countries that are party to the Convention. The Umbrella Group consists of Australia, the United States, Canada, Japan, Russia, Iceland, Ukraine, Norway and New Zealand. The other major groups are the European Union, and the developing nations, known as G77 and China.

The US although present at Marrakech, was only involved in discussion relating to the Convention, not the rules to implement the Kyoto Protocol.

It appears as if Australia and the US are the only two developed nations that have not indicated that they will ratify the Kyoto Protocol. At COP7, substantial concessions were made to Japan on compliance, and Russia in doubling its carbon sinks from forests, leading to both nations indicating that they would ratify the Protocol.

Under the articles of the Kyoto Protocol, the Protocol can not come into force until at least 55 parties to the Convention have ratified the protocol, and those countries must include countries from the original 39 developed nations that account for at least 55 per cent of the total emissions from 1990. Together with the EU, other European nations, and New Zealand, the ratification by Japan and Russia will mean the 55 per cent is achieved. Ratification by Canada will not be necessary to ensure the Protocol can come into effect.

**Major Areas Covered**

The major areas covered in the Marrakech Accords include:

- Operating rules for international emissions trading and the Protocol's two other flexibility mechanisms (the Clean Development Mechanism and Joint Implementation) and rules defining a country's eligibility to participate in the mechanisms.
- A compliance regime that sets consequences for failing to meet an emissions target, but defers until a later COP the question of whether the consequences are legally binding.
- Accounting procedures that provide for fungibility - meaning that emissions units under all three mechanisms can be transferred several times as equal units.
- Creation of a new type of emissions unit for sinks credits that cannot be banked for future commitment periods.
- Emissions trading - the buying and selling of emissions credits among nations with binding emission targets;
- Joint Implementation (JI) - allowing one country with a target to receive emissions credit for a specific project undertaken in another country with a target; and
- the Clean Development Mechanism (CDM) - allowing developed countries to receive emissions credit for financing projects that reduce emissions in developing countries.

Key decisions include:

- Fungibility which allows emissions units under all three mechanisms to be treated equally. This should create a more fluid market in emissions units, making the mechanisms more viable and enhancing opportunities for cost-effectiveness.
- Creation of a new Removal Unit (RMU) to represent sinks credits generated in Annex I countries (including through Joint Implementation). RMUs can be used only to meet a party's emissions target in the commitment period in which they are generated. They cannot be banked for a future commitment period.
- Banking of any remaining emission allowances beyond those needed to meet a Party's target is permitted. Banking of credits generated under CDM or JI is limited to 2.5%, respectively, of a Party's initial assigned amount.

In addition, the Conference appointed 10 members and 10 alternates to the Clean Development Mechanism Executive Board, and approved a declaration to the next World Summit on Sustainable Development in September 2002.

**Key Decisions in Marrakech**

*Mechanisms and Accounting*

The Protocol establishes three market-based mechanisms aimed at achieving emissions reductions as cost-effectively as possible. They are:

- Unilateral CDM is allowed, enabling a developing country to undertake a CDM project without an Annex I partner and market the resulting emissions credits.
- Annex I Parties that cannot meet the Protocol's inventory requirements can still host JI projects through a project design and approval process similar to the CDM.
- The CDM Executive Board is authorized to approve methodologies for baselines, monitoring plans and project boundaries; accredit operational entities; and develop and maintain the CDM registry. The COP/MOP (the Conference of the Parties meeting as the Parties to the Kyoto Protocol, following entry into force) will oversee rules of procedure for the Executive Board; accreditation standards for, and designation of, operational entities; and a review of regional/sub-regional distribution of CDM project activities.
- The requirement in the Bonn Agreement that each Annex I party hold back from the market 90% of its allowable emissions (or five times its most recently reviewed emissions inventory, whichever is lower) is deemed mandatory. The provision addresses the risk of overselling emission credits that a party might need to meet its target. In essence, oversold units become the buyer's liability.

*Sinks*

Under the Protocol, countries may receive credit toward their emissions targets for carbon absorbed by forests, soils and other so-called "sinks." The Bonn Agreement defined the kinds of sinks activities that are eligible and, for forest management, set country-specific caps for each Annex I country. The Marrakech Accords:

- Give Russia, which had registered an objection at the time of the Bonn Agreement, an increase of its ceiling for forest management credits to 33 million tonnes of carbon annually. The Bonn Agreement had allocated Russia no more than 17.63 million tonnes.
- Require Annex I parties to report on their sinks activities in order to be eligible to participate in emissions trading and the other mechanisms. Parties that report can participate in the mechanisms but their inventories will be adjusted at the close of the commitment period if their reports are deemed inadequate.
- Require reporting by Annex I parties on efforts to protect biodiversity in the context of sinks activities.

*Compliance*

The Bonn Agreement defined the broad outlines of a compliance regime overseen by a Compliance Committee with facilitative and enforcement branches. The agreement also set consequences for failing to meet an emissions target, including: restoration of

tonnes at a rate of 1.3 to 1 (a country must make up its shortfall, plus 30 percent, in the next target period); suspension of eligibility to sell credits; and development of a compliance action plan. At the Marrakech meeting a decision was deferred on the legal nature of the compliance regime until the first meeting of Kyoto Parties (the COP/MOP) following the treaty's entry into force.

**Other Decisions**

*Review of Adequacy of Commitments*

The agenda for each of the last three COPs has called for a review of the adequacy of commitments under the Framework Convention, but each time the item has been deferred, in part because developing countries are not prepared to discuss the question of whether they should take on binding commitments. In Marrakech, despite the Umbrella Group's attempt, there was no process agreed on how to address developing nations taking on binding targets.

*Input to the World Summit on Sustainable Development*

The Conference adopted a Marrakech Ministerial Declaration providing input to the Summit, which will be held in September 2002 in Johannesburg. The declaration emphasises linkage between sustainable development and climate change; reaffirms development and poverty eradication as the overriding priorities of developing countries; and calls on countries to explore

synergies between the Framework Convention and conventions on biodiversity and desertification.

### Implications for Australia

Even though enough of the rules have been agreed for most developing nations to proceed to ratification, how they will be interpreted and the way countries and businesses will respond to them remains unclear.

The political agreement at Bonn on the use of the flexibility mechanisms, and land use and sinks was positive for Australia. The Marrakech Accords essentially turn the political text into legal text. The decision at Bonn, and reaffirmed, at Marrakech to not make the compliance provisions legally binding at this stage, but rather politically binding, is consistent with Australia's position.

However, the possibility of the Protocol becoming legally binding cannot be ruled out once the Protocol enters into force. This has implications for Australia's sovereignty.

### Unresolved Issues

There are a number of issues that were left unresolved for Australia that the Government, business and the community will need to consider carefully. These include

- The position of developing nations and commitments, albeit that it will continue to come back on the agenda at COPs, there is no defined pathway for developing nations to agree to binding targets. The risk of investment leakage from Australia to developing nations because they may not be carbon constrained is a concern not only to the commodity and resource based sectors, but to industry more broadly.
- The non involvement of the United States in the Protocol is an issue, as is any parallel process it may run on greenhouse issues. After the Bonn Agreement, the US announced it may have its own mechanisms including emissions trading, and collaboration on technological research and development with other 'western hemisphere countries'.
- It is not clear under the Kyoto Protocol, what is the position of Australian businesses if Australia does not ratify the Protocol. For instance, it may be possible for Australian businesses to participate in the flexibility mechanisms, if Australia does not ratify the Protocol. Clarification of the status of business activities is necessary.
- While the rules have been substantially agreed, there are important outstanding issues, for example, relating to the methodologies for measuring sinks, and the inventory of greenhouse gases which may affect Australia meeting its target.
- The suggestion that trade sanctions will be applied to those countries that do not ratify the Protocol is a concern. We believe that it is unlikely as the United Nations Convention Framework on Climate Change itself states as a matter of principle that 'measures taken to combat climate change, should not constitute ... a disguised restriction on international trade' and it also would be currently inconsistent with the treaty that established the World Trade Organisation, to impose trade barriers for environmental issues. Nevertheless, the increasing trend within Europe to link environment with trade must be monitored.

Now that more of the rules are known, good public policy requires a thorough assessment of the likely impact on the Australian economy if the Kyoto Protocol comes into effect. Any calls for Australia to ratify the Protocol should be resisted until it has been determined that it is in the national economic interest to do so.

# Australia's free trade agreement agenda

**a**ustralia is currently negotiating, or is actively looking to negotiate, a number of bilateral trade agreements with some of our most important trading partners. While such agreements can add value to our international trade agenda, they can never be a complete substitute for a bold and comprehensive multilateral trade round which moves the world closer to being a global free trade area.

Without necessarily listing them in order of importance, or sequence of activity, bilateral trade agreements currently being explored include: Free Trade Agreements with Singapore, the United States and Thailand; and, a Trade and Investment Framework Agreement with Japan.

## The Australian Government Attitude

The Australian Government's attitude to bilateral free trade agreements is fairly clear-cut. In short, the Australian Government is open to such agreements if they can deliver substantial gains to Australia that could not be achieved in a similar time-frame elsewhere.

Further, such agreements should be comprehensive in scope and coverage and provide added momentum to our wider multilateral objectives (that is, under the World Trade Organisation).

## The Chamber's Attitude

The Australian Chamber of Commerce and Industry (ACCI) has an open mind on bilateral or regional free trade agreements. Taken as a whole, we do not preclude, ex ante, any initiative which delivers broader and more effective trade and investment liberalization.

But, this does not mean commerce and industry is going to accept any or all such agreements unquestionably, or without careful, rigorous, and constructively critical analysis.

Rather, the Chamber would set down three tests for determining whether we would support any particular bilateral or regional trade liberalization/ facilitation agreement.

Firstly, it must be 'WTO-plus'

- At a minimum, this means any agreement must not detract from the rigour and standing of the rules-based multilateral trading system
- More importantly, any such agreement must deliver outcomes, especially trade and investment liberalization, beyond those available under existing WTO rules and commitments.

Secondly, it must contain the promise of net commercial and economic benefits to Australia, through better market access and greater net export and investment opportunities.

And, thirdly, it must advance

- our national interests
- commercial and economic potential

- diplomatic and foreign policy
- military and strategic positions, and
- recognise the multi-dimensional and inter-connected nature of most of our international relationships.

## World Trade Organisation

The place of bilateral and regional free trade agreements in the global trading system has been the source of much debate.

In essence, do such agreements add to or detract from the rules based multilateral trading system in the form of the World Trade Organisation?

The 'add to' view argues such agreements can deliver trade liberalization outcomes beyond and earlier than the more cumbersome multilateral system.

The 'detract from' view argues such agreements can undermine commitment to, and divert resources away, from the more robust multilateral system.

The Chamber's view is clear and straightforward: the best free trade agreement is one involving the whole world, which means the broadest and deepest set of commitments under the WTO.

In simple terms, commerce and industry wants to see a single global FTA of 140 or more countries, ahead of a patchwork of hundreds of bilateral free (and lesser) trade agreements of uneven quality and rigour.

As such, the main game must be the launch of a comprehensive round of multilateral trade negotiations at the WTO Ministerial meeting at the earliest opportunity.

In this regard, other trade liberalisation agreements must be a complement to, not a substitute for, first-best agreements under the WTO.

Any FTA into which Australia enters must fit into this framework, and at a minimum it must be WTO-consistent, indeed WTO-plus, if it is to add-value to Australia's international trading interests.

If such agreements detract from the WTO ('WTO-minus') or even just reproduce existing commitments under the WTO then they will be of debatable value and unlikely to be in our broader national interests.

**Australia-Singapore Free Trade Agreement**

The Australian Government is already actively engaged in the negotiation of an Australia - Singapore Free Trade Agreement (ASFTA), with the active support and participation of Australian commerce and industry.

The ASFTA will cover the mainstay areas of agriculture, manufactures, services and investment. It will also embrace important issues such as intellectual property, government procurement, standards and

conformance, customs and quarantine, and electronic commerce.

While both Australia and Singapore are generally regarded as committed to free and open trade and commerce, this does not mean negotiating a robust bilateral FTA will be easy.

Not surprisingly, there have been some 'sticking points' in the negotiations: for the Singaporeans, over Australian proposals on competition policy, and liberalisation of their services sector; and, for the Australians, over Singaporean proposals on country of origin and government procurement.

However, these challenges are not insurmountable, where there is the necessary will.

**Australia-United States Free Trade Agreement**

While the Australia - Singapore FTA will be an important benchmark for our trading relationships in Asia, an Australia - United States FTA may well be one of the most important bilateral economic agreements we ever negotiate.

A few simple facts underscore this point. The United States is: our second largest trading partner; our largest single market for the trade in services; our largest single source of foreign investment; and, our second largest export market for elaborately transformed manufactures.

In dollar terms, two-way trade was worth just under \$A 33

billion in 1999/2000, or around one dollar in six of our total trade.

A negotiating framework has, to some degree, already been sketched-out in the 'hit lists' of bilateral trade-related tensions maintained by the respective Governments.

Prominent sectors on the Australian list include American agriculture, government procurement, professional services, maritime transport, and telecommunications policies and practices, while for the Americans they include our quarantine, export promotion, foreign investment screening, and commodity marketing arrangements.

And, as experience in trade negotiations repeatedly shows, meaningful negotiations to achieve genuine free trade between two countries often bring to the surface what might be called 'submerged rocks', adding to the challenges ahead of negotiators.

**Australia-Thailand Free Trade Agreement**

The Australian Government is also exploring an FTA with Thailand, a country with whom we have a long history of friendly relations.

To put it plainly, any Australia - Thailand FTA (ATFTA) is very much at the earliest stages of development, but the initial signals have been encouraging.

The two countries have announced they will be undertaking a joint scoping study which would look at: the feasibility of an FTA; and, how to maximize the potential benefits of closer economic

integration between the two countries.

From an Australian perspective, Trade Minister Mark Vaile has said any ATFTA would be: comprehensive in scope; remove barriers to trade in goods and services; genuinely liberalizing; and, WTO-consistent

The Australian Government officials involved in preparing the scoping study will be expected to consult with Australian commerce and industry.

The Chamber, of course, looks forward to the same breadth and depth of engagement with our trade negotiators on the Thailand FTA as we have enjoyed with those concerning Singapore and prospectively the United States.

However, as we go forward with the Thai FTA we must bear in mind Australia would be one of a number of countries with whom the Thai's may be interested in negotiating an FTA, the other countries including India, Brazil, Mexico, Russia and South Africa.

That is, such Agreements' are not made in isolation of other activities and commitments.

**Australia-Japan Trade and Investment Framework Agreement**

While not as widely reported as the proposed FTAs with Singapore and the United States, the Australian Government is giving serious consideration to negotiating an Australia – Japan Trade and Investment Framework Agreement (AJTIFA).

Such an agreement would be the third major instrument we have with the Japanese, building on: the landmark Commerce Agreement of 1957; and, the 1976 Friendship Treaty.

Beyond just the nomenclature, a TIFA is materially different to an FTA, most notably in their substance.

A Free Trade Agreement is just that: an agreement to substantially eliminate barriers to trade, commerce and investment between the participating countries: that is, free trade.

A Trade and Investment Framework Agreement (TIFA) is about trade facilitation: tackling the administrative and regulatory problems which can be an irritant to trade and commerce.

Although thinking on a TIFA within both the Australian and Japanese Governments is still at the early stages, key issues which business would expect to see addressed include: standards and conformance; transparency in commercial regulations; movements of natural persons; competition law and policy; and, intellectual property protection.

**Australia-China Trade and Investment Framework Agreement**

The Federal Government has not been the only one thinking about closer bilateral relationships.

The Opposition has also been doing so, proposing a TIFA between Australia and China.

If the Australia–Japan TIFA is about consolidating an already substantial relationship, then an Australia-China TIFA (ACTIFA) is about under-pinning a newer, but potentially equally rewarding, trade and commercial relationship.

Few in Australia would realize China is already our third largest trading partner. But, our market share appears stuck at around 2 per cent of the Chinese market. We, as a nation, could, indeed should, do better.

According to the Opposition's previous spokesman on trade, an ACTIFA would have two mutually supportive objectives.

Firstly, it would help to realize the great economic and trade complementarities between the two countries. For example, our strengths appear to match their needs, especially in areas such as infrastructure, developing services sectors and strengthening public sector institutions.

Secondly, it would assist Australia to realize market opportunities in the massive Chinese market place, particularly China's lesser developed interior provinces, in key areas such as telecoms, dry land farming, and infrastructure development.

**ASEAN - CER Free Trade Agreement**

While it may not be widely realized, Australia has previously put a reasonable amount of effort into promoting the idea of an ASEAN - CER FTA.

That is, a free trade agreement between the ten-member

Association of South East Asian Nations (ASEAN), and the two member Closer Economic Relations (short for ANZCERTA) partners, of Australia and New Zealand.

Without going into an expansive history of the idea, it originated from some exploratory work by the Australian business community sounding out the interest-in-principle of their ASEAN counterparts.

There were sufficient encouraging responses to initiate a series of substantive research studies, including one prepared by the ACCI, another by a prominent Canberra economic consultancy, and another by a High Level Inter-Governmental Taskforce.

The main recommendations of these reports were much the same: namely, while negotiating such an agreement would prove challenging, there were likely to be sufficient net benefits to make the effort worthwhile.

While initial efforts to start talks on an ASEAN-CER free trade agreement stalled for a range of reasons, recent overtures from certain ASEAN countries indicate the issue is back on the active agenda, one to which the Australian Government and business community should respond positively.

### A Complication

An important issue which will inevitably emerge as more and more countries enter into bilateral FTAs concerns the inter-connection of these agreements.

In conceptual terms, if Australia has an FTA with, say, the United States, and they have one with Canada and Mexico (ie NAFTA), what does it mean about our relationship with Canada and Mexico?

Closer to home the question can be replicated with the Australia - Thai FTA, and the latter's potential FTA linkages with India, Russia

and South Africa, and/or the Australia - Singapore FTA, and the mooted FTA between Singapore and Japan.

While it does not automatically mean we have de facto, let alone explicit, FTAs with the 'onward party', it does create some challenges especially regarding the 'most favoured nation' rule of international trade law.

(Most Favoured Nation means treating another trading partner no less advantageously than the most favoured trading partner.)

All of which means we will have to consider carefully the (necessary) trade-offs we make in any FTA/TIFA negotiations, recognizing other countries will, quite reasonably, expect comparable (most favoured nation) treatment, just as we will from them, from their other agreements.

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