

Business Experience of Free Trade Agreements

Business Opportunities Arising from Agreements

- 3.1 While Governments negotiate free trade agreements (FTAs), it is business which can benefit most from them.
- 3.2 In quantifying the total benefits to Australian business arising from Australia's FTAs, the Minerals Council of Australia (MCA) stated:
- Measuring the success or failure of FTAs by shifts in bilateral trade flows between signatories to an agreement is crude and simplistic. ... In Australia's case, it is wrong to consider the impact of trade agreements in isolation from broader trade factors.¹
- 3.3 The MCA pointed to factors such as the emergence of China as having 'driven a profound reorientation of trade both in Asia and beyond' and the appreciation of Australia's exchange rate of almost 80 per cent between 2003 and early 2013.²
- 3.4 The Export Council of Australia (ECA) added that for services there was no 'clear indicator of the value of services being exported' because they did not appear in GST figures and were not well captured in Australian Bureau of Statistics data.³ The Department of Foreign Affairs and Trade (DFAT) stated that while 'a goods import receiving special FTA treatment generates documentation ... services suppliers and investors are not required to fill in a particular form in order to benefit under the FTA.'⁴

1 Minerals Council of Australia (MCA), *Submission 20*, p. 2.

2 MCA, *Submission 20*, p. 2.

3 Mr Andrew Hudson, Director, Export Council of Australia (ECA), *Committee Hansard*, Sydney, 28 July 2015, p. 14.

4 Department of Foreign Affairs and Trade (DFAT), *Submission 28*, p. 8.

3.5 The 2015 Australian International Business Activity survey⁵ found that from 1237 Australian companies who have used FTAs that:

From 43 to 52 per cent of respondents across the FTAs did not know whether the relevant FTA applied to them, and from 9 to 13 per cent did not know the FTA existed. Seventeen to 20 per cent knew of the FTA but chose not to use it.

... Knowledge of FTAs was higher in product-based industries than in service industries.⁶

3.6 Austrade also stated that Australian exporters may be unaware that they are taking advantage of a particular FTA:

Businesses may be benefiting from their products being sold under lower tariffs overseas but leave the management of exporting to customs brokers, freight forwarders or the importers themselves. Australian business people may benefit also from improved mobility provisions or from the recognition of qualifications without necessarily realising that this was the result of a FTA.⁷

3.7 This view was supported by the Australian Industry Group (Ai Group),⁸ and by MCA which commented that 'business utilisation of FTAs is almost certainly higher than suggested in some business surveys.'⁹

3.8 For example, DFAT stated that despite these uncertainties, some specific benefits can be identified:

Simple trade and investment flows can provide useful indicators. This shows that growth in total two-way trade ... and two-way investment between Australia and our FTA partners has generally increased strongly following implementation of FTAs.¹⁰

3.9 The DFAT added that Customs data on the Australia-United States FTA (AUSFTA) demonstrated 'business has used the FTA to dramatically reduce the amount of Australian imports entering the United States that pay tariffs.' Also, a new visa category and an annual quota of 10 500 visas had allowed Australian business people and professionals to take advantage of the opportunities offered under the FTA by making it easier

5 The Australian International Business Activity survey is the 'largest survey of Australian international business activity' and is jointly produced by the Australian Export Council, Austrade, Efic and the University of Sydney. ECA, *Submission 15*, p. 4.

6 ECA, *Submission 15*, pp 4-5.

7 Ms Philippa Dawson, General Manager, Trade, Austrade, *Committee Hansard*, Canberra, 21 July 2015, p. 3.

8 Mr Innis Willox, Chief Executive, Australian Industry Group (Ai Group), *Committee Hansard*, Canberra, 21 July 2015, p. 28.

9 MCA, *Submission 20*, p. 2.

10 DFAT, *Submission 28*, p. 7.

for them to work in the US.¹¹ It should be noted that Australian exports to the US in real terms have been relatively flat over the last ten years¹² due to a number of reasons. The Department of Foreign Affairs and Trade stated that ‘many factors influence trade flows’ and highlighted that since the AUSFTA’s entry into force there has been:

... the mining boom, the 2008-09 Global Financial Crisis with important effects such as the sustained period of a high Australian dollar and a long period of subdued economic growth in the US.¹³

Benefits to Particular Sectors of the Economy

Minerals Sector

3.10 The MCA stated that ‘in the case of the minerals sector, the FTAs have delivered real, meaningful and practical gains.’ Besides the FTAs with North Asian countries:

Our deal with Thailand resulted in a number of gains for metal exporters, with the elimination of tariffs of 10 per cent on unwrought lead and zinc. In the case of investment, higher thresholds for [Foreign Investment Review Board] scrutiny in Australia for the United States, Japan and Korea, as well as New Zealand, have provided easier opportunities for investment from those economies into the Australian mining industry. ... these FTAs have improved the operating environment for Australian firms operating abroad. The minerals sector alone has invested more than \$160 billion in operations abroad over recent decades.¹⁴

3.11 The advantage also extended to the mining services sector. For example, many mining equipment, technology and services companies had a base in Chile and were, MCA suggested, using the FTA with Chile. The evidence was anecdotal but there was a correlation, with more activity in Chile ‘which is then fanning out through South America.’¹⁵ The DFAT supported this view and advised that 120 Australian companies had an investment office in Chile and that this had ‘increased dramatically ‘since the FTA had entered into force. The companies ‘included BHP Billiton, Rio Tinto, Origin Energy, Orica and Pacific Hydro.’¹⁶

11 DFAT, *Submission 28*, pp 7-8.

12 DFAT, *Submission 28*, p. 36.

13 DFAT, *Submission 28*, p. 42.

14 Mr Brendan Pearson, Chief Executive, MCA, *Committee Hansard*, Canberra, 21 July 2015, p. 39.

15 Mr Sid Marris, Director, Industry Policy, MCA, *Committee Hansard*, Canberra, 21 July 2015, p. 40.

16 DFAT, *Submission 28*, p. 11.

Grains Sector

- 3.12 Grain Growers advised that since the AANZFTA came into effect in 2010, grain exports to the Association of Southeast Asian Nations (ASEAN) countries had grown from \$1.3 billion in 2009 to \$2.6 billion in 2014 which represented a compounded average growth rate of 14 per cent. Grain Growers acknowledged that the figures suggested that this increase was more than just the effect of growing populations and increasing demand for Western bread and pasta-based diets.¹⁷

Beef Sector

- 3.13 The Australian Meat Industry Council (AMIC) identified the FTA with Chile as Australia's most successful FTA for the beef sector. Under the FTA the industry had successfully sought a memorandum of understanding (MoU) on beef grading which had liberalised access. Shipments to Chile in 2012 reached a peak of 15 000 tonnes – 'the vast majority of this product in chilled form, an outcome unachievable without the MoU and the FTA it was bound to.'¹⁸
- 3.14 The FTA with the US built on the country-specific import beef quota which had been negotiated through the 1995 Uruguay Round. Under the FTA Australia gained an additional beef quota of 70 000 tonnes over 18 years. The AMIC stated that this 'allowed the removal of quota controls and has allowed the US market since 2003 to operate in an open and free trading environment.'¹⁹
- 3.15 The AMIC described the beef market in Thailand as a 'highly disruptive and distorted marketplace'. Although the tariff on Australian beef in Thailand was being phased out under the Thailand-Australia FTA (TAFTA), the volume imported had an upper limit which, when exceeded, attracted a tariff of 50 per cent. The demand for Australian beef had far outstripped the phase-out arrangements which caused 'business to be sporadic and unreliable. This led to out-of-stock situations which also led to end users losing confidence in the brand and Australian product in general.'²⁰

17 Grain Growers, *Submission 25*, p. 2.

18 Australian Meat Industry Council (AMIC), *Submission 27*, p. 5.

19 AMIC, *Submission 27*, p. 15.

20 AMIC, *Submission 27*, pp 15-16.

Horticulture Sector

- 3.16 AUSVEG highlighted the benefits of Australia's FTAs for the horticulture sector. The TAFTA eliminated tariffs on most fresh Australian vegetable exports by 2010 and exports had increased 'by over 110 per cent from \$4.3 million in 2004-05 to \$9.1 million in 2013-14.'²¹ This indicated that increasing numbers of Australia growers were becoming interested in exporting.²²
- 3.17 In contrast, the Australian Horticultural Exporters Association (AHEA) advised that the TAFTA as well as the AUSFTA had provided little benefit to the horticultural industry.²³
- 3.18 AUSVEG advised that Australian exports to Korea and Japan were also increasing:
- The 2015 Korea-Australia FTA has seen tariff reductions on a range of vegetables. In the first half of this year, exports have already increased by 78 per cent ... Japan is the largest market for vegetable exports and was valued at over \$46 million for our industry last year. Since the FTA came into force in January this year, exports for a number of vegetable commodities started increasing.²⁴
- 3.19 Potatoes make up 86 per cent of Australia's vegetable exports to Korea, but tariff reduction only applied to chipping potatoes imported from 1 December to 30 April each year.²⁵
- 3.20 Cherry Growers Australia (CGA) reported that the cherry industry was:
- ... growing quite markedly mainly because of access into the Asian markets. In our industry, last season about 13 000 tonnes were levied. But the potential for our industry is to probably go to 20 000 or 25 000 tonnes over the next four to five years.²⁶
- 3.21 The CGA noted that Australian produce was regarded as 'some of the highest quality in the world' and was sought after by consumers. In 2014, Australia exported some 3 500 tonnes to the value of almost \$50 million,

21 Mr Michael Coote, National Manager, Export Development, AUSVEG, *Committee Hansard*, Melbourne, 27 July 2015, p. 30.

22 Mr Michael Coote, AUSVEG, *Committee Hansard*, Melbourne, 27 July 2015, p. 32.

23 Mr David Minnis, Chairman, Australian Horticultural Exporters Association (AHEA), *Committee Hansard*, Melbourne, 27 July 2015, pp 2-3.

24 Mr Michael Coote, AUSVEG, *Committee Hansard*, Melbourne, 27 July 2015, p. 30.

25 AUSVEG, *Submission*, pp 3-4.

26 Mr Simon Boughey, Chief Executive Officer, Cherry Growers Australia (CGA), *Committee Hansard*, Melbourne, 27 July 2015, p. 15.

and there was potential to double the value of exports 'over the next five to seven years.'²⁷

- 3.22 The CGA added that the cherry market was highly competitive with Chile, New Zealand, South Africa and Argentina all competing for the 'counter seasonal market, particularly in the northern hemisphere ... and into the Asian markets'. Chile was the major producer with an annual production of 120 000 tonnes and New Zealand was about to double its annual production to 10 000 tonnes.²⁸

Financial Services Sector

- 3.23 As noted above, it is difficult to quantify the benefit of FTAs to the services sector. The Financial Services Council (FSC) commented that 'Australia's FTAs have delivered little benefit to growing trade in financial services.'²⁹
- 3.24 Banking service provider, ANZ Banking Group also advised that it expected little direct benefit from the FTA with China because it was already well-established in the Chinese market.³⁰ Important benefits, however, derived from its ability to support its customers.³¹

Foreign Direct Investment

- 3.25 The Business Council of Australia (BCA) drew attention to the value of foreign direct investment (FDI) to Australia. FDI exposed local businesses to international standards and best practices and encouraged competition and innovation, driving productivity growth. Bringing new businesses into Australia which had connections in different markets provided additional export opportunities and boosted overall export performance. It was also more difficult to divest FDI as companies generally did not wish to discount or abandon physical assets in Australia. The BCA stated:

One of the greatest benefits flowing from ... AUSFTA has been the dramatic increase in US capital flowing to Australia since the agreement's completion. US direct investment in Australia more than doubled from the 2006 AUSFTA signing till 2013 – from US\$67 billion to US\$149.5 billion.³²

27 Mr Simon Boughey, CGA, *Committee Hansard*, Melbourne, 27 July 2015, p. 15.

28 Mr Simon Boughey, CGA, *Committee Hansard*, Melbourne, 27 July 2015, p. 15.

29 Financial Services Council (FSC), *Submission 9*, p. 12.

30 Mr Graham Hodges Deputy Chief Executive Officer, ANZ Banking Group, *Committee Hansard*, Sydney, 28 July 2015, p. 33.

31 ANZ Banking Group, *Submission 11*, p. 5.

32 Business Council of Australia (BCA), *Submission 31*, p. 12.

Reduction in the Cost of Inputs

- 3.26 A further tangible benefit to Australian businesses from FTAs is the reduction of the cost of inputs for Australian business. The DFAT stated that businesses were making use of the agreements 'to significantly reduce the amount of goods imported into Australia that face the full [most-favoured-nation] tariff.'³³ The percentage of imports by value which enter tariff free from Australia's FTA partner countries is over 96 per cent in comparison to the US for which it is 84 per cent.³⁴
- 3.27 The MCA pointed to the FTA with Japan as delivering lower cost capital equipment to the minerals sector as well as lower costs for a wide range of consumer products. Other FTAs also delivered lower input costs which 'would not have been enjoyed if Australia simply sat on the trade policy sidelines patiently waiting for a resumption in global trade talks.'³⁵

Intangible Benefits

- 3.28 The DFAT stated that 'FTAs can have a "head-turning" effect and trigger new business interest and corresponding trade and investment flows.' For example, the Australia-Chile FTA 'changed perceptions about doing business with Chile' which had become a hub for Australian business in Latin America.³⁶ Austrade also commented that FTAs 'raise the profile of, and generate interest in, particular markets', and used China and Japan as examples.³⁷
- 3.29 The Australian Tourism Export Council (ATEC) commented that potential Chinese investors had shown increased interest in the Australian tourism sector.³⁸ The MCA,³⁹ and the ANZ Banking Group⁴⁰ also noted heightened interest from potential Chinese investors arising from the China-Australia FTA (ChAFTA).
- 3.30 Citrus Australia commented that it was 'really hard to quantify the benefit of a free trade agreement with a country, particularly an Asian country.' Regarding the ChAFTA, Citrus Australia stated:

It will take us to a higher level, for sure. There is the interest that is generating already, and not just for trade; it is also for investment.

33 DFAT, *Submission 28*, p. 8.

34 DFAT, *Submission 28*, p. 11.

35 MCA, *Submission 20*, p. 3.

36 DFAT, *Submission 28*, p. 11.

37 Ms Philippa Dawson, Austrade, *Committee Hansard*, Canberra, 21 July 2015, p. 3.

38 Ms Anna Taylor, National Manager, Memberships and Policy, Australian Tourism Export Council (ATEC), *Committee Hansard*, Sydney, 28 July 2015, p. 51.

39 Mr Brendan Pearson, MCA, *Committee Hansard*, Canberra, 21 July 2015, p. 40.

40 Mr Graham Hodges, ANZ Banking Group, *Committee Hansard*, Sydney, 28 July 2015, p. 31.

It gives people more confidence on both sides to either trade or invest.⁴¹

- 3.31 Australia's trading competitors are also negotiating FTAs with partner countries and obtaining access and tariff reductions. The DFAT commented that Australia's FTAs restored a level playing field by allowing Australian business to:
- ... receive the same access and other regulatory treatment that competitors had secured through their bilateral agreements, such as New Zealand and Chile with their agreements with China, and the EU and US with their agreements with [Korea].⁴²
- 3.32 The AMIC drew attention to the value of levelling the playing field regarding tariffs. While the FTA with Korea had resulted in the phasing out of the 40 per cent tariff on Australian beef, the delay in signing the agreement meant that Australian beef had a 5.3 per cent tariff disadvantage compared with US beef. This was because the US had signed a FTA with Korea two years before Australia. This discrepancy would remain in place for 15 years because of the phase-out period. On the other hand, beef from Canada and New Zealand had a 2.7 per cent tariff disadvantage compared to Australian beef because these countries negotiated their FTAs after Australia.⁴³
- 3.33 The MCA stated that FTAs provided certainty of access by binding tariffs to zero or minimal levels. Such moves might not provide substantial new market openings, but they did provide reassurance in the stability of the trade policy environment.⁴⁴ The removal of distortions in the global beef market resulting from the increased Australian beef quota in AUSFTA has previously been discussed.
- 3.34 Domestically, MCA noted, FTAs maintained the momentum of domestic reform 'by focusing the trade debate on liberalisation rather than attempts to wind back tariff reform.'⁴⁵
- 3.35 The AMIC also identified economies of scale resulting from increased production to meet export markets as an intangible benefit. Economies of scale have offset high domestic production costs, and resulted in the meat

41 Ms Judith Damiani, Chief Executive Officer, Citrus Australia, *Committee Hansard*, Melbourne, 27 July 2015, p. 47.

42 DFAT, *Submission 28*, p. 9.

43 AMIC, *Submission 27*, p. 17.

44 MCA, *Submission 20*, p. 3.

45 MCA, *Submission 20*, p. 3.

sector becoming trade focused thereby making FTAs integral to the industry's sustainability.⁴⁶

Using Free Trade Agreements

3.36 The Ai Group commented that the number of FTAs Australia had signed or was in the process of signing, provided Australian businesses with 'choices around which trade agreement they can use. Those choices are often confusing and often daunting.'⁴⁷ This was supported by the Australian Chamber of Commerce and Industry (ACCI) which stated:

... by the time we finish the Trans-Pacific Partnership and RCEP – the Regional Comprehensive Economic Partnership – we will have five separate market entry arrangements into Malaysia, three into the United States, three into Japan, three into China and four into Thailand. This is a nightmare for companies to try to understand their compliance. 'Which one of these am I using? Which one of these has got the specific terms which I need?' In the end, they end up halting or just doing what is familiar.⁴⁸

3.37 The Productivity Commission supported this view stating the proliferation of agreements was:

... adding to the complexity and business transaction costs of trade. Complexity stems in substantial part from the diverse rules of origin for goods and services and from the variable coverage of service sector liberalisation across many agreements. ... It adds to the compliance costs of businesses as they evaluate and attempt to use preferences; also, it adds to the administrative costs to governments, customs authorities and the like.⁴⁹

3.38 The Institute of Public Accountants observed that untangling the complexities of the network of agreements to take advantage of them was 'more difficult and more prohibitive for smaller enterprises.'⁵⁰

46 Mr David Larkin, AMIC, *Committee Hansard*, Sydney, 28 July 2015, p. 36.

47 Mr Innes Willox, Chief Executive, Ai Group, *Committee Hansard*, Canberra, 21 July 2015, p. 26.

48 Mr Brian Clark, Chief Executive Officer, Australian Chamber of Commerce and Industry (ACCI), *Committee Hansard*, Canberra, 21 July 2015, pp 23–4.

49 Mr Peter Harris, Chairman, Productivity Commission, *Committee Hansard*, Canberra, 21 July 2015, pp 30–31.

50 Ms Vicki Stylianou, Executive General Manager, Advocacy and Technical, Institute of Public Accountants (IPA), *Committee Hansard*, Melbourne, 27 July 2015, p. 41.

Supporting Business and Promoting Free Trade Agreements

- 3.39 Austrade undertakes the majority of government activities to assist business to take advantage of export market opportunities. Many industry representatives commented positively on Austrade's activities which assisted them in developing their export markets.
- 3.40 The ECA, referring to Austrade, stated that 'within the parameters of the resources and the funding and the facilities and the other resources which are made available to them, they do a terrific job'.⁵¹
- 3.41 Reid Fruits commented on the assistance from Austrade's overseas representatives and stated:
- The great thing about Austrade ... is that they have the local knowledge. The team on the ground there can give you the facts and figures and you can meet with importers, but they are also very good at giving you the cultural understanding of how the markets work.⁵²
- 3.42 Apple and Pear Australia Ltd (APAL), however, believed that the Australian Government's trade promotion activities compared poorly to the standard of Australia's competitors. Referring to Chile, APAL stated:
- There is much more government support for export. When you go to a trade fair, it is the government organising the trade fair on behalf of the whole country. There is much more government support in the New Zealand industry. It is probably fair to say that across most of the Latin American countries they are way ahead of us in terms of the government leading the way.⁵³
- 3.43 Several organisations were also critical of the Australian Government's capability to negotiate market access protocols. This issue is discussed in Chapter 4.

Government Assistance Programs to Exporters

- 3.44 Many businesses do not understand how to benefit from Australia's FTAs. The Australian Food and Grocery Council (AFGC) observed that 'the lack of knowledge of trade agreements and the opportunities available provides an opening for government to assist industry'.⁵⁴
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51 Mr Andrew Hudson, ECA, *Committee Hansard*, Sydney, 28 July 2015, p. 17.

52 Ms Lucy Gregg, Reid Fruits, *Committee Hansard*, Sydney, July 28 2015, p. 21.

53 Mr John Dollisson, Chief Executive Officer, Apple and Pear Australia Ltd, *Committee Hansard*, Melbourne, July 27 2015, p. 11.

54 Australian Food and Grocery Council, *Submission 8*, p. 7.

- 3.45 The ECA emphasised the importance of providing business with practical, user-friendly information. Specifically ECA recommended providing information to assist business in:
- Understanding how to correctly classify products
 - Understanding how to use Certificates of Origin; including country specific information
 - Understanding how and when to talk to freight forwarders/custom brokers about FTAs and taking advantage of the opportunities.⁵⁵

North Asia Free Trade Agreement Advocacy Program

- 3.46 In the May 2015 Budget, the Australian Government announced that additional funding of \$24.6 million over two years would be provided to DFAT and Austrade. The funding would be used to promote business understanding of the benefits arising from the recently signed North Asia FTAs.⁵⁶
- 3.47 The two major components of the North Asia FTA Advocacy Program are a series of seminars taking place across Australia and an online FTA Dashboard being developed to assist exporters.

Seminar Series

- 3.48 The seminar series began in March 2015 and is on-going. Between March and June 2015 ten seminars took place and were attended by a total of 493 people. The seminars are organised by Austrade and DFAT with input from a number of other agencies.⁵⁷
- 3.49 Austrade monitors responses to the seminars through a post-seminar survey. The DFAT reported that the response to the seminars had been very positive with 'almost all business respondents indicating that they would recommend the seminar to others'.⁵⁸
- 3.50 The Ai Group, whilst welcoming the seminars, considered that 'they still lack the granular level of information that companies require to adequately utilise an FTA.' The Ai Group referred to the difficulties that Australian companies encounter when attempting to classify their products using the Harmonised Commodity Description and Coding System (HS) codes. For this reason the Ai Group recommended that customs officials be available during the seminar series to clarify issues

55 ECA, *Submission 15*, p. 11.

56 DFAT, *Submission 28*, p. 25.

57 DFAT, *Submission 28*, pp 26–27.

58 Ms Philippa Dawson, Austrade, *Committee Hansard*, Canberra, 21 July 2015, p. 3.

relating to classification and Rules of Origin.⁵⁹ The ECA also welcomed the involvement of staff from the Department of Immigration and Border Protection stating their involvement made industry 'more inclined to engage'.⁶⁰

Role of Peak Organisations in Educational Activities

- 3.51 A number of groups referred to the potential for third parties such as industry associations, business chambers and professional service firms to have a greater role in educating business in how to take advantage of FTAs.
- 3.52 The ACCI was of the view that the current seminar system being run by DFAT and Austrade would make slow progress in covering all parts of the country. The ACCI suggested that making greater use of industry associations would be more time and cost effective.⁶¹
- 3.53 The AFGC highlighted the role that professional service firms such as companies that provide legal, logistics, customs and regulatory advice to exporters could have in educating exporters. Government education and outreach programs directed at professional service firms could be an efficient means of reaching a large number of exporters. The AFGC recognised the tension that arose from Government 'providing information to service firms who might charge for the advice', but suggested the focus should be on 'maximising outcomes for Australian industry'.⁶²
- 3.54 Austrade is implementing the *Free Trade Agreement Business Engagement and Utilisation* grant scheme and advised the grant scheme was expected to commence in July 2015 and will be:
- ... a discretionary, merit-based program available to Australian member-based business organisations who are interested in delivering FTA projects focussed on Korea, Japan and China. The grants will deliver projects aimed at helping their members and stakeholders understand and utilise the FTAs.⁶³
- 3.55 The DFAT and Austrade are also working on other methods to partner with industry associations and professional service firms to deliver information to businesses on the benefits of FTAs. The DFAT stated:

59 Ai Group, *Submission 17*, p. 3.

60 Mr Andrew Hudson, ECA, *Committee Hansard*, Sydney, 28 July 2015, p. 17.

61 Mr Bryan Clark, Chief Executive Officer, ACCI, *Committee Hansard*, Canberra, 21 July 2015, pp 23, 25.

62 Australian Food and Grocery Council (AFGC), *Submission 8*, p. 7.

63 DFAT, *Submission 28*, p. 28.

DFAT and Austrade are making available a wide variety of information and materials that allow partners and allies to create their own material and promote the FTAs and the opportunities within FTA markets. The participation by business organisations in educating Australian firms and assisting them to use FTAs is designed to help strengthen the involvement and long term engagement of a broader cross-section of [small to medium enterprises], active in the Korea, Japan and China markets.⁶⁴

- 3.56 A further example was provided by Austrade which commented that the financial services sector had 'significant opportunities' in the Japanese and Korean markets. To identify such opportunities, Austrade had partnered with the Financial Services Council and led a delegation of Australian financial services companies to Japan and Korea to meet with their Japanese and Korean counterparts.⁶⁵

Online Industry Assistance

- 3.57 The DFAT is developing an online system tool – the FTA Dashboard – to assist businesses to readily access exporting and importing information related to the North Asia FTAs. The FTA Dashboard will include a tariff finder and comprehensive Rules of Origin guidance and is expected to be released later this year.⁶⁶
- 3.58 Other organisations are undertaking work to complement the FTA Dashboard. For example, the AHEA is developing seasonal and product specific horticulture information to complement the information contained in the FTA Dashboard.⁶⁷
- 3.59 The ECA and the ANZ Banking Group have partnered to develop a FTA Tool designed to help businesses understand how to classify their products under Rules of Origin requirements. The ECA is currently working with DFAT to ensure that the FTA Tool complements the FTA Dashboard. The ECA is also planning to use a roadshow to promote its FTA Tool.⁶⁸
- 3.60 The BCA recommended that the FTA Dashboard should be country-centred, as opposed to agreement-centred. A country-centred FTA Dashboard would be able to compare the rules and tariffs across multiple

64 DFAT, *Submission 28*, p. 28.

65 Ms Philippa Dawson, Austrade, *Committee Hansard*, Canberra, July 21 2015, p. 7.

66 DFAT, *Submission 28*, p. 27.

67 Ms Michelle Christoe, Executive Director, AHEA, *Committee Hansard*, Melbourne, July 27 2015, p. 4.

68 Mr Andrew Hudson, ECA, *Committee Hansard*, Sydney, 28 July 2015, p. 16; ECA, *Submission 15*, p. 11.

agreements in a single country and assist business to identify the most beneficial FTA for its product.⁶⁹

- 3.61 AUSVEG raised concerns about the FTA Dashboard, noting that vegetable producers rely more on fax machines than the internet for business communication. Further, AUSVEG was concerned that requiring producers to learn to use a new online system could potentially lead to increased confusion.⁷⁰
- 3.62 The Department of Agriculture (DoA) maintains the *Manual of Importing Country Requirements* (MICoR) which AUSVEG and individual vegetable producers rely on for information on market access rules. AUSVEG supported the concept of a single interface with tariff and sanitary and phytosanitary (SPS) rules, but was 'concerned with the accuracy of this database as well as delays in updating its content, which can cause commercial detriment to exporting vegetable growers.'⁷¹
- 3.63 Reid Fruits referred to the difficulties caused by being unable to access DoA's export document hub outside of business hours. Reid Fruits stated:
- When you are dealing with a perishable product, it is imperative that the documentation hub is open 24/7. During cherry season, we literally operate 16 or 18 hours a day for six to eight weeks ... During the season, all sorts of things change. Market conditions will change in Taipei in Taiwan and they will say, 'Can you send it to Shanghai?' I will go, 'it happens over the weekend – no, sorry; can't do it because I need the export documentation'.⁷²
- 3.64 The DoA stated that:
- The reality is that we still have systems that involve human intervention, and so to have a 24-hour service we would need to have 24-hour staff ... I do not think it is quite practical, necessarily.⁷³
- 3.65 The DoA added that it would examine its future plans to see if improvements could be made.⁷⁴

69 BCA, *Submission 31*, p. 6.

70 Mr Michael Coote, AUSVEG, *Committee Hansard*, Melbourne, 27 July 2015, p. 32.

71 Mr Michael Coote, AUSVEG, *Committee Hansard*, Melbourne, 27 July 2015, pp 30, 32.

72 Ms Lucy Gregg, Marketing and Development Manager, Reid Fruits, *Committee Hansard*, Sydney, July 28 2015, p. 24.

73 Ms Jo Evans, Deputy Secretary, Department of Agriculture (DoA), *Committee Hansard*, Canberra, 21 July 2015, p. 18.

74 Ms Jo Evans, Deputy Secretary, Department of Agriculture (DoA), *Committee Hansard*, Canberra, 21 July 2015, p. 18.

Export Market Development Grants

- 3.66 The Export Market Development Grants (EMDG) scheme is a financial assistance program administered by Austrade. The EMDG scheme is targeted at small to medium sized enterprises (SMEs) engaged in export activities. The EMDG reimburses up to 50 per cent of eligible marketing and promotion expenses above \$5 000 as long as total expenses exceed \$15 000.⁷⁵ Payments are made in two tranches annually. The payment ceiling for the first tranche in 2014–15 was \$40 000.⁷⁶
- 3.67 The Institute of Public Accountants, the Australian Cotton Shippers Association, Reid Fruits, and ATEC all referred to the valuable support EMDGs provide industry in accessing export markets.⁷⁷ The ATEC emphasised that small tourism operators, particularly in regional areas, relied on EMDGs to access export markets. In relation to SMEs investing in China, ATEC stated:
- Without EMDG, I know that a lot of operators would struggle. It would probably mean the difference between investing in that market and not.⁷⁸
- 3.68 The EMDGs enabled Reid Fruits to send staff to key emerging markets to engage in market development work. Reid Fruits also stated that Australia's key competitors in the cherry industry (Chile and New Zealand) provided export incentives to their producers. In this context EMDGs were important in ensuring Australian producers remained competitive in developing market opportunities.⁷⁹
- 3.69 The ATEC commented on the complementarity of EMDGs and FTAs describing them as a 'marriage made in heaven'. The FTAs created the framework and EMDG funding provided the ability to penetrate the market.⁸⁰
- 3.70 Reid Fruits suggested that consideration should be given to whether anti-counterfeiting work could be included within the EMDG. Describing its work on developing counterfeit-proof technology Reid Fruits stated:

75 Austrade, 'Export Market Development Grants', <http://www.austrade.gov.au/Export/Export-Grants/What-is-EMDG>, viewed 10 August 2015.

76 Austrade, 'EMDG Initial Payment Ceiling Amount for the 2014-15 Grant Year', <http://www.austrade.gov.au/export/export-grants/what-is-emdg/emdg-initial-payment-ceiling-amount-for-the-2014-15-grant-year>, viewed 17 August 2015.

77 Ms Vicky Stylianou, IPA, *Committee Hansard*, Melbourne, July 27, p. 43; Mr Arthur Spellson, Australian Cotton Shippers Association, *Committee Hansard*, Sydney, July 28, p. 44; Mr Tim Reid, Managing Director, Reid Fruits, *Committee Hansard*, Sydney, July 28, p. 20; Ms Anna Taylor, ATEC, *Committee Hansard*, Sydney, July 28, p. 52.

78 Ms Anna Taylor, ATEC, *Committee Hansard*, Sydney, July 28, p. 52.

79 Mr Tim Reid, Reid Fruits, *Committee Hansard*, Sydney, July 28, p. 20.

80 Ms Anna Taylor, ATEC, *Committee Hansard*, Sydney, July 28, p. 53.

... we have been doing some work on some innovations which will make it a lot more difficult to copy the [cherry] box. We are trying to use some authentication software which will help the end consumer identify that they have actually got an authentic box of Reid cherries. I did ask EMDG whether the cost of this intellectual property and all the work that we have been doing to make our product counterfeit-proof in overseas countries was claimable in EMDG and it actually is not. That would be something that would be helpful for exporters, if they were able to claim those expenses.⁸¹

- 3.71 The ECA suggested that trade training, including on using FTAs, for businesses should be an eligible expense under EMDG.⁸²

Market Access Programs

- 3.72 Access to export markets is a key issue for Australian business. Without market access business is unable to benefit from any tariff reductions achieved in FTAs. As outlined in Chapter 2, SPS market access barriers can have a significant impact on horticultural exporters.
- 3.73 The DoA has responsibility for negotiating access to export markets for horticulture produce. A number of organisations in the horticulture sector were concerned by the slow progress of negotiations over SPS market access issues.
- 3.74 Negotiations over market access are often negotiated on a commodity by commodity basis and can be delayed by either nation. The CGA commented that Australia's FTA partners could often be very slow in resolving market access issues, but observed that Australia could also be very slow. For example, it took twelve years for irradiated Vietnamese lychees to gain access to the Australian market.⁸³
- 3.75 The progress surrounding SPS issues may be addressed by additional funding announced in the *Agricultural Competitiveness White Paper*. The DoA will receive additional funding of \$30.8 million over four years to address technical barriers to trade in agricultural industries. The funding will be used for activities including prioritising market access efforts, processing import requests and influencing international standards. This funding also included the appointment of five new agricultural

81 Ms Lucy Gregg, Reid Fruits, *Committee Hansard*, Sydney, 28 July 2015, p. 25.

82 ECA, *Submission 15*, p. 12.

83 Mr Simon Boughey, CGA, *Committee Hansard*, Melbourne, 27 July 2015, p. 19.

counsellors who would be placed in key trading markets overseas with the aim of reducing barriers to market entry.⁸⁴

Capacity Building Programs with Trade Partners

- 3.76 The DoA advised that Australia provided technical assistance to developing countries to enable them to implement science-based SPS measures. This assistance helped these countries to assess imports and also ensured their own exports complied with international SPS protocols. Assistance also helped to ensure that the SPS import protocols these countries developed were science-based and did not create unnecessary barriers to trade.⁸⁵
- 3.77 Capacity building also has a role in building relationships between Australian and overseas industries. In the long term these relationships may result in more positive responses to Australian market access requests. The APAL stated that they had undertaken a number of programs with Chinese apple growers to improve productivity and pest management. The APAL believed that these programs led to the Chinese apple industry supporting the granting of access for Australian apples into the Chinese market.⁸⁶

Concluding Comment

- 3.78 Liberalisation of the rules for foreign investment provides a significant benefit for Australian businesses both for those companies wishing to invest overseas and for those seeking capital from foreign investors.
- 3.79 The increasing number of FTAs has multiplied the complexity facing Australian exporters. The Committee has heard this may result in confusion for business, increased compliance costs, potentially discouraging trade. The Committee finds it is important to maintain and increase the potential opportunities provided by existing and new FTAs. This includes educating business on how to successfully navigate the requirements of the various agreements.
- 3.80 The Government's seminar series under the North Asia FTA Advocacy Program has been well received by business. The seminar series has been criticised for the length of its delivery. The Committee notes the work by DFAT and Austrade in creating presentation kits and industry specific

84 Commonwealth of Australia, *Agricultural Competitiveness White Paper*, Canberra, 2015, p. 122.

85 DoA, *Submission 33*, p. 1.

86 Mr Dollisson, APAL, *Committee Hansard*, Melbourne, 27 July 2015, p. 9.

information packs, but believes there should be a greater role for industry peak bodies in promoting Australia's FTAs. Engaging business bodies to take on this role will not only achieve national coverage more quickly, but also enable the information to be tailored to meet the needs of particular market sectors.

- 3.81 Advances in information and communication technology have allowed the creation of a number of internet-based tools to assist Australian agricultural exporters. The Committee supports the development of DFAT's FTA Dashboard and DoA's MICoR databases and advocates ease of access for the end-user.
- 3.82 The Committee considers there is no technical reason why the FTA Dashboard cannot be FTA-centred as well as being able to provide country-specific information. Further, it would be useful for end-users to be able to easily switch between the FTA Dashboard and the MICoR database.
- 3.83 Australian exporters increasingly export perishable product to overseas markets and often need timely information to meet tight transport schedules. The Committee acknowledges Reid Fruits' recommendation that there be 24 hour/7 day access to DoA's export document hub. The Committee also understands that it may be impractical and costly for such a service to be implemented and maintained.
- 3.84 The Committee has not received evidence indicating the demand from other exporters for such access, but considers that the need will increase as exporters take advantage of the demand for Australian fresh produce. The Committee believes there may be scope for information and communications technology to provide a solution to this issue.
- 3.85 Programs such as the EMDG scheme have clearly benefited exporters. The Committee notes that in March 2014 additional funding of \$50 million had been provided to the scheme.⁸⁷ The value of the scheme for 2015–16 is \$137.9 million,⁸⁸ and the Committee supports the continuation of the EMDG scheme.
- 3.86 As Australian premium goods penetrate overseas markets they become vulnerable to being counterfeited to the detriment of the exporting company as well as to the reputation of Australian products in general. The Committee considers the EMDG scheme should be broadened to
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87 Austrade, '50 million boost to help SMEs export', 10 March 2014, <https://www.austrade.gov.au/about-austrade/news/latest-from-austrade/2014/50-million-boost-to-help-smes-export>, viewed 18 August 2015.

88 Austrade, 'Austrade EMDG Update', July 2015, <http://www.austrade.gov.au/Export/Export-Grants/Publications/EMDG-Update>, viewed 18 August 2015.

allow anti-counterfeiting measures for exported goods to be recognised as an expense.

- 3.87 The Committee questions, however, whether training in the use of Australia's FTAs should qualify as an EMDG expense as training is preparatory to exporting.
- 3.88 Market access for Australian business is key to the success of a FTA. The increased number of FTA partner countries has resulted in increased demand to address access barriers for Australian agricultural exports. The Committee supports the additional funding provided to DoA to address technical barriers to trade faced by Australia's agricultural industry.
- 3.89 Increasing numbers of countries are recognising the obligation to protect their environment, population, and primary production sector from introduced pests and diseases. The Committee agrees with DoA that capacity building assistance to these countries will not only improve their ability to quickly assess the SPS risks posed by Australian imported produce, but also result in any imposed SPS protocols being based on science.

Recommendations

Recommendation 4

- 3.90 **The Committee recommends that the Department of Foreign Affairs and Trade:**
- **review the roll out schedule of the North Asia FTA Advocacy Program seminars with a view to providing quicker and more effective outreach to its target audience; and**
 - **engage peak industry bodies to deliver seminars under the North Asia FTA Advocacy Program.**

Recommendation 5

- 3.91 The Committee recommends that the Department of Foreign Affairs and Trade ensure the FTA Dashboard is designed to enable easy access to country-based information and enable end-users to easily switch between the FTA Dashboard and the MICoR database.

Recommendation 6

- 3.92 The Committee recommends that the Department of Agriculture:
- review the demand for 24 hour/7 day access to the export document hub; and
 - assess the feasibility of developing technology to meet the demand for 24 hour/7 day access to the export document hub.

Recommendation 7

- 3.93 The Committee recommends that the Export Market Development Grant scheme be broadened to recognise anti-counterfeiting measures as an expense.

Recommendation 8

- 3.94 The Committee recommends that the Department of Foreign Affairs and Trade provide assistance to free trade agreement partner countries, where appropriate, to build their capacity to assess sanitary and phytosanitary risks.