

Informing Future Free Trade Agreements

Identifying and Accessing Priority Markets

- 4.1 Since 1983, Australia has signed FTAs with most of its major trading partners and is currently negotiating a further six FTAs. Two are bilateral agreements with India and Indonesia; and four are multilateral FTAs:
- the Trans-Pacific Partnership;
 - the Gulf Cooperation Council;
 - the Pacific Agreement on Closer Economic Relations Plus; and
 - the Regional Comprehensive Economic Partnership.¹

India

- 4.2 Apple and Pear Australia Ltd (APAL) referred to the potential for enhancing the Australia–India trading relationship by building on a shared cricket culture. The APAL provided the example of the owner of a substantial Indian supermarket chain who had links to India’s cricket establishment and added there was potential to build on this connection. The APAL also stated India’s demographic advantage for Australia as a trading partner stating:

I think in the longer term India is a better market than China—for one, because of the age factor. China is very much an ageing population, like ours. India is a very young population.²

- 4.3 Reid Fruits described the Indian market as potentially ‘an absolute boom for the cherry industry in Australia’ but noted that high tariffs were

1 Department of Foreign Affairs and Trade (DFAT), *Submission 28*, p. 6.

2 Mr John Dollisson, Chief Executive Officer, Apple and Pear Australia Ltd (APAL), *Committee Hansard*, Melbourne, 27 July 2015, p. 14.

currently making exporting to India difficult. Reid Fruits advised that the seasons for Australian and Indian cherries did not overlap and hoped that this lack of competition with local fruit would help the negotiations for tariff reductions in this area.³

- 4.4 The Australian Council of Wool Exporters and Processors stated that India is Australia's second largest export market for wool (after China). India's high wool tariffs were described as 'revenue driven' as India's sheep flock is not used for wool production.⁴

The European Union

- 4.5 The Department of Agriculture (DoA) and the Australian Meat Industry Council (AMIC) nominated the European Union (EU) as a key market for a future FTA.⁵
- 4.6 The AMIC suggested that an Australia-EU FTA would provide the best short term benefit to Australian meat producers. The AMIC advised that access for beef into the EU had recently improved, but commented that there was still significant potential for further improvement for trade under a FTA. The AMIC added that New Zealand had negotiated a lamb meat quota with the EU of over 200 000 tonnes per year. This was in contrast to the Australian quota which was 19 000 tonnes.⁶

Perspectives on Prioritising Agreement Partners

- 4.7 The DoA stated that if it had to prioritise future FTA targets, it would rank countries against their agricultural trade with Australia.⁷
- 4.8 The Australian Industry Group (Ai Group), however, questioned the policy of prioritising FTAs with major trading partners because trade with those countries was already relatively successful. The Ai Group instead suggested that:

If we want the investment of an FTA to pay off, we should be looking at markets with potential, but aren't strong trading partners yet, for example, emerging African or Latin American countries. These countries also have not undertaken the trade

3 Mr Tim Reid, Managing Director, Reid Fruits, *Committee Hansard*, Sydney, 28 July 2015, p. 19.

4 Australian Council of Wool Exporters and Processors, *Submission 14*, p. 4.

5 Ms Jo Evans, Deputy Secretary, Department of Agriculture (DoA), *Committee Hansard*, Canberra, 21 July 2015, p. 20; Mr David Larkin, Council Chairman, Australian Meat Industry Council (AMIC), *Committee Hansard*, Sydney, 28 July 2015, p. 40.

6 Mr Stephen Martyn, National Director, Processing, AMIC, *Committee Hansard*, Sydney, 28 July 2015, p. 41.

7 Ms Jo Evans, DoA, *Committee Hansard*, Canberra, 21 July 2015, p. 20.

liberalisation measures that other markets have and have the potential for greater gains.⁸

Positioning Business to Benefit from Agreements

- 4.9 While FTAs create new opportunities, Australian businesses that are best placed to benefit are those that have already established trading relationships and have had prior experience of the FTA partner's market.
- 4.10 The case of Reid Fruits illustrates the advantage of gaining experience of a market prior to a FTA entering into force. Tasmanian cherries gained access to the Korean market in 2010 and Reid Fruits began by exporting small quantities (5 to 10 tonnes) of cherries to Korea annually. In 2010, Reid Fruits positioned itself in preparation for the introduction of the FTA. Reid Fruits stated:
- We at least knew the protocol, we knew the processes, we knew how the system worked and we had those contacts. Then, as soon as the FTA was activated, we could just ramp everything up.⁹
- 4.11 In the first season following the introduction of the FTA in 2014, Reid Fruits was able to increase its exports of cherries to Korea to 180 tonnes.¹⁰
- 4.12 As noted in Chapter 3, the Export Market Development Grants (EMDG) scheme is available to exporters to assist them to develop their export markets.

Workforce Skills

- 4.13 The ANZ Banking Group stated that 'to increase business utilisation of FTAs, it is important to reduce the knowledge related and cultural barriers to trade'.¹¹ The 2015 Australian International Business Survey found that the most common barrier to greater overseas trade is 'local language, culture and/or business practices'.¹² This barrier was cited by 29 per cent of Australian companies involved in international business, with companies focussing on Japan (50 per cent) and China (37 per cent) who are more likely to identify that language, culture and/or business practices as a barrier to exporting.¹³

8 Australian Industry Group (Ai Group), *Submission 17*, p. 9.

9 Ms Lucy Gregg, Marketing and Business Development Manager, Reid Fruits, *Committee Hansard*, Sydney 28 July 2015, p. 21.

10 Reid Fruits, *Submission 2*, p. 2.

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

12 Australian International Business Survey 2015, 'Summary Report', p. 22.

13 Australian International Business Survey 2015, 'Summary Report', p. 22.

- 4.14 The Australian Information Industry Association (AIIA) highlighted the importance of increasing the capacity of the Australian workforce in the skills that are most relevant to high growth industries. The AIIA stated that '75 per cent of the fastest growing occupations today require science, technology, engineering, math skills and knowledge' and that the 'ability of businesses ... to develop and sustain export ... is undermined fantastically by a deficit of STEM¹⁴ and specifically [information and communications technology] skills.'¹⁵

Brand Australia

- 4.15 Australia's reputation for strong health and safety standards and a clean environment is an advantage for Australian products, especially in the food sector. The APAL stated that in China, Australia's food safety reputation exceeded that of its competitors such as New Zealand.¹⁶
- 4.16 The APAL also stated that developing a strong national brand need not compromise developing local or regional brands. The APAL stated:
- ... it is Brand Australia, but it might be Tasmania or it might be the Huon Valley or the Goulburn Valley or the Yarra Valley, and you have your local story associated with that. But I think the mother brand still has to be Australia.¹⁷
- 4.17 Reid Fruits advised that it used multi-level branding on the cherry boxes it exported to China. The box included the words 'Tasmanian cherries' below the company logo. The box design was intended to communicate the company's product without using words. Reid Fruits stated:
- [They] can see from the photo on the box that they are cherries. They can see that there is a kangaroo down in the bottom corner of the box, a gold kangaroo, so they can see they are from Australia. And the whole image of the box, with the gold writing and the embossing on it, portrays quality.¹⁸
- 4.18 The Australasian Performing Rights Association Ltd and Australasian Mechanical Copyright Owners Society in conjunction with Sounds Australia have undertaken a number of initiatives aimed at increasing the awareness of Australian music overseas. Examples include co-writing opportunities which provide Australian music creators an entry into the lucrative Korean pop market, and assistance to Australian bands to tour
-

14 Science, technology, engineering and mathematics.

15 Ms Suzanne Campbell, Chief Executive Officer, Australian Information Industry Association, *Committee Hansard*, Sydney, 28 July 2015, p. 27.

16 Mr John Dollisson, APAL, *Committee Hansard*, Melbourne, 27 July 2015, p. 13.

17 Mr John Dollisson, APAL, *Committee Hansard*, Melbourne, 27 July 2015, p. 13.

18 Mr Tim Reid, Reid Fruits, *Committee Hansard*, Sydney, 28 July 2015, p. 23.

Indian music festivals. These initiatives promoted Australian music and also helped promote 'Brand Australia' as a nation with a vibrant youth culture with spin off benefits for the tertiary education sector.¹⁹

Counterfeiting

- 4.19 Counterfeiting can be both a symptom of, and a threat to, successful product branding. Where Australian producers have developed a reputation as providers of high quality products their brand can attract a premium price in the market. Counterfeiters have targeted these brands in an attempt to capture the price premium for the sale of what are, in reality, cheaper, inferior products. In turn, consumers may not recognise the product as counterfeit and associate the lesser quality of the counterfeit product with the Australian brand.
- 4.20 An example was provided by Reid Fruits which commented that its cherry box design had been copied and sold containing Chilean cherries.²⁰ Reid Fruits suggested that consideration should be given to including anti-counterfeiting measures as an eligible expense under the EMDG scheme.²¹
- 4.21 Another example was the counterfeiting of high-end Australian wines. The Winemakers' Federation of Australia (WFA) stated that counterfeiting 'is a huge issue and it is growing, particularly in China'.²²
- 4.22 As a result Australian companies are now working with packaging companies to develop technologies to track and authenticate the origin of products.²³ The WFA believed that customer demand would soon lead to the use of tracking and authentication technologies becoming standard in the wine industry.²⁴
- 4.23 The WFA stressed the importance of international cooperation in combating counterfeiting. The World Wine Trade Group will be meeting in Adelaide in November 2015 and the agenda includes an agreement to cooperate in combating counterfeiting.²⁵

19 Australasian Performing Right Association Ltd and Australasian Mechanical Copyright Owners Society, *Submission 23*, p. 3.

20 Mr Tim Reid, Reid Fruits, *Committee Hansard*, Sydney, 28 July 2015, p. 23.

21 Ms Lucy Gregg, Reid Fruits, *Committee Hansard*, Sydney, 28 July 2015, p. 20.

22 Mr Anthony Battaglione, General Manager, Strategy and International Affairs, Winemakers' Federation of Australia (WFA), *Committee Hansard*, Melbourne, 27 July 2015, p. 25.

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

24 Mr Anthony Battaglione, WFA, *Committee Hansard*, Melbourne, 27 July 2015, p. 26.

25 Mr Anthony Battaglione, WFA, *Committee Hansard*, Melbourne, 27 July 2015, p. 25.

Pre-Negotiation Modelling

- 4.24 The Productivity Commission expressed concern over the lack of comprehensive analysis of the impacts of FTAs on the Australian economy. The Productivity Commission stated:
- The transactions involved in trade negotiations are complex. They mix short-term export improvement in goods trade with long-term cost exposures across the economy, and the net gains may well be positive. But in the current circumstances how would we know? Detailed analysis is simply not available.²⁶
- 4.25 The Department of Foreign Affairs and Trade (DFAT) stated that public feasibility studies were undertaken for FTAs prior to Australia entering into FTA negotiations. These feasibility studies included economic modelling but, DFAT stated, it was difficult to model economic impacts of agreements that had yet to be negotiated.²⁷
- 4.26 The Productivity Commission in its 2010 report, *Bilateral and Regional Trade Agreements*, expressed concern over the assumptions underpinning the economic modelling used in feasibility studies. The modelling was typically based on an assumption of comprehensive and instantaneous liberalisation rather than more realistic scenarios including the carving out or phasing in of certain sectors. The Commission, however, found that the India and Indonesia feasibility studies had introduced scenarios with phased in tariffs.²⁸
- 4.27 The Productivity Commission also expressed concern that public statements tended to downplay the optimal assumptions used in feasibility studies. This led to 'unrealistic expectations about what [would] be obtained' from a FTA.²⁹
- 4.28 The Australian Chamber of Commerce and Industry (ACCI) recommended that an independent assessment of a potential FTA should take place prior to negotiation. The ACCI stated:
- ... independent assessment of the national interest is also crucial when it comes to ensuring economic delivery of a trade deal. At present the Department of Foreign Affairs and Trade conducts the national interest analysis and the regulatory impact statement for a
-

26 Mr Peter Harris, Chairman, Productivity Commission, *Committee Hansard*, Canberra, 21 July 2015, p. 30.

27 Ms Frances Lisson, First Assistant Secretary, Free Trade Agreement Division, DFAT, *Committee Hansard*, Canberra, 21 July 2015, p. 4.

28 Productivity Commission, *Exhibit 3a: Bilateral and Regional Trade Agreements*, Canberra, November 2010, pp 292, 306.

29 Productivity Commission, *Exhibit 3a: Bilateral and Regional Trade Agreements*, p. 292.

given treaty on the basis of optimal assumptions, but we believe this task should instead be given to an independent government body at arms' length from the negotiations, such as the Productivity Commission, on the basis of expected optimal, likely and minimal outcomes.³⁰

- 4.29 The Productivity Commission recommended a two stage analysis be undertaken prior to the signing of a FTA. The first stage of the analysis would take place prior to the commencement of negotiations. The second stage would analyse the completed text prior to the signing of the agreement. The Productivity Commission recommended that the pre-negotiation analysis should include a base-case representing a continuation of the status quo in trading relations between partner nations. Against this base-case, different scenarios would be assessed representing realistic possible agreements including possible carve-outs of sectors and phased tariff reductions.³¹
- 4.30 The Productivity Commission recommended that this analysis should be undertaken by an independent body, informed, but not commissioned by, Australia's trade negotiators.³²
- 4.31 The Senate Foreign Affairs, Defence and Trade References Committee made a similar recommendation in its June 2015 report, *Blind Agreement: Reforming Australia's Treaty Making Process*:
- ... a cost-benefit analysis of trade agreements be undertaken by an independent body, such as the Productivity Commission, and tabled in parliament prior to the commencement of negotiations or as soon as is practicable afterwards.³³

Negotiating Free Trade Agreements

Lead Agency

- 4.32 Throughout the Inquiry industry representatives consistently welcomed the work of DFAT in successfully negotiating FTAs. There were no suggestions that another agency should supplant DFAT as the lead agency in trade negotiations.

30 Mr Bryan Clark, Director Trade and International Affairs, Australian Chamber of Commerce and Industry (ACCI), *Committee Hansard*, Canberra, 21 July 2015, p. 22.

31 Mr Peter Harris, Productivity Commission, *Committee Hansard*, Canberra, 21 July 2015, p. 31.

32 Mr Peter Harris, Productivity Commission, *Committee Hansard*, Canberra, 21 July 2015, pp 32, 36.

33 Senate Foreign Affairs, Defence and Trade References Committee, *Blind Agreement: Reforming Australia's Treaty Making Process*, p. 63.

Involvement of Business

4.33 The DFAT stated that Australia approaches its FTA negotiations with 'clear, well-developed commercial objectives'. These objectives were developed through consultation with business prior to, and during FTA negotiations. The DFAT reported that it consulted with over 750 businesses and other groups as part of the China-Australia Free Trade Agreement negotiations. The DFAT described business input as central to the task of:

... compiling and understanding key impediments to trade in goods and services, and barriers to investment, along with other commercial-level factors that are relevant to determining negotiating priorities and approach.³⁴

4.34 Several industry representatives, whilst welcoming DFAT's consultation efforts, called for a deeper role for business in the negotiation process. The Australian Services Roundtable stated that:

Industry would welcome and seeks closer involvement during trade negotiations and alongside this involvement, industry would welcome being privy to information, texts, papers and progress reports during negotiations.³⁵

4.35 The ACCI, Ai Group and the Australian Services Roundtable drew attention to the involvement of US industry in the US Government's FTA negotiations.³⁶ The US Office of the Trade Representative disclosed draft treaty text to representative organisations which were bound by confidentiality agreements. These organisations then advised negotiators on the impact of the provisions which helped to develop negotiating positions. The Ai Group suggested that if industry groups were involved in Australia's FTA negotiations, it was important they represented all types of business – 'large and small; importers and exporters; companies at different stages of maturity'.³⁷

Investor State Dispute Settlement

4.36 The Productivity Commission questioned the rationale for including Investor-State Dispute Settlement (ISDS) clauses within FTAs noting that

34 DFAT, *Submission 28*, p. 8-9.

35 Australian Services Roundtable, *Submission 30*, p. 7.

36 Mr Bryan Clark, ACCI, *Committee Hansard*, Canberra, 21 July 2015, p. 22; Mr Innes Willox, Chief Executive, Ai Group, *Committee Hansard*, Canberra, 21 July 2015, p. 27; Australian Services Roundtable, *Submission 30*, p. 2.

37 Mr Innes Willox, Ai Group, *Committee Hansard*, Canberra, 21 July 2015, p. 27.

they were not a 'driver for greater investment flows between countries'.³⁸ The Productivity Commission also stated:

There could be circumstances in which there is a good role for investor-state dispute resolution. It is just not self-evident at the moment what that might be, and we are not alone on this. Senior representatives of Australia's legal system equally questioned why rights should be made available to foreign parties that are not available to domestic parties.³⁹

4.37 The Productivity Commission argued that pressure from other countries was not a sufficient reason to include ISDS clauses in an agreement, rather Australia should consider the past use of ISDS by businesses from potential partner countries. The Productivity Commission stated:

... look at the history around the world of cases that have been taken to such tribunals by the countries or the country you are about to enter into this agreement negotiation with. What is the history? How have they behaved? What has been the cost of another government in dealing with them?⁴⁰

4.38 The Export Council of Australia (ECA), although unaware of any current ISDS cases involving Australian businesses, believed ISDS clauses could be useful for Australian businesses in the future. The ECA stated:

I anticipate that, over time, we will have Australian companies who will use them. They may take some comfort in the fact that, previously, their level of protection was not there, and now it has been enhanced.⁴¹

Pre-signing Modelling

4.39 As outlined above, the Productivity Commission has recommended a two-stage process to model the potential outcomes of a FTA, the first stage being conducted before negotiations. The second stage would comprise an assessment of the text of the final agreement against benchmarks established during the first stage modelling. The assessment would consider the reasons for, and indicative costs of, any diversions from the

38 Ms Karen Chester, Commissioner, Productivity Commission, *Committee Hansard*, Canberra, 21 July 2015, p. 32.

39 Mr Peter Harris, Productivity Commission, *Committee Hansard*, Canberra, 21 July 2015, p. 32.

40 Mr Peter Harris, Productivity Commission, *Committee Hansard*, Canberra, 21 July 2015, p. 35.

41 Mr Andrew Hudson, Export Council of Australia (ECA), *Committee Hansard*, Sydney, 28 July 2015, p. 16.

benchmarks. The Productivity Commission commented that this would 'bring added discipline to negotiations'.⁴²

4.40 The Productivity Commission suggested that the second stage analysis be undertaken at a high level and, provided that the first stage of analysis was comprehensive, could be completed in four months. The Productivity Commission considered that this timeframe was 'reasonable, based on other countries' practices'.⁴³

4.41 The DFAT reported that it had commissioned the Centre for International Economics to undertake economic modelling of the negotiated outcomes of the three North Asia FTAs. The DFAT stated it had engaged expertise from outside of government in order to obtain independent modelling.⁴⁴

4.42 The ACCI called for a greater role for the Productivity Commission (or a similar body) throughout the negotiation process, and stated:

This would involve draft treaty concessions being accessed and monitored in real time by the Productivity Commission, operating at arms' length from negotiators to provide optimal negotiation stances.⁴⁵

Post Free Trade Agreement

Market Access Negotiations

4.43 Signing a FTA with another country does not automatically ensure that all Australian goods and services will have access to that country's market. Further negotiations are often required over issues such as sanitary and phytosanitary (SPS) barriers or mutual recognition of qualifications. Achieving positive outcomes in these market access negotiations was a priority issue for many industry representatives.

Responsibility for SPS Negotiations

4.44 The DFAT is the lead agency for FTA negotiations. However negotiations over market access and SPS requirements are handled by DoA.

4.45 Reid Fruits, the Australian Horticultural Exporters Association (AHEA) and WFA stated that DoA appeared insufficiently resourced for dealing

42 Mr Peter Harris, Productivity Commission, *Committee Hansard*, Canberra, 21 July 2015, p. 31.

43 Mr Peter Harris, Productivity Commission, *Committee Hansard*, Canberra, 21 July 2015, pp 31-32.

44 Ms Frances Lisson, DFAT, *Committee Hansard*, Canberra, 21 July 2015, p. 5.

45 Mr Bryan Clark, ACCI, *Committee Hansard*, Canberra, 21 July 2015, p. 22.

with market access issues.⁴⁶ During the course of the inquiry the Government announced that DoA was to be allocated additional funding of \$30.8 million to undertake work on improving market access.⁴⁷ Sufficient time, however, has not elapsed for stakeholder groups to be able to comment on the value of this initiative.

- 4.46 The AHEA, referring to DoA, stated that ‘we are not impressed with their negotiation skills’.⁴⁸ Other horticultural representatives shared this view. The APAL stated that DoA’s Trade and Market Access Division needed ‘not only a boost in the resources there but a boost in the negotiation capability of that section.’⁴⁹
- 4.47 Cherry Growers Australia (CGA) believed that Australia’s trading partners possessed better skilled negotiators and this was limiting the benefits Australia gained from negotiations. The CGA suggested that DoA consider examining what other countries who negotiate better do and how these principles could be applied in Australia. This could include seeking advice from overseas negotiators.⁵⁰
- 4.48 The WFA stated that DoA has three staff dedicated to wine related issues and that it has ‘a really good relationship with them – very cooperative, very honest and an open partnership’.⁵¹
- 4.49 Reid Fruits and AHEA suggested that trade negotiators from DFAT may have a greater skill in trade negotiations than DoA staff. Reid Fruits stated:
- With the greatest respect to the people in the Department of Agriculture – they have a scientific background and you cannot negotiate quarantine market access without sound science – but I really do believe that the people who are most skilled in trade negotiation are within DFAT. From my point of view, it would be better to have DFAT negotiating the market access and then being supported by DoA with the science ... I think it is unfair to expect scientists to go out and be trade negotiators.⁵²

46 Mr Tim Reid, Reid Fruits, *Committee Hansard*, Sydney, 28 July 2015, p. 20; Mr David Minnis, Chairman, Australian Horticultural Exporters Association (AHEA), *Committee Hansard*, Melbourne, 27 July 2015, p. 5; Mr. Anthony Battaglione, WFA, *Committee Hansard*, Melbourne, 27 July 2015, p. 26.

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

48 Mr David Minnis, AHEA, *Committee Hansard*, Melbourne, 27 July 2015, p. 5.

49 Ms Annie Farrow, Industry Services Manager, Apple and Pear Ltd (APAL), *Committee Hansard*, Melbourne, 27 July 2015, p. 11.

50 Mr Andrew Smith, President, CGA, *Committee Hansard*, Melbourne, 27 July 2015, p. 17.

51 Mr Anthony Battaglione, WFA, *Committee Hansard*, Melbourne, 27 July 2015, p. 23.

52 Mr Tim Reid, Reid Fruits, *Committee Hansard*, Sydney, 28 July 2015, p. 20.

4.50 The APAL highlighted the importance of building relationships with negotiators from partner countries, however, this created difficulties when the lead for the negotiations passed from DFAT to DoA. APAL stated:

... you want to hang off the back of the very effective work that has been done with a free trade agreement. You have built all those relationships and then suddenly you pass it on to someone else and you have to go back and rebuild the relationships.⁵³

4.51 The Business Council of Australia (BCA) recommended greater collaboration between government agencies at the implementation stage of FTAs. The BCA suggested that this should include an ongoing role for members of the DFAT negotiation team.⁵⁴

Market Access for Service Industries

4.52 The BCA noted that 'mutual recognition of qualifications was fundamental to Australian businesses delivering services overseas'. The BCA noted that mutual recognition was often negotiated between non-government regulating bodies. Progress on mutual recognition was often slow as 'the incentives for mutual recognition are low, as regulating bodies are comfortable with the existing level of competition'.⁵⁵

4.53 The Financial Services Council raised the issue of mutual recognition by overseas regulators and recommended that the Australian Securities and Investments Commission 'develop a roadmap for pursuing mutual recognition and subsequently negotiate mutual recognition with regulators in our region'.⁵⁶

The Role of Industry in Market Access Negotiations

4.54 The BCA recommended that an industry reference group should be set up to 'formalise mechanisms to receive feedback from industry ... on non-tariff barriers which inhibit market access.'⁵⁷

4.55 The WFA reported it co-chaired a wine market access group featuring representatives from DFAT, Department of Industry and Science, DoA, Food Standards Australia New Zealand, the Australian Wine and Grape Authority and representatives from large and small wine businesses. This

53 Mr John Dollisson, APAL, *Committee Hansard*, Melbourne, 27 July 2015, p. 11.

54 Business Council of Australia (BCA), *Submission 31*, p. 13.

55 BCA, *Submission 31*, p. 10.

56 Financial Services Council, *Submission 9*, p. 10.

57 BCA, *Submission 31*, p. 13.

group enabled industry to receive regular updates on FTA and market access negotiations and to raise key market access issues.⁵⁸

- 4.56 The CGA suggested that a market access group be created for the horticulture industry. The group would be led by Horticulture Innovation Australia Ltd and feature representation from DFAT, Austrade, DoA, and all exporting horticultural sectors. The group would assist government and industry work together to 'develop a more robust, proactive, and commercial approach to market access, market improvement and market maintenance negotiations across horticulture'.⁵⁹
- 4.57 The WFA emphasised the importance of industry working with government to identify market access problems and develop solutions. The WFA suggested that Australian industry had a responsibility to work with equivalent industries in partner countries to overcome challenging access issues. The WFA stated 'it is not up to our negotiators necessarily to be able to trade something off. We have to do our part too.'⁶⁰

Role of Agricultural Counsellors

- 4.58 As stated in Chapter 3, five new agricultural counsellors have been appointed in the DoA who will be based in overseas markets where they will assist agricultural producers with export issues within that market. The DoA outlined the role of the agricultural counsellors:
- ... quickly solving trade-related incidents; getting produce off the dock and delivered to buyers; getting hold of practical market information; negotiating new access arrangements; and building good relationships with overseas governments.⁶¹
- 4.59 The APAL welcomed the appointment of the new counsellors and whilst it hoped that the counsellors could be solely dedicated to horticulture they acknowledged that this was unlikely.⁶²

Stability of Staffing in Trade Related Roles

- 4.60 Staff turnover in DoA's Trade and Market Access Division and of agricultural counsellors can adversely affect the development of relationships with overseas stakeholders.

58 Mr Anthony Battaglione, WFA, *Committee Hansard*, Melbourne, 27 July 2015, pp 26-27.

59 CGA, *Submission 6*, pp 3, 6.

60 Mr Anthony Battaglione, WFA, *Committee Hansard*, Melbourne, 27 July 2015, p. 23.

61 Commonwealth of Australia, *Agricultural Competitiveness White Paper: Accessing Premium Agricultural Markets Factsheet*, Canberra, 2015, <http://agwhitepaper.agriculture.gov.au/white-paper/factsheets>, viewed 17 August 2015.

62 Ms Annie Farrow, APAL, *Committee Hansard*, Melbourne, 27 July 2015, p. 10.

- 4.61 Reid Fruits explained the value of consistency of representation and long-term relationship building for doing business in Asia and stated:

... you have to have the same people going in time and time again to win the confidence and trust of the people you are dealing with. You have to build a rapport with them. In the horticultural market access division, I think in the last two years we have probably had about four different managers heading up that team ... it is all about ensuring the stability of the staff and long-term relationship building, particularly in the Asian cultures. It is really, really important.⁶³

- 4.62 The WFA highlighted the inefficiencies resulting from agricultural counsellors being limited to three-year terms in each market. In reference to China, WFA stated:

We have agricultural counsellors there. They are pretty good, but they are there for three years. It takes them two years to get up to speed and to understand what they are doing and who to talk to, and then they have one year where they are good, and then they are gone.⁶⁴

Post-Implementation Evaluation

- 4.63 The Productivity Commission stated that resource limitations may make it impractical for departments to evaluate the impacts of each FTA following implementation. Evaluating the real world impacts of FTAs could be of 'immense value' in selected circumstances. The Productivity Commission stated that it was important for Government to be able to learn from past experiences and to know when:

... we thought we were going to get that benefit but clearly that did not work. Let us put on the record so that our successors know our cost to this and ... the political leaders of the country know that what might once have been seen as a usable step is no longer usable step.⁶⁵

- 4.64 The ACCI supported post-FTA evaluation by the Productivity Commission, suggesting that the Productivity Commission's role could 'extend to periodic monitoring of all trade agreements after entry into force to ensure that purported Australian economic benefits are being achieved.'⁶⁶

63 Mr Tim Reid, Reid Fruits, *Committee Hansard*, Melbourne, 27 July 2015, p. 20.

64 Mr Anthony Battaglione, WFA, *Committee Hansard*, Melbourne, 27 July 2015, p. 24.

65 Mr Harris, Productivity Commission, *Committee Hansard*, Canberra, 27 July 2015, p. 37.

66 Mr Clark, ACCI, *Committee Hansard*, Canberra, 27 July 2015, p. 22.

Concluding Comment

- 4.65 The Committee believes that Australia should look to its natural advantages when seeking potential FTA partner countries. Such advantages include: Australia's natural resources and the skills of its workforce; its advantages in transport logistics; its reputation for 'clean and green' produce; its pest and disease-free status; and its existing trade and cultural links.
- 4.66 The Committee supports the bilateral FTA negotiations with India and Indonesia. These markets have great potential for future trade. Plurilateral agreements are also of value to Australia, especially if they involve neighbouring countries.
- 4.67 Exporting companies which take a strategic approach and establish in an overseas market prior to a FTA being signed are in a position to gain the most from the subsequent FTA. For example, Reid Fruits was able to quickly boost its exports to Korea after the Korea-Australia FTA entered into force because it already had a business presence in Korea. The Committee considers that from the time the Government signals its intention to begin negotiating with a potential FTA partner, for example with India, assistance should be provided to exporters to allow them to achieve a market presence before the FTA negotiating process is completed.
- 4.68 An Australian workforce equipped with the skills, knowledge and cultural understanding to engage with potential FTA partner countries is central to the ability of Australian business to benefit from FTAs. The Committee considers that developing Australia's science, technology, engineering and mathematics capabilities, as well as widening knowledge of the languages and culture of key trading partners is of particular importance in facilitating engagement with FTA partner economies.
- 4.69 The Committee considers that the Australian Government should undertake modelling of human capital and workforce needs, particularly for the services sector, with the aim of identifying the labour skills needed to take advantage of future FTAs. This modelling should inform the development of a workforce strategy in the early stages of individual FTA negotiations.
- 4.70 The adoption of a 'Brand Australia' approach by Australian exporters can build on Australia's reputation for quality. The Committee considers Austrade should facilitate the creation of recognisable Australian branding. The development of anti-counterfeiting measures would complement this initiative.

- 4.71 The Committee considers there is merit in the pre- and post-FTA negotiating model proposed by the Productivity Commission. The Committee agrees with the Productivity Commission that this will introduce accountability and transparency to the negotiations.
- 4.72 The Committee commends DFAT's performance in leading FTA negotiations, but considers there should be more formal consultation with Australian peak industry groups, both employer and employee. In addition to informing government negotiators this approach as well allows industry to prepare practical advice for its members on the opportunities created by the FTA. The US appears to have mechanisms to prevent premature disclosure of confidential negotiating information and the Committee believes similar conditions could be placed on Australia's industry advisers.
- 4.73 Sanitary and phytosanitary protocol requirements are of great concern to Australia's primary producers. With an increase in the number of Australia's FTAs, greater demand is being placed on DoA to address market access issues. The Committee welcomes the provision of additional funds to DoA which includes the funding of agricultural counsellors. Nevertheless, the Committee considers that skilled negotiators from DFAT should be included in DoA-led teams negotiating market access. These negotiators would bring to the table, expertise and background knowledge of the FTA and the complexity of the FTA partner country's market.

Recommendations

Recommendation 9

- 4.74 **The Committee recommends that when the Government signals an intention to begin free trade agreement negotiations with a trading partner, industry assistance should be targeted towards exporters who may wish to achieve a presence in the intended trading partner's market before completion of the free trade agreement negotiations.**

Recommendation 10

- 4.75 The Committee recommends that at the commencement of free trade negotiations, the Department of Employment should undertake modelling of the human capital and workforce needs arising from the agreement, particularly for the services sector. Based on the modelling outcomes, the department should develop a workforce strategy to take advantage of the agreement.

Recommendation 11

- 4.76 The Committee recommends that Austrade, in consultation with Australian business, facilitate:
- the development of a recognisable Australia brand logo and signage for exported Australian goods and services; and
 - the development of anti-counterfeiting measures for exported Australian goods.

Recommendation 12

- 4.77 The Committee recommends that the Department of Foreign Affairs and Trade commission independent modelling of the potential benefits of free trade agreements. Modelling should be undertaken before negotiations begin and be compared to the outcomes of a second modelling exercise undertaken after negotiations have been completed, but before signing. The modelling results together with an explanation of variances should be made publicly available.

Recommendation 13

- 4.78 The Committee recommends that the Department of Foreign Affairs and Trade formally involve representatives from Australia's peak industry bodies, both employer and employee, in free trade agreement negotiations, reflecting the US model.

Recommendation 14

- 4.79 **The Committee recommends that the Government should be taking all possible means to ensure that market access is enabled and that negotiators from the Department of Foreign Affairs and Trade remain involved in market access negotiations after a free trade agreement enters into force.**

**Mr Ken O'Dowd MP
Chair**

17 September 2015