

Business
Council of
Australia



submission

Submission to Joint Standing
Committee on Treaties Inquiry
into the Korea–Australia Free Trade
Agreement

MAY 2014

*Working to achieve
economic, social
and environmental
goals that will benefit
Australians now and
into the future*

The Business Council of Australia (BCA) brings together the chief executives of more than 100 of Australia's leading companies, whose vision is for Australia to be the best place in the world in which to live, learn, work and do business.

About this submission

This is the BCA submission to the inquiry by the Joint Standing Committee on Treaties into the Free Trade Agreement between the Government of Australia and the Government of the Republic of Korea (ROK). The Korea–Australia Free Trade Agreement (KAFTA) was signed on 8 April 2014 by the Minister for Trade and Investment, and tabled in Parliament on 13 May 2014.

Members of the BCA are committed to policies that support trade and investment liberalisation, recognising the benefits to Australia from increased access to new markets for our goods, services and capital, and from greater access to global supply chains. One in five Australian jobs is related to trade, and numerous international studies have shown trade liberalisation is a strong engine for job creation and higher wages.

Australia also benefits from increased levels of inward foreign investment, which supplements domestic savings, helps develop our economy and supports job creation.

The BCA's *Action Plan for Enduring Prosperity*, released in 2013, noted the linkage between deeper levels of global engagement and increased prosperity and living standards in Australia. The action plan also recommended the government should intensify efforts to conclude KAFTA, including by taking a pragmatic approach to negotiations.

Key points

KAFTA is unambiguously good news for the Australian economy. It is a high-quality, comprehensive agreement that substantially liberalises trade with Australia's fourth largest trading partner, our third largest export market (goods and services, 2012–13) and a substantial source of overseas students, tourists and investment.

KAFTA provides for improved market access to the large Korean market for Australian goods and services providers, and will strengthen the protection of Australian investments in Korea.

The agreement eliminates all Korean tariffs on manufacturing, resources and energy products over a 10-year timeframe and eliminates Korean tariffs on a range of Australian agricultural products, including beef, wheat, raw sugar and wine.

On services, KAFTA will provide Australian services exporters with access to the Korean market that is as high-level as Korea has provided to any other trading partner, including new market access for Australian legal services, accounting services and telecommunication services companies. It also locks in market access for a broader range of other Australian services providers, including the financial services sector.

Conversely, Australian industry and consumers will benefit from reduced tariffs on imports of a range of products from Korea. The lifting of the screening threshold by the Foreign Investment Review Board for Korean private sector investment from \$248 million to \$1.1 billion is another win-win outcome for Australia, potentially increasing the amount of capital available to further develop Australia's economy.

Foreign capital has historically been an important contributor to Australia's economic success, and KAFTA will help make Australia a more attractive destination for global investment.

The BCA strongly supports an early entry into force for KAFTA; the sooner the agreement enters into force, the sooner the Australian economy will start benefiting from increased trade and investment flows resulting from the agreement.

Upon entry into force, Korean tariffs on 84 per cent of its imports from Australia by value will go to zero, and tariffs on a further 15.8 per cent of Australian goods exports will start to phase down to zero by the time the agreement is fully implemented.

Until the agreement enters into force, however, Australian exporters will continue to be at a competitive disadvantage with regard to a number of our international competitors that already have preferential conditions with Korea on a range of goods and services.

Australian beef growers, for example, currently face a tariff rate five percentage points higher than beef growers in the United States, due to preferential terms under the US–Korea Free Trade Agreement. In the absence of KAFTA, over the next decade, that gap will expand to a substantial 40 per cent difference. Similarly, our wine exporters face a 15 per cent disadvantage, as wine from the US, European Union (EU) and Chile currently enters Korea tariff free, and European services exporters are similarly benefiting from preferential access to the Korean market through the EU–Korea Free Trade Agreement.

The BCA also supports the government's flexible approach to including investor-state dispute settlement clauses in free trade agreements under negotiation, on a case by case basis. We support the government's pragmatic position on agreeing to Korea's request to include an investor-state dispute settlement provision in KAFTA, in order to give impetus to concluding negotiations.

Bipartisan approach to trade negotiations

A consistent feature of Australian trade policy has been the importance of bipartisanship in successfully concluding free trade agreements, which often take a number of years to negotiate.

This agreement with Korea is no exception, having been launched by then-trade minister the Hon. Simon Crean in 2009 (following the conclusion of a joint non-government report which found that a bilateral free trade agreement could boost Australia's GDP by up to A\$30 billion over 14 years), and subsequently progressed by former trade ministers the Hon. Dr Craig Emerson and the Hon. Richard Marles MP, before being concluded by the current trade minister, the Hon. Andrew Robb AO MP.

The BCA also congratulates the government on the announcement of the successful conclusion of negotiations of an FTA with Japan, and notes the intention for the agreement to be signed in coming months. The BCA encourages the government to continue to press ahead with concluding the long-running China FTA, including by taking a pragmatic approach to the negotiations.

The need to continue the domestic economic reform agenda

The BCA's action plan noted the importance of maximising the opportunities from Australia's engagement with the global economy by lifting the competitiveness of our domestic firms and markets, while also continuing to foster openness and reciprocity on the part of our regional and global partners.

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