SEPTEMBER 2018

Australian Government
Department of Foreign Affairs and Trade
Australian Trade and Investment Commission

STANDING COMMITTEE ON ECONOMICS IMPEDIMENTS TO BUSINESS INVESTMENT

QUESTIONS ON NOTICE: DFAT AND AUSTRADE RESPONSE

Question 1: CHAIR: "Can you give me some practical examples of success stories or the practical difference that has been made here in Australia as a result of these free trade agreements?"

The Australian Government welcomes foreign investment. It has helped build Australia's economy and will continue to enhance the wellbeing of Australians by supporting economic growth and innovation into the future. Without foreign investment, production, employment and income would all be lower.[1]

Foreign investment brings many benefits. It supports existing jobs and creates new jobs, encourages innovation and the introduction of new technologies and skills, provides access to markets and promotes competition.

Our Free Trade Agreements enhance investment relationships, including by providing increased investment screening thresholds for foreign investors investing in Australia, and by increased certainty and transparency of treatment for both foreign investors in Australia and for Australian investors in the FTA-partner country. However, we are aware that investment commitments in Australia's FTAs are only one factor influencing foreign investors' investment decisions in the Australian market and for Australians seeking to invest overseas.

The Australian Trade and Investment Commission (Austrade) have an online portal of free trade agreement case studies and success stories available at: https://www.austrade.gov.au/australian/export/free-trade-agreements/fta-case-studies/fta-case-studies. An important element of Australia's trade agreements is that they improve certainty for Australian investors offshore by providing better market access for our exporters. Case studies supporting these agreements are listed below.

Peru-Australia Free Trade Agreement (PAFTA)

One of the key benefits for Austin regarding PAFTA is that it will allow us to better plan the allocation of our global resources; we will be able to choose what we export and what we design and build locally – we can focus on what will be the best outcome for the customer, and consequently produce more, in a more profitable and sustainable manner, and thus increase our global footprint.

Austin Engineering

Rio Tinto has had a presence in Peru since 1990 and sees Peru as an attractive destination for investment. In 1994, Rio started exploration of copper deposits and it has also explored iron, zinc, borates and precious metal deposits. Rio Tinto has also contributed to the discovery of several ore deposits in Peru. PAFTA removes impediments and trade barriers which will encourage Australian mining investment in Peru, with strong protections for private investors which are crucial for long-term capital intensive projects. "Peru has been one of the fastest growing economies in Latin America, and the world, over the last decade. PAFTA will support Australian business to gain access to significant opportunities presented by that growing market,"

Rio Tinto

[1] Source: Department of the Treasury (2012). The macroeconomic effects of lower capital inflow 2018. [ONLINE] Available at: https://treasury.gov.au/publication/economic-roundup-issue-3-2012-2/economic-roundup-issue-3-2012/the-macroeconomic-effects-of-lower-capital-inflow/. [Accessed 13 September 2018].

GroundProbe provides technology that helps mines to manage risk. GroundProbe's technology can help mines detect before rock falls, slope failures and underground collapses will occur, with enough warning to save people and equipment. This is GroundProbe's unique offering and their Australian-based products and technology are now global best practice around the world.

For Australian businesses like GroundProbe, they know first-hand the opportunities and benefits PAFTA can provide. '*We've been Peruvian market for over ten years. We opened an office in Lima about two years ago and our customer base is growing*' said David Noon, GroundProbe's Vice President, Global Operations and Sales. '*The Free Trade Agreement with Peru will help sell our products and services to our customers at a lower cost, which means that we'll be able to be more competitive and provide more monitoring systems to the Peruvian market.*'

GroundProbe

Hedweld Group of Companies has been exporting its mining and earthmoving products to Peru for the past sixteen years. With the recent signing of Australia's free trade agreement with Peru, the company now has its sights on expanding its business even further within the market.

Hedweld has been exporting to the South American country for the past sixteen years and Gream says the recent signing of PAFTA will allow the company to build on its success in the market.

'Peru is the largest importer of our Trilift products and its potential for growth is exceptionally high, making the market huge for us…The introduction of PAFTA will help strengthen our relationships with existing customers, as well as allow us to build new relationships with potential buyers and suppliers.'

Hedweld

China-Australia Free Trade Agreement (ChAFTA)

Frosty Boy Australia is a leading manufacturer and distributor of a range of powdered desserts and beverages. Having exported its products around the world since 2001, the company is continuing to expand its business in Asia, thanks to Australia's Free Trade Agreement with China.

'Our exports now make up 70 per cent of our business. Since 2001, we have seen an average yearly growth of about 17 per cent. If it weren't for exports, we definitely wouldn't be able to achieve that.'

Frosty Boy Australia

The investment in Burra Foods is an example of where ChAFTA has assisted trade with China, leading to an investment outcome: https://www.austrade.gov.au/international/invest/investor-updates/2016/chinese-dairy-investor-buys-majority-stake-in-burra-foods refers.

ChaFTA, Japan-Australia Economic Partnership Agreement (JAEPA), Korea–Australia Free Trade Agreement (KAFTA)

Located in Victoria's breathtaking alpine region, Gapsted Wines produces some of Australia's best cool climate wines. Thanks to Australia's free trade agreements with North Asia, the winery is sharing its passion for creating fine wines and exporting to international markets.

Having distributed its premium wines across Australia for over 20 years, Gapsted Wines took the international step two years ago, beginning its export journey in Norway. Following a successful few years of exports into Scandinavia, the winery turned its focus to Asian markets to further drive business growth.

Matt Fawcett, CEO and Chief Winemaker at Gapsted Wines, says China's demand for cool climate wines has significantly increased sales.

'Eighteen months ago, we were only exporting a couple of hundred cases to China, but now we're exporting over 18,000 cases, which equals about $750,000 in total gross sales,' he says.

'We're hoping to double this figure in the next 12 months, making China an immensely important market for us.'

Gapsted Wines is in the process of expanding its exports to Korea and Japan.

'After receiving lots of interest from both markets and identifying several business opportunities over the last three years, we have now secured our first importer for South Korea.'

'We're also actively negotiating with some Japanese companies now and working toward securing an importer for Japan this year as well.'

Gapsted Wines

One of Australia's largest exporters of lamb and sheep meat products continues its expansion into Asia, thanks to Australia's free trade agreements with China, Japan and Korea.

Fletcher International Exports is a primary processor and exporter of lamb and sheep meat products. The family-owned company operates facilities in Dubbo, NSW and Albany, WA with a processing capacity of more than 90,000 lambs and sheep per week.

Prior to Australia's free trade agreements (FTAs) with China (the China-Australia Free Trade Agreement – ChAFTA) and Korea (Korea-Australia Free Trade Agreement – KAFTA), Fletcher International faced tariffs as high as 23 per cent on several of its products. The FTAs have significantly reduced these tariffs, with many being halved compared to pre-FTA conditions.

Export Manager of Fletcher International, Bernard Gooch, says the implementation of FTAs with China and Korea has enabled the company to increase exports to both countries.

'Since KAFTA came into force, our exports have increased by over 30 per cent to Korea,' he says.

'These results, thanks to ChAFTA and KAFTA, have given us the confidence to continue growing our export business.'

Fletcher International

Comprehensive and Progressive Agreement for Trans-Pacific Partnership (TPP-11)

While the TPP-11 is yet to enter into force, there is broad support from Australian industry.

The combination of the most ambitious reform package and the implementation of the Trans-Pacific Partnership will help Mexico continue its growth in real gross domestic product (GDP). Elimination of Mexican tariffs (currently 20 per cent) for higher quality wine and elimination of all tariffs within 10 years of entry into force of the TPP-11 will put Casella Family Brands on a level playing field with South American and European winemakes which currently have zero tariffs, this will make the Australian wine business in Mexico a much more profitable proposition for our Mexican distributor which will equate to increased volumes and interest in Australian wines.

Casella Wines

The CPTPP opens up some fantastic market advantages for Aussie red meat countries like Japan, Peru, Mexico and Canada. We commend the Australian government for these historic achievement and look forward to prompt ratification so Australia's 75,000 red meat businesses can realise the gains.

Red Meat Advisory Council

We applaud the Australian Government for reaching agreement on TPP-11. For grain growers in particular, the TPP-11 improves access for Australian wheat and barley into the important Japanese market. In addition, TPP-11 has important provisions concerning products of modern biotechnology, including transparency mechanisms and the formation of a working group on trade-related matters. The Australian grains industry is reliant on international trade - and a strong trade liberalisation agenda, one which focusses on addressing tariff, quota and non-tariff barriers to trade, is imperative for the ongoing success of the Australian grains sector.

Grain Growers Limited

The Trans-Pacific Partnership will create new opportunities for Australian mining and mining services exports in the Asia-Pacific region by reducing tariffs on resources commodities and improving market access for services. Those opportunities will benefit all Australians by supporting jobs, living standards and economic growth. The TPP will also deliver long-term strategic benefits for Australia by deepening our engagement with the fast-growing economies around the Pacific Rim and strengthening our commitment to open markets and free trade.

Minerals Council of Australia

Question 2: Mr CRAIG KELLY "... Australia's company tax rates are now significantly above the rates of other countries, particularly our Asian neighbours with whom we compete for foreign investment. Can you run through what some of their tax rates are—do you have those at hand at all?"

China

The corporate tax rate is 25 per cent. The Enterprise Income Tax Law provides a reduced tax rate of 15% for high and new technology enterprises. The reduced tax rate of 15% is also applied to qualified technologically advanced service enterprises established in certain cities until December 31, 2018. Also, enterprises operating in certain regions are eligible for a 15% corporate tax rate until December 31, 2020.

Singapore

The corporate tax rate is 17%. For the Year of Assessment (YA) 2018, companies will receive a 40% corporate income tax rebate capped at SGD15,000. The corporate income tax rebate is also applicable to YA 2019, but at a reduced rate of 20% and capped at SGD10,000. There is a partial tax exemption of 75% on the first SGD10,000 and 50% on the next SGD290,000 of the company's income subject to tax at prevailing corporate tax rate. Start-up tax exemption can be granted on the said income of a qualifying company on its first SGD100,000, and a further 50% exemption is given on the next SGD200,000, for each of its first three consecutive YAs. A concessionary tax rate of 10% or lower applies to qualified entities.

Malaysia

The corporate tax rate is 24%. Certain companies resident and incorporated in Malaysia capitalized at MYR 2.5 million or less are subject to a corporate income tax rate of 18% on the first MYR 500,000 of chargeable income, with the balance taxed at 24%. Labuan companies carrying on Labuan trading activities, which did not make an irrevocable election to be taxed under the *Income Tax Act 1967*, are taxed under the *Labuan Business Activity Tax Act 1990* at 3% of audited net profits or may elect a fixed tax of MYR 20,000.

Japan

The corporate tax rate is 30.86%. This is an illustrative effective tax rate for a company in Tokyo with stated capital of more than JPY100 million for fiscal years beginning on or after 1 April 2016. It will be reduced further to 30.62% for fiscal years beginning on or after 1 April 2018. Size-based business tax is also levied on a company with stated capital of more than JPY100 million, in addition to the income-based business tax.

Indonesia

Lower rates apply where revenues are less than IDR50 billion. A company with gross turnover less than IDR50 billion (approximately USD3.7 million) is eligible for a 50% reduction of the corporate tax rate on the proportion of taxable income which results when IDR4.8 billion is divided by the gross annual turnover. Where gross turnover is below IDR4.8 billion a deemed final tax rate of 1% of revenues applies. Non-resident companies, in the form of a Permanent Establishment are also liable for branch profits tax of 20%.

Thailand

The corporate tax rate (CIT) is 20%. A progressive CIT rate of 0-20% applies to small and medium sized enterprises (SMEs). A SME is a company with no more than THB 5 million of paid-up capital and no more than THB 30 million annual turnover. The CIT rate depends on the SME's profit..

Source: All tax rate information above sourced from - KPMG. 2018. *Corporate tax rates table* KPMG. [ONLINE] Available at: https://home.kpmg.com/xx/en/home/services/tax/tax-tools-and-resources/tax-rates-online/corporate-tax-rates-table.html. [Accessed 31 August 2018].

Question 3: Export Market Development Grants.
Mr CRAIG KELLY: Do we know what the actual payout ratio is? I understand at one stage it was dependent on how many claims there were.
Mr Putt: You're correct, and demand exceeds supply. I don't know what the amount is for this year that we've just gone through, but the grant that we have here and for the number of enterprises that apply to Austrade, we can't satisfy all the ask.
Mr CRAIG KELLY: Could you maybe take that question on notice?
Mr Putt: We could take that on notice.
Mr CRAIG KELLY: And also what ratio there has been in the previous years as well?
Mr Putt: We could find that out for you, yes.
Mr CRAIG KELLY: And the question would then go to: if the ratio payout is small, is the scheme losing its effectiveness and losing people who say, 'I might only get 50 per cent of what my grant was,' or 'It's not worthwhile.'
Mr Putt: Can I take that on notice, once I know the number? We don't work in that area.
Mr CRAIG KELLY: The other thing you perhaps can look at too is how Australia's export scheme compares with, say, some of our foreign competitors. I know just anecdotally years ago, before I got into this job, I was using that scheme. We were competing against a company in the UK and they had a scheme that was 10 times more generous than ours.

EMDG payout factors

The level of funds available under the EMDG Act is capped at an annual maximum amount. To ensure each grant recipient receives an equitable share of the total capped funding, the EMDG Act provides a two-tiered payment mechanism with some grants paid in two tranches.

The Minister determines the value of the first tranche payment (the initial payment ceiling amount) at the beginning of each grant year. As applications are assessed as eligible, they are paid up to the value of this first tranche payment.

For grants assessed in excess of the first tranche payment, the outstanding amount is held as a claim against the funds remaining at the end of the financial year. The remaining funds are then distributed on a pro-rata basis, to a maximum of 100 per cent of the entitlement.

The appropriation, initial payment ceiling and payout factor for the last six years are shown below. Please note a grant year is the year in which an applicant incurs expenditure, with the payment being made in the following (or later) financial year.

Grant year	Appropriation (Financial year following grant year)	Applications received	Initial payment ceiling amount	Second tranche payout factor cents in $
2011–12	$125.4m	3,045	$60,000	100c
2012–13	$137.9m	2,715	$60,000	100c
2013–14	$137.9m	3,195	$60,000	65.28c
2014–15	$137.9m	3,321	$40,000	72.66c
2015–16	$137.9m	3,539	$40,000	64.5 c
2016–17	$137.9m	3,771	$40,000	29.2c

If the ratio is small, is the EMDG scheme losing its effectiveness?

As illustrated in the table above, demand for EMDG grants has been growing in recent years. Given a fixed appropriation, a higher number of eligible claims will lead to lower payout factors.

Austrade conducts an annual survey of EMDG client satisfaction. The most recent results show 95 per cent of respondents report the receipt of an EMDG grant enabled their business to become a more sustainable exporter. In the same survey, 54 per cent of respondents reported the receipt of a grant enabled them to grow their international revenue.

How does Australia's export grant scheme compare to other similar schemes in other countries (e.g. UK)?

Foreign governments' approaches to export assistance vary considerably, from information provision services, capability building, support for one or more promotional activities (such as trade show attendance), and tax deductions and reimbursement schemes. EMDG is one of the few national government schemes that provides broad based assistance for businesses promoting their goods and services for export.

At a national level the UK Government offers information services, export credit and provides grants to businesses to attend overseas trade shows. Programs are also run by regional government agencies. More information can be found at: https://www.great.gov.uk/finance/get-finance-support-from-government/?source=finance.