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Mr Wyatt Roy MP  
Chair  
Joint Standing Committee on Treaties  
Parliament House  
CANBERRA ACT 2600

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Dear Mr Roy

The Australian Industry Group would like to express its views to the Committee's inquiry into the Korea-Australia Free Trade Agreement.

The Australian Industry Group (Ai Group) fully supports the principle of free trade and the negotiation of bilateral and regional free trade agreements which advance the national interest. The Korea-Australia Free Trade Agreement (KAFTA) is a significant achievement for the entry of Australian agricultural products into a potentially very large market.

Ai Group welcomes the KAFTA provisions which lower tariffs on both sides, address red tape, and take steps towards facilitating services and direct foreign investment. These will enable Australian business to compete better for participation in bilateral and global value-added chains which are such an important part of international trade. Ai Group endorses the provisions in KAFTA which address anti-competitive practices. These provisions should assist in ensuring that anti-competitive practices do not undermine trade and investment liberalisation. Both sides will need to ensure that these commitments are upheld and enforced.

Ai Group, along with its affiliates represents the interests of 60,000 businesses in an expanding range of sectors including: manufacturing, engineering, construction, automotive, food, transport, information technology, telecommunications, call centres, labour hire, printing, defence, mining equipment and supplies, airlines and other industries. Ai Group members operate small, medium and large businesses across this range of industries. In terms of tariffs and quotas, the big winners in KAFTA are clearly in agriculture. For manufacturers, the deal on tariffs and quotas is a very mixed blessing. Implementation of KAFTA will have significant consequences for Australian business in non-agricultural sectors.

The fact that free trade agreements involve the abolition of all domestic tariffs in all sectors of the economy is not widely understood. Business has been caught by surprise at the proposed abolition in early 2015 of Australian tariffs on most Korean

imports. Importers and industries whose supply chains involve Korean materials and components have welcomed this. But for the many SMEs that produce for the domestic market, the immediate 5% reduction in the price of competing Korean imports bites into their already narrow profit margin. Their medium term plans for significant reform have not generally factored in such major tariff cuts. Some SMEs are showing remarkable resilience and are moving to diversify products and services quite quickly. Others are taking longer in terms of product development, workforce training and major recapitalisation. Their competitiveness in the domestic market is being suddenly eroded at a very vulnerable time.

Members have pointed out that, on the Korean side, sensitive products have achieved much longer periods for the abolition of tariffs than the three to five years accorded to some vulnerable Australian items. Tariffs on beef, Australia's largest agricultural export to Korea, will only be eliminated over 15 years. For other sensitive products, such as cheese, tariff elimination will be over 20 years. Rice has been excluded altogether. Korean agriculture has been given considerable time to restructure.

Non-tariff barriers constitute impediments to imports of goods and services which can be as important as tariffs. Ai Group welcomes the creation of a Committee on Trade in Goods to address non-tariff measures on a case-by-case basis. The arrangements for expeditious, predictable, transparent and simplified customs administration will need to be widely disseminated to local officials and importers who often remain unaware of simplified documentation and amended procedures.

Like other free trade agreements, the KAFTA text has been made available only after it has been finalised by officials and agreed by governments. DFAT officials have been very accessible and professional in responding to our requests for briefings. We are very appreciative of this, particularly given that these officials were also deeply involved in the negotiations themselves.

However, to seek informed feedback from our wide range of interested Members, Ai Group needed the fine detail of negotiations before they were concluded. For many SMEs the timing for abolishing tariffs on a particular tariff line - overnight, or over a longer period - is crucial. But this level of detail was not available. Negotiators were constrained by the policy to not reveal the terms of offers. We recognise the obligation to hold closely the negotiating position of the other side. However, we do believe that the offers of the Australian side should be explained clearly to those affected by them. It is Australian industry which will implement the advantages of freeing up trade. But it is also industry which will bear the brunt of rapid erosion of domestic markets. And it is industry which has the expertise to advise on the effect of proposed measures and to highlight some of the unintended outcomes.

These issues are not unique to the KAFTA negotiation. We recommend that a procedure be developed for providing detailed briefing on trade negotiations which is more effective for industry and more efficient for negotiators. We are aware from discussions with counterparts in the US that it is established practice for qualified, representative groups to be briefed by the Office of the US Special Trade Representative on approaches, offers and texts as trade negotiations proceed. The US model would facilitate a more substantive dialogue with all industry sectors on Australian trade negotiations, allow detailed discussion with business, provide informed feedback from businesses of all sizes that are involved in trade and investment, and foster a better understanding of the benefits and potential of trade agreements. Provision could be made to maintain the confidentiality of actual texts.

There is a great deal of concern in the business community about the potential impact of a China-Australia Free Trade Agreement and the Trans-Pacific Partnership. In these negotiations there must be a substantive dialogue with all industry sectors. Business

has tremendous experience in dealing with our Asian and Pacific partners and hands-on knowledge of real trade practices and barriers. It is of vital importance that negotiators working with China and the Trans-Pacific Partnership have the benefit of this experience.

Free trade agreements are significant policy tools, not only for market access for agricultural products, but for trade policy, industry policy and broader domestic economic policy. Trade agreement negotiations should be evaluated with respect to the broader economic framework and the interests of all sectors, and hence the national interest.

Notwithstanding these reservations, Ai Group supports the ratification of KAFTA.

I thank the Committee for the opportunity to make this submission.

Yours sincerely

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**Chief Executive**