



Australian Government
Department of Foreign Affairs and Trade

File Number: 11/27093

24 October 2012

Mr Andrew Gaczol
Inquiry Secretary
Joint Standing Committee on Treaties
Parliament House
Canberra ACT 2604

Dear Mr Gaczol

During the public hearing on 12 October 2012 of the Joint Standing Committee on Treaties on the Malaysia-Australia Free Trade Agreement, the Department of Foreign Affairs and Trade undertook to provide information relating to two questions from Ms Melissa Parke MP.

Question: On 29 August 2012, the respected US foreign policy think tank the Council on Foreign Relations published an article that indicated there may now be some evidence that supports the argument that free trade, for all of its many benefits, has also played a significant role in job loss, particularly in manufacturing, and in the stagnation of middle-class incomes, at least in the United States during the past decade. Has any research been done on the impact of free trade agreements on manufacturing in Australia?

Periodically, the Department of Foreign Affairs and Trade analyses the impact of trade liberalisation, including the impact of free trade agreements. Analysis of the effect on the manufacturing sector in Australia is complicated by the difficulties in isolating the impact of trade liberalisation on manufacturing from other industry dynamics. This includes issues such as ongoing structural adjustment in Australia, reflecting, in large part, a trend shift in preferences by consumers for services, and more recently, strong demand and prices for Australian resource products. The trend shift to services is not unique to Australia, and has been observed in many OECD – and other – nations. This structural adjustment has resulted in the diversion of labour and investment towards the services and mining sectors. Other factors impacting the manufacturing sector are also at play, including the strength of the exchange rate and the increased outsourcing of services by manufacturing firms. The fall in employment in the manufacturing sector over the last decade coincided with the 2008-09 Global Financial Crisis, with employment in manufacturing broadly stable between 2000 and late 2008.

The OECD is leading ten international organisations in undertaking ‘The International Collaborative Initiative on Trade and Employment (ICITE)’, which is examining the interaction between trade and the labour market and which includes Australian input from the Australian Productivity Commission. ICITE’s work indicates the most important manner in which trade affects employment is through a positive impact on economic growth and rising per capita incomes. A review of the link between trade and income in 14 studies undertaken since 2000 concluded that trade plays an independent and positive role in raising incomes.

As part of ICITE’s endeavour, the Australian Productivity Commission has undertaken research on the links between Australian trade and employment. The Productivity Commission findings were included in the ICITE publication *Policy Priorities for International Trade and Jobs* in a chapter titled ‘Trade, employment and structural change: The Australian experience’. The authors’ found that “*Computable General Equilibrium modelling shows how the recent improvement in Australia’s terms of trade is likely to have increased incomes and that the magnitude of these gains is directly linked to the degree of flexibility of the economy.*” (Available at <http://www.oecd.org/site/tadicite/policyprioritiesforinternationaltradeandjobs.htm>)

The ICITE work has also noted that unemployment may be associated with factors such as lower-skilled workers who find it difficult to make the transition to a higher productivity environment and unevenness in the process of reallocating labour and capital to new, expanding sectors of an economy. The work has highlighted the importance of complementary policies to support inclusive growth and job creation. These policies include sound macroeconomic policies, a positive business climate, flexible labour market, high quality education, skills training systems and adequate safety nets.

OECD research also suggests that between 1970 and 2000, manufacturing workers in open economies benefitted from pay rates that were between three and nine times greater than those in closed economies, depending on the region. A 2009 OECD study also concluded that imports had a strong and positive effect on wages through their effect on improving productivity.

Question: Well the Music Council has written that it considers the cultural exception contained in the Singapore-Australia Free Trade Agreement, along with its definition of ‘creative arts’, which is mirrored in the AANZFTA, should act as the pro forma for free trade agreements. They note their disappointment that ‘while regard has been given to Australia’s cultural sector in MAFTA, is not as robust as the consideration given it in SAFTA and AANZFTA’. Do you have any comment on that? If not, you could take it on notice.

Australia has not made any commitments in relation to cultural industries, including audio-visual services and creative arts, in MAFTA. The Music Council of Australia refers to the “cultural exception” in relation to services and investment contained in SAFTA. SAFTA adopted a negative listing approach to commitments in services and investment. Under the negative listing approach, all sectors are committed unless specifically excluded or limited in scope by a reservation. In MAFTA, following the AANZFTA precedent, both sides adopted a positive listing approach for services. This meant that only the sectors specifically listed in Annex 3 Schedules of Specific Services Commitments are committed under the Agreement. Australia has not included audio-visual services or other creative arts in its Schedule of Specific Services Commitments. As is the case with AANZFTA, specific commitments on

pre-establishment investment in non-services sectors have not been made in MAFTA, and this is to be subject to a work program on the inclusion of such commitments if mutually agreed by the Parties. In the event of such agreement, Australia would schedule any relevant reservations to the investment chapter. Both the SAFTA and MAFTA approaches are equally robust in terms of maintaining policy flexibility for the Australian Government to regulate Australia's cultural sector.

Yours sincerely

Michael Mugliston
Special Negotiator
Free Trade Agreement Division



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Dear Mr Gaczol

Following the public hearing on 12 October 2012 of the Joint Standing Committee on Treaties on the Malaysia-Australia Free Trade Agreement, the Department of Foreign Affairs and Trade received supplementary questions and provides the following response.

Question 1: The 'Costs' section of the NIA describes a "reduction in tariff revenue by \$80 million over the forward estimates."

- a. *Has there been any further modelling?*
 - i. *With an agreement as apparently extensive as this one, should there not have been more extensive modelling done?*

As the negotiation of MAFTA has been completed, the primary basis for an evaluation of the Agreement should be the actual provisions and commitments contained in it. An examination and assessment of these provisions and commitments is contained in the NIA and the attached Regulation Impact Statement (RIS). Any modelling would be based on various assumptions and could only be a supplement to this examination and assessment by attempting to address particular questions through looking at various possible scenarios. The estimate of the reduction in tariff revenue supplements the assessment in the NIA and the RIS by focusing on one such specific issue.

Furthermore, in the case of MAFTA it should also be noted that a high degree of liberalization in trade in goods between Australia and Malaysia has already been achieved in the Agreement Establishing the ASEAN-Australia-New Zealand Free Trade Area (AANZFTA) (e.g. in AANZFTA tariff-free treatment by Australia will apply in 2013 to 96.4 per cent of tariff lines, covering 94.5 per cent of 2009-11 imports from Malaysia, and by Malaysia to 89.2 per cent of tariff lines, covering 96.5 per cent of 2009-11 imports from

Australia). MAFTA's impacts are therefore focused on specific sectors in goods trade, as well in a range of AANZFTA-plus services commitments, as detailed in the NIA and RIS.

Question 2: According to the NIA, this treaty will establish a "Malaysia-Australia Automotive Industry Dialogue that will bring together government, industry and research bodies".

- a. *Do you have further information on this 'dialogue'?*
 - i. *Who will be included?*
 - ii. *How often will they meet?*
 - iii. *Where will they meet?*
 - iv. *What will be on the agenda?*
 - v. *Are there specific outcomes being aimed for?*

Following the release of Malaysia's National Automotive Policy Review in October 2009, a delegation of Malaysian automotive industry and government representatives visited Australia in July 2010 to explore possible synergies in the automotive sector, taking account of both the outcomes of the AANZFTA and the scope for enhanced outcomes in the MAFTA negotiations. This visit resulted in an appreciation by the Malaysian Government and automotive industry of the strengths of the Australian automotive industry, including as a source of innovative technology, products and services, and a strong interest being expressed by both the Malaysian and Australian automotive industries in exploring opportunities for greater collaboration between them. Other visits in both directions have further developed these links and provided the background to the MAFTA Implementing Arrangement for Economic and Technical Cooperative Activities providing for the establishment of the Malaysia-Australia Automotive Industry Dialogue (MAAID).

- (i) The dialogue will be convened by the Malaysian and Australian Governments and will include representatives from industry, research bodies and government.
- (ii) The dialogue will meet at intervals determined by government and industry interests in both Parties. The first meeting of the dialogue will be held in Melbourne on 21-22 November 2012.
- (iii) Meetings will be held in either Australia or Malaysia
- (iv) The dialogue will identify impediments to the realisation of increased cooperation and collaboration between the Malaysian and Australian automotive industries, and increased trade opportunities in the automotive sector, and seek to promote activities to address these impediments (e.g. through annual lists of projects). These activities could include:
 - (a) research and technology development;
 - (b) development of human capital;
 - (c) a supplier development program;
 - (d) industry visits and networking activities to enhance linkages between companies, between companies and research and training bodies, and between research and training bodies;
 - (e) targeted activities to address specific impediments; and

- (f) policy dialogue to address policy interventions that may be hampering increased cooperation and trade.
- (v) The aim of dialogue is to foster increased cooperation between the Australian and Malaysian automotive sectors, such as through joint ventures, cooperation on research and technology, or supply of components and parts. The dialogue may also identify specific measures to recommend to the Australian and Malaysian Governments to address any obstacles to increased cooperation and trade between the Malaysian and Australian automotive sectors.

Question 3: The labour and environmental aspects were included as 'Side Letters'. The third of these 'Side Letters' is on 'alcoholic beverages and contains a commitment from Malaysia providing for most-favoured-nation treatment for Malaysian imports of Australian wine, ensuring that any reduction or elimination in Malaysia's tariff for any other trading partner will be automatically extended to Australian imports.'

- a. *What is the rationale for including alcohol as a 'Side Letter'?*
- i. *Why is it not part of the main agreement?*

The side letters on alcoholic beverages explicitly state that they “constitute an integral part of the Agreement.” The inclusion of the commitments concerned in side letters simply reflects the fact that this was a convenient place to record them given that these are sector-specific commitments. It does not affect the status of the commitments as legally binding in the same way as other parts of the Agreement.

Question 4: The RIS claims that MAFTA is not confined to market access issues. Rather, it could also lead to much deeper economic integration and stronger cooperation in various areas, such as customs, addressing differing standards on industrial goods and sanitary and phytosanitary measures.

- a. *Are these aspirational goals, or are there tangible initiatives in place?*

In addition to market access commitments entered into by both Australia and Malaysia, the MAFTA provides for the establishment of a framework for the two Parties to consider, and take further initiatives, to facilitate trade and to achieve deeper economic integration and closer cooperation.

Several Chapters of the MAFTA contain specific provisions relating to the objective of achieving deeper economic integration and stronger cooperation. This includes:

- Provisions on arrangements for enhanced information exchange as well as cooperation and consultations between the two governments on matters relevant to trade in goods, and
- Provisions for the establishment of a number of formal consultative mechanisms to provide the basis for greater alignment of policies and approaches in a number of areas of each Party's economy.

In particular:

- The Trade in Goods Chapter provides for consultations on non-tariff measures to identify the scope for additional measures to enhance the facilitation of trade in goods (Article 2.10.4). There is a wide range of non-tariff measures which impact on traders' ability to take advantage of market access openings provided by the free trade agreement (e.g. complex or non-transparent administrative procedures; regulations) which could be subject to such consultations.
- The Chapter on Rules of Origin contains comprehensive provisions relating to the determination of origin, as well as provisions for ongoing consultations aimed at ensuring effective administration of the provisions on ROO. The Chapter is to be reviewed within three years, including scope for possible amendment of its provisions in light of experience in its implementation.
- In addition to affirming the Parties' rights and obligations under the WTO SPS Agreement, the Chapter on Sanitary and Phytosanitary Measures provides for strengthened information exchange as well as strengthening of existing cooperation between the two Parties, including through the establishment of an SPS Working Group.
- The Chapter on Standards, Technical Regulations and Conformity Assessment Procedures affirms the Parties' rights and obligations under the WTO Agreement on Technical Barriers to Trade, and provides for the establishment of arrangements for enhanced information exchange, cooperation and consultation between the Parties. The Chapter also provides for relevant authorities of the Parties to cooperate in facilitating the acceptance of conformity assessment procedures. This dialogue will be managed by Chapter Coordinators to be designated by each Party.

Yours sincerely

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