



**Australian Government**  
**Department of Foreign Affairs and Trade**



**Australian Government**  
**Austrade**



# **Inquiry by the Joint Standing Committee on Foreign Affairs, Defence and Trade into Australia's Trade and Investment Relationship with the United Kingdom**

Submission by  
Department of Foreign Affairs and Trade  
Australian Trade and Investment Commission (Austrade)  
Export Finance and Insurance Corporation (EFIC)  
Tourism Australia

March 2017

**Inquiry by the Joint Standing Committee on Foreign Affairs, Defence and Trade into Australia's  
trade and investment relationship with the United Kingdom**

**Submission by the Department of Foreign Affairs and Trade (DFAT), the Australian Trade and  
Investment Commission (Austrade), the Export Finance and Insurance Corporation (EFIC), and  
Tourism Australia**

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On 8 December 2016 the Minister for Trade, Tourism and Investment, the Honourable Steven Ciobo MP, asked the Committee to inquire into and report on Australia's trade and investment relationship with the United Kingdom.

The following submission is made by the Department of Foreign Affairs and Trade (DFAT), the Australian Trade and Investment Commission (Austrade), the Export Finance and Insurance Corporation (EFIC), and Tourism Australia. The submission provides an overview of Australia's trade and investment relationship with the United Kingdom. The submission addresses the inquiry's terms of reference:

*The committee shall examine Australia's trade and investment relationship with the United Kingdom (UK). The Committee shall have particular regard to:*

- *the nature of Australia's current trade and investment relationship with the UK;*
- *possible implications for Australia's trade and investment relationships with the UK and the European Union consequent to the UK's exit from the European Union;*
- *barriers and impediments to trade and investment with the UK;*
- *opportunities to expand trade and investment links*
- *the merits and risks of a possible bilateral free trade agreement with the UK, and potential features of such an agreement;*
- *the role of Australian governments (State, Territory and Federal) in identifying trade and investment opportunities in the UK, and assisting Australian exporters to access these opportunities; and*
- *any other related matters.*

## **Introduction**

Australia has a significant relationship with the United Kingdom (UK), underpinned by our shared heritage, common values, and closely aligned strategic outlook and interests. We are regular dialogue partners at the highest levels across government and are like-minded on many global issues, including international security, open markets and trade liberalisation. We have effective cooperation in the G20. We also benefit from strong people-to-people links. There are regular high-level visits in each direction.

The UK and Australia already share extensive trade and investment ties. The UK is the second largest destination for Australian overseas investment, the second largest investor in Australia and our fifth largest trading partner. The UK and Australian Governments share an ambition to broaden and deepen trade and investment links, including by concluding a comprehensive and ambitious bilateral free trade agreement (FTA), once the UK has exited the European Union (EU).

Presently, our trade relationship largely operates through the context of the UK's membership of the EU. The investment relationship, however, is significant, bilateral and is at present the cornerstone of our economic engagement. The UK is likely to remain a member of the EU for two years from the date it gives notice under Article 50 of the Treaty of Lisbon of its intention to leave the EU. Establishing the terms of the UK's exit from the EU provides the UK with new opportunities to determine its trade and regulatory settings and to conclude trade and investment agreements with other countries, including Australia.

The Department of Foreign Affairs and Trade, Austrade, Tourism Australia and EFIC welcome the Joint Standing Committee on Foreign Affairs, Defence and Trade inquiry and look forward to reviewing the contributions of stakeholders and the final report.

## UK economic overview

The UK economy was one of the strongest in the G7 in 2015/2016, with continued projections for solid future growth. The Organisation for Economic Co-operation and Development (OECD) predicted that the UK and the US would be the two fastest growing G7 economies in 2016.<sup>1</sup> The UK Government Office for Budget Responsibility forecasted growth of 2.1 per cent per annum over the rest of this decade.<sup>2</sup> The Office for National Statistics also reported that between 2014 and 2015 UK GDP in volume terms increased by 2.3 per cent.<sup>3</sup>

London continues to be a global powerhouse for the UK economy. A recent report by the Greater London Authority showed that London's economy was worth GBP364bn in 2014, 6.8 per cent higher than in 2013.<sup>4</sup> London topped PriceWaterhouseCoopers' 2014 'Cities of Opportunity' report on the world's top thirty cities, including being rated first in economic impact, technology readiness, and software/multimedia development and design, and second in intellectual capital, innovation and broadband services.<sup>5</sup>

The Global Innovation Index 2016 ranked the UK third best overall (behind Switzerland and Sweden)<sup>6</sup>. East London Tech City is the third-largest technology start-up cluster in the world after San Francisco and New York City.<sup>7</sup>

London also continues to be a global capital for the fintech sector. A recent report co-authored by Ernst and Young/UK Trade & Investment (UKTI) estimated that the UK fintech sector generated GBP6.6bn in revenue in 2015 attracting GBP524m in investment in 2015, and employing a workforce of approximately 61,000.<sup>8</sup> The UK (London and six regional centres) was also ranked as the number one global fintech ecosystem in a 2016 Ernst and Young report, ahead of California, New York, Singapore and Germany.<sup>9</sup>

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<sup>1</sup> <https://data.oecd.org/gdp/real-gdp-forecast.htm>

<sup>2</sup> <http://cdn.budgetresponsibility.org.uk/March2016EFO.pdf>

<sup>3</sup> <http://www.ons.gov.uk/economy/grossdomesticproductgdp/bulletins/quarterlynationalaccounts/latest#main-points>

<sup>4</sup> <https://www.london.gov.uk/what-we-do/research-and-analysis/economy-and-employment/monitoring-londons-economy>

<sup>5</sup> <http://www.pwc.com/us/en/cities-of-opportunity.html>

<sup>6</sup> Cornell INSEAD WIPO, *Global Innovation Index 2016*, <https://www.globalinnovationindex.org/home>

<sup>7</sup> <http://www.techcitymap.com>

<sup>8</sup> [http://www.ey.com/Publication/vwLUAssets/EY-UK-FinTech-On-the-cutting-edge/\\$FILE/EY-UK-FinTech-On-the-cutting-edge.pdf](http://www.ey.com/Publication/vwLUAssets/EY-UK-FinTech-On-the-cutting-edge/$FILE/EY-UK-FinTech-On-the-cutting-edge.pdf)

<sup>9</sup> [http://www.ey.com/Publication/vwLUAssets/EY-UK-FinTech-On-the-cutting-edge/\\$FILE/EY-UK-FinTech-On-the-cutting-edge.pdf](http://www.ey.com/Publication/vwLUAssets/EY-UK-FinTech-On-the-cutting-edge/$FILE/EY-UK-FinTech-On-the-cutting-edge.pdf)

## 1. The nature of Australia's current trade and investment relationship with the UK;

### *Trade*

- 1.1. The UK is Australia's fifth largest two-way trading partner, worth AUD27bn in 2015-16. It is our second largest services trading partner; Australian exports to the UK are worth AUD4.9bn and imports AUD7.3bn. The UK is also a high priority export market for Australian firms, and Australia's top export market in Europe. Australian goods and services exports to the UK have a broad base, covering a wide range of sectors. This base includes activity by some of Australia's largest companies (such as in financial services, with Australian banks having a longstanding presence in the market), through to small and medium enterprises.
- 1.2. Australia's International Business Survey 2016 (AIBS 2016) saw the UK ranked fourth by exporters for 'top current market' and for 'top future target market' (behind the US, China and India, and just ahead of Indonesia).<sup>10</sup> Familiarity of culture and language and the opportunity for growth and profits were the most frequent reasons listed for targeting the UK. Of those that identified the UK as their most important overseas market, almost three quarters (73 per cent) listed the ease of doing business as the same, or better, than in Australia.
- 1.3. Overall exports of goods and services saw the UK as Australia's seventh largest export market for 2015-16, worth AUD12.1bn, and representing 45 per cent of Australia's total exports to the EU. No other EU country featured in Australia's top 15 export markets.<sup>11</sup>
- 1.4. Trade in services is dominated by tourism, professional, technical and other business services.
- 1.5. For services exports, the UK was Australia's third largest export market, behind China and the USA, worth AUD4.9bn in 2015-16. This represented 47 per cent of Australia's total services exports to the EU, and exceeded Australia's services exports to the next EU market, Germany (11th largest), by almost four to one. The only other EU market in Australia's 'top 20' was France (17th).
- 1.6. Many Australian companies use the UK as a hub from which to service the EU market. Data is not currently available to enable us to determine what percentage of these Australian goods and services remain in the UK, as opposed to being on-shipped to other EU member states.
- 1.7. The UK is also a valued merchandise goods partner, with Australian exports to the UK worth AUD7.2bn and imports AUD7.6bn. Our main exports to the UK are gold, lead, alcoholic beverages (mainly wine), pearls and gems.
- 1.8. For example, Australian wine is a market leader in the UK and has been for a decade. One in five imported bottles of wine consumed in the UK is Australian. The UK is currently Australia's third most valuable wine export destination. Some other areas of recent export growth include beef, diamonds and telecommunications equipment.
- 1.9. For goods exports, the UK was also Australia's major EU market (AUD7.2bn in 2015-16). The UK ranked as Australia's 8th largest goods export market, with Germany 16th and the Netherlands 17th. The UK's share of total Australian goods exports to the EU was 44 per cent.
- 1.10. This focus by Australian goods exporters on the UK is also reflected in the most recent ABS figures, for 2014-15. These figures showed a 10 per cent year-on-year increase in the number of Australian firms exporting goods to the UK in 2014-15, at 5,722.

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<sup>10</sup> Export Council of Australia/University of Sydney, *Australia's International Business Survey 2016*, <http://www.austrade.gov.au/ArticleDocuments/1358/AIBS-2016-full-report.pdf.aspx>

<sup>11</sup> DFAT, *Composition of Trade Australia 2015-16*, <http://dfat.gov.au/about-us/publications/Documents/cot-fy-2015-16.pdf>

### *Investment*

- 1.11. The UK is Australia's second largest investment partner, with total two-way investment valued at AUD853bn in 2015. The stock of total UK investment in Australia at 31 December 2015 was AUD499.9bn. This included foreign direct investment of AUD76bn, making the UK Australia's third most significant source of FDI (behind the United States and Japan), and one of Australia's most significant source of foreign investment since federation. The most recent Australian Bureau of Statistics (ABS) figures show the five-year growth (to 2015) in FDI from the UK was a substantial 42 per cent, rising from AUD53.7bn in 2010 to AUD76bn in 2015.<sup>12</sup>
- 1.12. There is a strong pipeline of UK direct investment into Australia, with the investment monitoring service FDI Markets reporting a total of 43 UK FDI projects in Australia in 2016. As in previous years, the leading sectors by project numbers included business services and ICT, with these sectors representing two-thirds of all projects.<sup>13</sup>
- 1.13. The ABS figures confirm the contemporary nature of the UK's investment relationship with Australia, with the high rate of FDI growth this decade contrasting with a period of more modest change in the years 2001 to 2010. UK direct investment into Australia experienced year-on-year fluctuations over the previous decade, rising from AUD48.1bn in 2001 to AUD53.7bn by 2010. This represented average growth of less than 1.2 per cent per annum for the period, compared to average annual growth of 7.2 per cent per annum from 2010 to 2015.
- 1.14. British businesses have traditionally viewed Australia as an attractive base for regional operations and have invested in a wide range of industries, including infrastructure, pharmaceuticals, energy, and travel industries. Approximately a third of all regional headquarters operations in Australia are European, and of these, almost half are British. Major UK investors in Australia include BP, BAE Systems, BT, Vodafone, Associated British Foods (George Weston), PZ Cussons, Tavistock (AACo), HSBC, Diageo, Unipart and Serco.
- 1.15. UK investors include small and medium size businesses opening new operations in Australia through to large superannuation funds investing in major Australian infrastructure assets. The UK, as a global financial centre, is also the investment decision centre for organisations from other countries in relation to their Australian investments, including, for example, foreign sovereign wealth funds such as the Kuwait Investment Authority (Wren House).
- 1.16. The current decade has also seen strong growth in the UK's share of overall EU direct investment into Australia, from 40 per cent of the EU total in 2010 to 48 per cent by 2015. FDI growth from the UK accounts for around 94 per cent of the entire net growth for the EU (AUD23.8bn) since 2010.
- 1.17. The stock of total Australian foreign investment in the UK was AUD353.2bn at 31 December 2015, with foreign direct investment of AUD81.3bn. The UK is the largest foreign owner of Australian agricultural land.
- 1.18. Approximately 1,500 Australian companies maintain a presence in the UK, with a large number using the UK as a base for continental Europe. Key Australian investors in the UK include Macquarie Bank, Wesfield, AMCOR, Lend Lease, Westpac, the Commonwealth Bank,

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<sup>12</sup> ABS, *International Investment Position, Australia: Supplementary Statistics, 2015*, <http://www.abs.gov.au/ausstats/abs@.nsf/PrimaryMainFeatures/5352.0?OpenDocument>

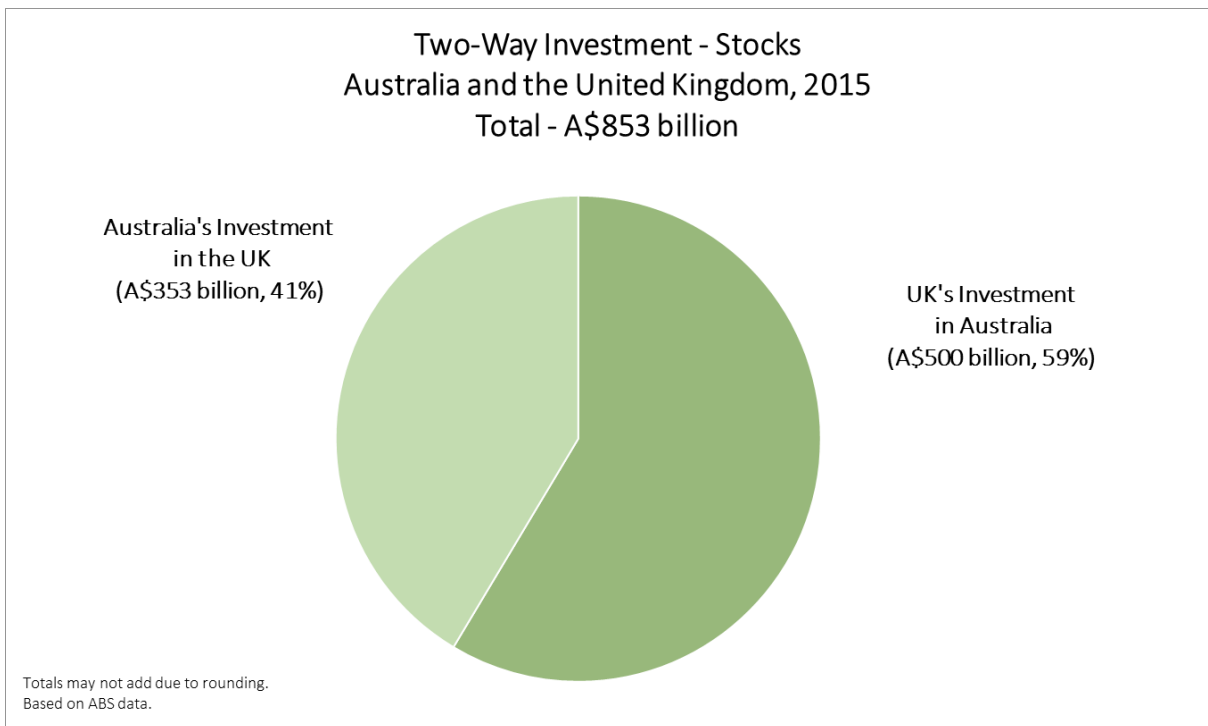
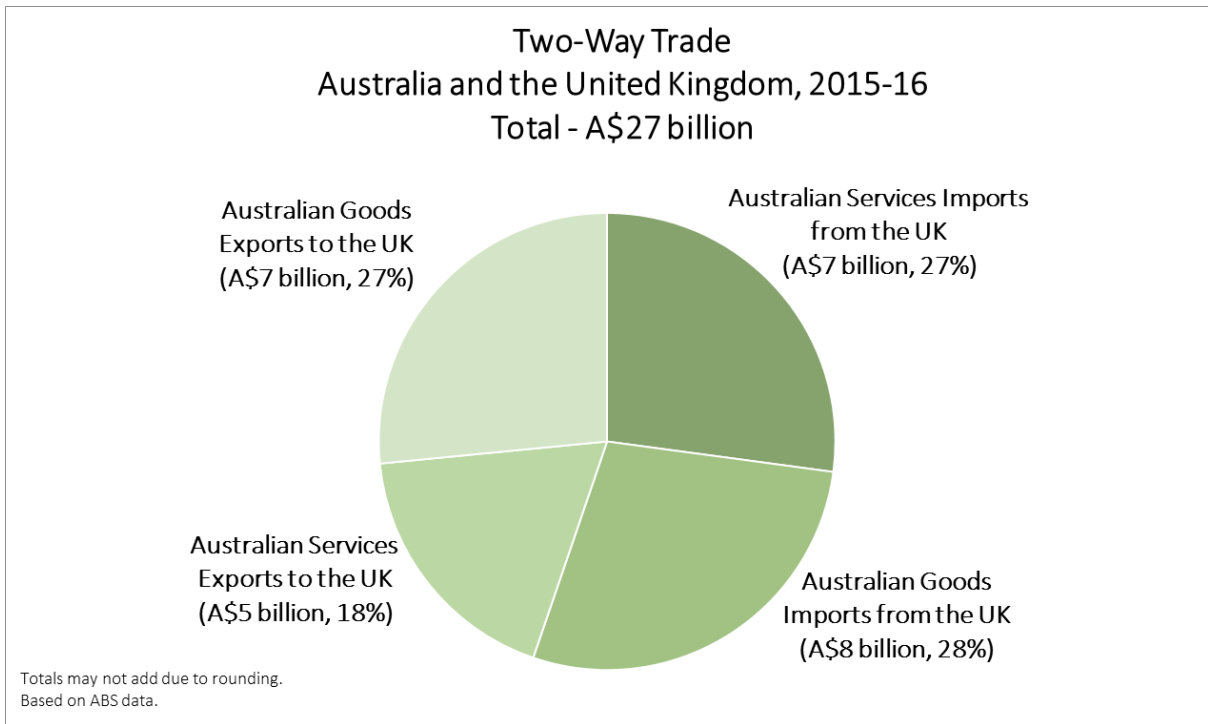
<sup>13</sup> FDI Markets trends report for Austrade, January-December 2016. Report based on public information on company investment announcements.

ANZ Bank, National Australia Bank, Cochlear, ResMed, CSL, Boral, and dual-listed companies GKN Brambles, Rio Tinto, and BHP Billiton.

- 1.19. The Australia-UK Trade Working Group, discussed at paragraphs 5.2-5.7, will be a key vehicle for developing the future framework for our trade and investment relationship with the UK following its exit from the EU.

#### *Tourism*

- 1.20. The UK is Australia's third largest inbound market by arrivals and third by tourism expenditure. During 2016, there were 712,200 arrivals from the UK, up 4.4 per cent on the previous year. For the year ending September 2016, UK visitors spent AUD3.75bn (at an average of around AUD5,600 per visitor), an increase of 6 per cent.
- 1.21. The UK is Australia's fourth largest short-term destination. In the year ended 30 September 2016, there were 591,600 departures from Australia to the UK, an increase of 2.7 per cent on the previous year.
- 1.22. UK passport holders can apply for a working holiday visa in Australia (subclass 417). In 2015-16, UK passport holders were granted 42,175 working holiday visas (a reduction of 5.7 per cent compared to the same period in the previous year).
- 1.23. On 25 October 2016, Minister Ciobo launched a Tourism Australia campaign to increase Australia's attractiveness as a destination for young working holidaymakers (WHM). Initial results from the campaign are positive, particularly from the UK. The campaign is part of a broader government package that set the tax rate applied to working holiday makers at 15 per cent on earnings up to AUD\$37,000, rather than 32.5 per cent. The Australian government is exploring the possibility of extending the age limit to allow British citizens aged up to 35 years to travel on this visa.
- 1.24. Tourism Australia runs a series of promotional activity in the UK. Recent examples include broadcast project 'Wild Australia' with Ray Mears that featured Indigenous experiences and nature and wildlife attractions; and partnership campaigns with Singapore Airlines, Malaysia Airlines Expedia and tour operator Austravel illustrating Australia's aquatic and coastal experiences.





## **2. Possible implications for Australia's trade and investment relationships with the UK and the European Union consequent to the UK's exit from the European Union;**

### *Brexit state of play*

- 2.1. The UK held a referendum on 23 June 2016 to answer the question: "should the United Kingdom remain a member of the European Union, or leave the European Union?" By a margin of 51.9 per cent to 48.1 per cent, the UK voted to leave the EU (commonly referred to as 'Brexit').
- 2.2. Article 50 of the Treaty of Lisbon provides the legislative framework to negotiate Britain's withdrawal from the EU. Under Article 50, Member States must notify formally the EU of their intent to withdraw. The UK will remain a full member of the EU for two years from the time it formally notifies its intention to leave. This time may be extended upon the agreement of all EU member states.
- 2.3. UK Prime Minister Theresa May has said the UK would trigger Article 50 by the end of March 2017. On 24 January, the UK Supreme Court ruled that the UK Government could not notify the EU of its intention to leave under Article 50, without first passing legislation enabling it to do so. Consequently, the European Union (Notification of Withdrawal) Bill 2017, authorising the Government to trigger Article 50, was introduced to Parliament on 26 January 2017. The bill passed in the House of Commons by a margin of 498 votes to 114 on 1 February 2017, and attempts to introduce amendments to the bill at the committee stage were voted down by Members of Parliament on 8 February. The Bill passed through the House of Lords and the House of Commons on 13 March. Once the Bill receives the (formality) of Royal Assent, the government will have the necessary authority to formally notify under Article 50.
- 2.4. On 17 January, Prime Minister May set out a 12-point plan for the UK's future relationship with the EU. The plan indicated the UK would not seek membership of the EU single market and customs union. Instead, it would pursue the greatest possible access to the single market, on a reciprocal basis, through a new, comprehensive, bold and ambitious FTA with the EU. This would also allow the UK to negotiate its own bilateral trade agreements with other countries. The Brexit White Paper, which was released on 3 February 2017, adopted the same 12-point structure as PM May's earlier speech.
- 2.5. Prime Minister May also clearly stated the UK's intention to leave the jurisdiction of the European Court of Justice and take control of its immigration policy. UK Home Secretary Rudd had previously stated that immigration reform would aim to reduce net migration to a 'sustainable' level of "10,000s rather than 100,000s".
- 2.6. The UK will have up to two years after triggering Article 50 to negotiate the terms of its exit. If the UK and the EU do not reach an agreement within this period, the UK will be forced to leave the EU with no provisions in place – unless all remaining member states agree to extend negotiations.
- 2.7. We will not know the full implications of Brexit until the details of the agreement between the UK and Europe emerge. Brexit could present challenges, not just for the UK but also for Australia's ongoing relationship with the UK. However, it could also open up new opportunities for Australia.
- 2.8. As a country with much at stake in preserving and strengthening an open rules-based global trading system, Australia looks to the EU and the UK to establish a new, mutually beneficial relationship that underpins growth and supports trade and investment. At present, there are

no significant trade barriers between the UK and other EU member states. The Australian Government is encouraging the UK and the EU to establish a future economic relationship that takes into account the interests of their neighbours and trading partners and does not unduly erect barriers to international trade.

- 2.9. At a time when globalisation and free trade is under threat in some countries, we look to the EU and the UK to show leadership and conclude a comprehensive, trade liberalising agreement that does not erect barriers to trade and demonstrates their commitment to a strong global trade agenda.
- 2.10. Strong UK and EU economies are important for the global economy. The Australian Government is encouraging the UK and the EU to establish promptly a new, mutually beneficial relationship that sustains the economies and global influence of both parties.

#### *European Union*

- 2.11. Brexit will not affect the priority that Australia attaches to working with the EU toward the timely launch of bilateral free trade negotiations, in line with the announcement by the Prime Minister, the Hon Malcolm Turnbull MP and European Council Presidents Donald Tusk and Jean-Claude Juncker (on 15 November 2015).
- 2.12. Of the existing member states, the UK has been a strong supporter of an Australia-EU FTA and a vocal advocate for trade liberalisation globally. In terms of trade patterns, the UK has traditionally been an important conduit for investment between Australia and the EU – two-thirds of our FDI with the EU enters through the UK, while over half of EU FDI into Australia comes from the UK. Businesses could, however, be expected to adapt to the new terms negotiated between the EU and the UK and structure their investments accordingly. The potential loss of 'passporting' access to the EU has been raised as a key issue for the financial services sector. 'Passporting' refers to a range of provisions across many different pieces of EU financial regulation, which allows firms in Member States to provide financial services across the EU under a common set of rules and a single authorisation from their regulator.

#### *United Kingdom – trade and investment*

- 2.13. To date, the effect of the UK's intention to leave the EU on the Australian economy and our financial sector has been limited. Australia's trade links are heavily oriented more towards Asia, and the Australian banks have limited direct exposure to the UK and Europe. As the UK leaves the EU, the Australian Government will be looking to strengthen further our close and effective partnership with the UK.
- 2.14. On 17 January, UK Prime Minister May announced that the UK would not seek membership of the EU single market. However, it would pursue the greatest possible access to the single market, on a reciprocal basis, through a new, comprehensive, bold and ambitious free trade agreement with the EU.
- 2.15. The UK's departure from the EU customs union will allow it to negotiate new free trade agreements with other countries, including Australia. Prime Minister May has indicated that the UK would welcome new trade agreements with other countries, and has prominently identified Australia as a country with which the UK has already begun discussions on future trade ties (alongside New Zealand and India) (see discussion at paragraphs 2.4, 5.1-5.9). Australia will continue to engage the UK while it concludes arrangements. Our interest is for the UK to be an open market and a strong proponent of a robust global trading system.

- 2.16. Post Brexit, a bilateral trade agreement with the UK would strengthen and enhance Australia's trade relationship with the UK (see further discussion at 4.1-4.9, and 5.9-5.10).

*United Kingdom – immigration*

- 2.17. In addition to her general statements on immigration (see paragraph 2.5), Secretary Rudd has also said publicly that Australia should not expect any special treatment. Given the strong people-to-people links between Australia and the UK and the significant contribution made by Australian workers to UK's economic growth, we would be disappointed and concerned by more restrictive conditions for Australian workers and visa holders. The Australian Government will continue to advocate strongly for the UK to maintain favourable terms for Australians wanting to live and work in the UK.

### **3. Barriers and impediments to trade and investment with the UK;**

- 3.1. To date, the Australian Government has addressed barriers and impediments to trade and investment with the UK in the context of Australia's overall trade policy relationship with the EU. That reflects the fact that the European Commission has competence for trade policy and negotiations. A range of barriers have been identified as part of the current Australia-EU FTA scoping exercise. Particular areas of concern include agriculture market access barriers, sanitary and phytosanitary measures, and geographical indications.
- 3.2. In its 2015 trade policy review of the European Union, the World Trade Organisation noted that the EU is generally an open and transparent economy and, as one of the biggest economies and trading entities in the world, plays a critical role in the multilateral trading system.
- 3.3. Following the UK's decision to leave the EU, it will need to define a sovereign trade policy, which will involve it making decisions on overall levels of protection and support for specific sectors of the UK economy. Australia will seek to engage with that policy through the Australia-UK Trade Working Group (see discussion at paragraphs 5.2-5.7), and will hold consultations with industry and other stakeholders to identify barriers of concern that are inhibiting the development of commercial linkages.

#### **4. Opportunities to expand trade and investment links (bilaterally and into Asia);**

- 4.1. The UK's exit from the EU will present new opportunities to expand our trade and investment links. The Australia-UK Trade Working Group, discussed at paragraphs 5.2-5.7, will be an important vehicle for identifying opportunities to expand bilateral trade and investment, including scoping work for a future Australia-UK FTA, when the time is right (see paragraph 5.1). The Working Group will also seek to smooth the transition for Australia and the UK, as the UK's new arrangements with the EU are implemented.
- 4.2. As part of this engagement, we will continue to consult the UK on foreign investment policymaking, to maintain support for a positive environment for foreign investment with certainty and clarity for investors. Our objective is to ensure Australia is more frequently considered as a preferred investment destination, as UK business starts to look more closely at markets for growth outside Europe, particularly in the Asia-Pacific region.
- 4.3. The Australian government will also examine opportunities in a number of other areas, including in our people-to-people links. For example, we will re-engage the UK on its refusal to index the pensions of UK pensioners residing in Australia. This adversely affects about a quarter of a million UK pensioners in Australia. We also intend to discuss opportunities to deepen collaboration on clean energy, negotiate independent access to significant EU science research funds, and attract further UK investment into Australia (UK businesses currently have AUD76b in direct investments in Australia).
- 4.4. We will explore greater collaboration and harmonisation in areas including UK taxation of Australia's superannuation funds, enforcement of child support orders and climate change initiatives.
- 4.5. In addition, Australia's ongoing promotion of cultural and economic openness, and growing links to dynamic Asia-Pacific growth engines (including through our triumvirate of North Asian FTAs), position us well to capture a larger share of the lucrative international education market.

#### *Revised World Trade Organization commitments*

- 4.6. The UK's exit from the EU will also present challenges. In the WTO, the UK will need to establish its own schedules of commitments for goods, including agriculture, and services, separate from the current EU schedules. The UK's WTO goods schedule will set ceilings on the tariffs that it can apply to imports from third countries, minimum access arrangements for those agricultural products subject to tariff quotas, and limits on the subsidisation of domestic agriculture production. The UK's WTO services schedule will also cover areas of significant commercial interest to Australian services suppliers, including professional services (financial and legal services), education services, telecommunications and movement of natural persons (MNP).
- 4.7. The EU may also need to negotiate concomitant changes to its own WTO commitments, which are expected to focus on tariff quotas and agricultural domestic support. Throughout this process, Australia will seek to maintain and improve existing market access for Australian exports to both the UK and EU markets.
- 4.8. Withdrawing from the EU also raises questions about the UK's ability to maintain the preferential WTO-plus arrangements it currently enjoys under the EU's existing network of free trade agreements with third countries, and vice versa. By some counts, the EU's existing

FTAs cover more than 50 countries, including Switzerland, Morocco, Israel, South Korea and Mexico. EU's agreed but yet to be implemented FTAs include FTAs with Singapore, Canada and Vietnam. If arrangements for continued preferential treatment are not made, the UK's trade relationships with such countries would revert to a most-favoured nation (MFN) basis, until such time as it concludes its own replacement FTA arrangements.

- 4.9. While WTO commitments set bound levels of access for third countries trading on an MFN basis, the UK may choose to establish lower levels of applied MFN tariffs. As a developed country, the UK will also be expected to maintain duty free quota arrangements for least developed countries and to establish a generalised system of preferences for imports from other developing countries.

**5. The merits and risks of a possible bilateral free trade agreement with the UK, and potential features of such an agreement;**

- 5.1. The Governments of Australia and the UK have both expressed a clear interest in concluding a bilateral FTA, once the UK has exited the EU. A comprehensive Australia-UK FTA would create incentives for UK business to invest in, or trade with, Australia, including through market opening and other measures that we wish to see included in a comprehensive bilateral free trade agreement.
- 5.2. To this end, on 7 September 2016 Minister Ciobo and UK Secretary of State for International Trade, Liam Fox, established a joint Australia-UK Trade Working Group to, as a priority, scope out the parameters of a future '...ambitious and comprehensive Australia-UK Free Trade Agreement.'<sup>14</sup> The UK, as a present member of the EU, is not yet in a position to enter into FTA negotiations with other nations. The main purpose of the scoping discussions is to prepare the ground and develop capacity and capabilities so that a swift transition to FTA negotiations is possible, once the UK has completed its exit from the EU. The Working Group's agenda will also include other trade policy issues of mutual interest, including WTO processes and current and prospective plurilateral negotiations.
- 5.3. Minister Ciobo and the UK's Minister for State for Trade Policy, Lord Price, met in Canberra for the inaugural meeting of the Trade Working Group on 30 November 2016. The Ministers held productive discussions on the priorities for the Trade Working Group. Going forward, the Working Group will be led by senior trade officials from the Department of Foreign Affairs and Trade and the UK Department of International Trade, in cooperation with other departments and agencies.
- 5.4. Initial discussions on potential features of a future agreement have been positive and productive, underpinned by our strong ties and likeminded views on the benefits of trade and open markets and transparent and predictable investment regimes, and are subject of ongoing discussions. The features of a future agreement are subject of ongoing discussions in the Working Group, and will be shaped by future stakeholder consultations and the final terms of the UK's exit from the EU.
- 5.5. Both Minister Ciobo and Secretary Fox have said that any future FTA should generate new trade and investment opportunities. This initiative reflects a strong political commitment by Australia and the UK to take a lead on global trade liberalisation and reform.
- 5.6. A second meeting of Trade Working Group is scheduled in the first half of 2017.
- 5.7. The Department strongly supports the conclusion of an ambitious bilateral FTA that is genuinely trade- and investment-creating. Among other features, deeply liberalising FTAs eliminate tariffs, improve access for service suppliers, promote and protect investments, reduce transaction costs involved in trade, address behind-the-border barriers that unduly impede the flow of goods and services, and enhance cooperation across a range of trade and investment-related areas. Reducing the cost and complexity of trade and investment creates opportunities for business to grow, increases the competitiveness of the Australian economy and supports job creation.
- 5.8. A comprehensive and ambitious FTA with the UK would deliver significant new opportunities for Australian exporters and investors, giving them a competitive edge vis-à-vis their

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<sup>14</sup> [Joint media release, 'Establishment of Australia-UK Trade Working Group'](#)

competitors from countries without an FTA with the UK. Equally, not pursuing an FTA with the UK would place at risk the competitive position of Australian businesses bearing in mind that Prime Minister May has identified new trade agreements as a priority for her government (see paragraph 2.4). Without an Australia-UK deal, Australia's competitive position could erode over time, as other countries secure more favourable access into the UK market.

- 5.9. Preferential market access would be an obvious positive for Australian exporters, particularly if it reduced current barriers for beverage and services sector exports. Australian wine, for example, paid approximately AUD42m in UK import duties in 2015. However, lower duties that would likely accompany any potential FTA would put Australian exporters on a 'level playing field' against major European competitors.
- 5.10. Any measure that boosts export activity is of benefit to the Export Finance and Insurance Corporation (EFIC), Australian Government's export credit agency (ECA). For example, since Australia signed the Australia – United States Free Trade Agreement (AUSFTA) in 2004, EFIC has helped exporters across a wide range of industry sectors enter and increase their operations in the US market. In addition, during the 2015-16 financial year EFIC provided support to 23 Australian companies exporting to the US. Stronger Australian exports to the UK would give EFIC the opportunity to help Australians achieve export success.



**6. The role Australian governments (State, Territory and Federal) in identifying trade and investment opportunities in the UK, and assisting Australian exporters to access these opportunities;**

- 6.1. The Department will lead whole-of-government engagement in future FTA negotiations with the UK, which will include consultation across all levels of government. State and Territory Governments will have an opportunity to provide input during stakeholder consultations. The Department will pursue opportunities to cooperate with the UK in multilateral and plurilateral forums to open global markets, including improved access to the UK market.

*Austrade's role in trade, investment, education and tourism*

- 6.2. Austrade contributes to Australia's economic prosperity by helping Australian businesses, education institutions, tourism operators, governments and citizens as they:
- develop international markets and promote international education
  - win productive foreign direct investment
  - strengthen Australia's tourism industry
  - seek consular and passport services (in limited locations where Austrade provides these services on behalf of DFAT).
- 6.3. Austrade achieves these objectives by generating market information and insight, promoting Australian capabilities, developing policy, making connections through an extensive global network of contacts, leveraging the badge of government offshore, and providing quality advice and services.
- 6.4. Austrade is responsible for the promotion, attraction and facilitation of productive FDI into Australia. It is the first national point-of-contact for all investment enquiries. Working in partnership with Australian state and territory governments, Austrade provides investors with the information needed to establish or expand a business in Australia.
- 6.5. To deliver the greatest value to the Australian economy, Austrade's investment-related services are focused on promoting Australia as a competitive investment destination and attracting productive FDI that is of strategic importance, builds Australian capabilities and enhances productivity.
- 6.6. Available assistance to potential international investors includes:
- Initial coordination of investment enquiries and assistance
  - Information on the Australian business and regulatory environment
  - Market intelligence and investment opportunities
  - Identification of suitable investment locations and partners in Australia
  - Advice on Australian government programs and approval processes
- 6.7. Austrade's role includes the international marketing and promotion of Australian education and training. Austrade support to the education sector is guided by the Framework for the international marketing and promotion of Australian education and training, endorsed by

the then-Minister for Trade on 13 January 2011. Austrade delivers branding, international marketing and promotion services on behalf of the Australian education sector. This includes positioning an Australian education internationally through the Future Unlimited international education brand.

- 6.8. Austrade also supports Australian education and training providers through a range of tailored services to support their international education engagement strategies, including accurate and timely market insights, and opportunities provided through Austrade's Market Information Package.

#### *Austrade Role and Objectives in the UK*

- 6.9. In established markets such as the UK, Austrade's resources are focused predominantly on inward investment promotion and international education services, with assistance to Australian exporters provided through market briefings and referrals to external service providers.

#### Investment

- 6.10. Austrade leads a national, whole of government strategy for the promotion, attraction and facilitation of foreign direct investment into Australia. Working in partnership with other Federal agencies and state and territory governments, Austrade focuses on attracting investment into five nationally-agreed priority sectors (major infrastructure, tourism infrastructure, agribusiness and food, resources and energy, and advanced manufacturing, services and technology), and proactively targets potential investors in these sectors.
- 6.11. While the impact of Brexit on UK investment flows is still unclear, and is likely to remain so until negotiation of the terms for Britain's withdrawal are closer to finalisation, the UK is expected to continue to be an important source of FDI for Australia in each of these priority sectors. For example, for infrastructure and agribusiness, the strength of the UK as a global financial centre presents opportunities for investment in large-scale projects. In advanced services, the position of the UK as a major IT and technology centre presents opportunities within a range of sub-sectors including cyber security, fintech and e-health, and the UK's science and innovation base has relevance across each of the priority sectors, including in agri-tech.
- 6.12. In addition to working with UK headquartered firms, given the UK's position as a global financial centre, it is also often the investment decision centre for organisations from other countries, including major pension and sovereign wealth funds. As such, Austrade UK works closely with other Austrade Posts in promoting Australian investment to these international groups. In addition, Austrade UK will work jointly with onshore colleagues and other Posts to develop and execute engagement plans for key investment accounts, including key account aftercare; and to support MNC integrated engagement activity as part of the global value chain strategy.
- 6.13. As such, Austrade is continuing to implement its existing multi-year initiatives in the UK in each of these priority sectors, with a focus on:
- continuing to develop priority sector investment pipelines;
  - contributing to the entry of new investors in the priority sectors;
  - supporting additional re-investment from existing UK investors;

- contributing to the Government's innovation agenda through innovation-enhancing investment across the priority sectors; and
- supporting the Northern Australia development agenda, particularly in relation to infrastructure, agri-business and tropical medicine investment and collaboration.

- 6.14. Austrade is also considering expansion of proactive investment promotion activity into the medical research and technology sector and in renewable energy. There is a growing appetite among UK institutional investors, funds and asset managers in energy-related infrastructure including renewables, coinciding with the new Renewable Energy Target (RET) in Australia and Infrastructure Australia's 15 Year Plan<sup>15</sup> which highlights specific opportunities in renewable energy infrastructure.
- 6.15. Longer term, a rebalancing of resources across priorities may be required as the impact of Brexit becomes clearer. To this end, Austrade is engaging with British investors, officials and other stakeholders to gather their insights into the implications of Brexit on future UK investment flows, and will pass these insights on to business and government stakeholders in Australia.

#### Education

- 6.16. The UK is Australia's leading market for higher education in Europe. The fastest growing area of demand is for short courses and non-degree programs. The UK 2016-17 Education market plan is aligned with the Australian International Education 2025 Strategy. Austrade UK will continue to engage in a limited range of targeted higher education promotion, including through social media. Austrade is also undertaking market scoping to explore opportunities for:
- a) collaboration among UK and Australian providers on projects in third countries;
  - b) curriculum linkages among UK and Australian providers in areas of particular need (e.g. healthcare, engineering);
  - c) working with DFAT to engage young and influential British alumni of Australian universities in key sectors (law, health, sciences).
- 6.17. Outreach to prospective students involves mainly digital platforms and targeted speaking slots at multiplier forums. Developments in UK education are also monitored and market insights are shared with Australian providers.

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<sup>15</sup> <http://infrastructureaustralia.gov.au/policy-publications/publications/Australian-Infrastructure-Plan.aspx>

## **7. Supplementary Information on Austrade activity in investment priority sectors**

- 7.1. For example, in the context of the Government's innovation agenda, Austrade UK is working with State Government Offices in London on a whole-of-Australia innovation presentation as part of UK Tech Week. Follow up from this event will aim to build linkages between the countries eco-systems, and the growing interest in two-way start-up engagement between the markets.
- 7.2. Austrade UK has forged good relationships with cyber-sector industry groups including ADS, techUK and the UK Cyber Forum, taking advantage of visiting industry experts to host events and promote the Australian Cyber market to their respective member companies. Austrade representatives at the Australian High Commission in the UK will continue to work with these groups and in particular the industry group ADS as they look at running a 2016 'Cyber' mission to Australia.
- 7.3. During 2015/2016 Austrade UK targeted the UK fin-tech industry including collaborating with UKTI to host a fin-tech reception at Australia House. The size of the UK market, growth of the Australian market, government support and regulation present a good opportunity to promote opportunities to UK fin-tech companies and build upon the work of the 2015/2016