

8 May 2018

Committee Secretary
Joint Standing Committee on Foreign Affairs, Defence and Trade
PO Box 6021
Parliament House
CANBERRA ACT 2600



Business SA
Chamber of Commerce
and Industry South Australia

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Working for your business.
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Dear Sir/Madam

I write in response to the Committee's request for submissions to its Inquiry into access to free-trade agreements by small and medium sized enterprises.

Executive Summary

- Australia's FTAs, particularly the China-Australia FTA, have done a considerable job in improving the competitiveness of local SME exporters which has been of particular benefit for South Australia's wine sector
- To improve the ability of SMEs to access future FTAs with the European Union and Great Britain, agreements should be made as consistent as possible with current FTAs with respect to matters such as exporting via third party countries
- While FTAs are very important for improving the competitiveness of Australian exporters, the reality in countries such as China is that barriers beyond the border are still effective in restricting market access, particularly for SMEs
- Determining the particular criterion that relates to eligibility for FTAs such as the China-Australia FTA can still require SMEs to access expert assistance and the Federal Government should consider how it can better promote the range of businesses from customer brokers to freight forwarders which are well placed to provide this information at low cost
- In states such as South Australia with an ageing population and low population growth, expanding export markets is critical to economic growth and such expansion will need to include SMEs

Should you require any further information or have questions, please contact Andrew McKenna, Senior Policy Adviser, on (08) 8300 0000 or andrewm@business-sa.com.

Yours sincerely,

Anthony Penney
Executive Director, Industry and Government Engagement





Why this matter is important to South Australian businesses

As South Australia's Chamber of Commerce and Industry, Business SA is the peak business membership organisation in the State. Our members are affected by this matter in the following ways:

- In 2004, the previous State Government established a \$25 billion export target by the year 2014. With exports only reaching \$13.36 billion by 2011, the target deadline was postponed until 2020. By 2014 with exports still well below the 2020 target, the target was revised to \$18 billion, with a new target date of 2017. For 2016/17 and based on chain volume data which accords with the previous target benchmark, South Australia's export trade consisted of \$12.9 billion in goods and \$2.72 billion in services for a total of \$15.62 billion.

Based on South Australia's current population share of exports, 7.02 percent, exports would be \$23.66 billion for 2016/17, \$8.04 billion more than our current level of exports. If the same formula were applied to every year since the GFC, South Australian export revenues over that period would have been \$75.66 billion higher.

- South Australia's resident population growth has been stagnant for decades and from 1987 to 2017, grew by only 23.47% against the mainland average of 53.47%¹. Combined with an ageing population which presents in mainland Australia's lowest workforce participation rate, this restricts market opportunities for local businesses which are becoming increasingly reliant on interstate business and export markets.
- Business SA pioneered and is delivering South Australia's only export ready program to develop the ability of SME businesses to export. Consequently, we need trade agreements which can harness this additional potential now and into the future.

Key Policy Points

1. Even for businesses which do not necessarily understand all the nuances of Australia's FTAs, they do appreciate at a high level that they help with marketing their products and making them available at a cheaper price than some competitors. The overwhelming feedback to Business SA is that FTAs have been positive for Australia, particularly the China FTA and especially in sectors such as wine which is now South Australia's largest single product export.
2. In general, it can be difficult for SMEs to understand the specifics of how they use certain FTAs like China's, for example which HS Code to use and what Origin Criterion. Notwithstanding, this type of information can be accessed from freight forwarders, customs brokers and the like, and while it may come at some minor or indirect cost, if anything the Government could promote the range of companies which offer such a service, for example through the DFAT FTA portal.
3. As for older FTAs such as the US FTA which operates on a self-certified basis, there are generally not so many issues understanding them. Japan, Sth Korea, NZ and other FTAs also seem to be working well. China FTA issues are possibly exacerbated by the way in which the Chinese Government manages the process and how stringent (or rigid) they are – i.e. these issues are magnified because of a less flexible approach from the importing country.

¹ ABS, '3010.0 Australian Demographic Statistics'



4. Ideally having consistency between FTAs is important and while it can be hard to go back, all efforts should be made to ensure any future EU or British FTA is as consistent as possible with previous agreements. For example, rules around shipping through third party countries and what is, and is not, permissible to maintain Australian origin eligibility in the importing country should be made consistent. There are already a range of variants within existing FTAs and the Federal Government should be looking at how to accommodate increasingly sophisticated global supply chains while ensuring that in as many circumstances as is reasonable, Australian goods can be exported duty free. It is already challenging enough for SMEs to understand the eligibility of products under each FTA and if the Federal Government wants to encourage more SME exports, it needs to ensure future rules it agrees to are not prohibitively complex.
5. Non-tariff barriers, particularly in China, remain a concern and this seems to be across a wide range of goods, particularly in food/agriculture. Perhaps the Australian Government could do more to reduce the impacts of these barriers instead of pursuing FTAs alone. For example, working with the Chinese Government to reduce administrative processes to better facilitate Australian products into market. If the Federal Government would like to encourage SMEs to export, then it should focus on these types of barriers which can be quite costly and therefore larger companies, think Blackmores, Swisse etc, have much more financial capacity to pursue them. On the other hand, for Chinese companies accessing the Australian market, such costs and processes are much less a barrier.
6. Generally most SMEs are choosing to ship FOB, CIF, Ex Works etc into China in consideration of the potential costs of having goods held up at Chinese ports etc. While this is not necessarily easy for the Australian Government to influence, it is still a potential barrier to maximising the value SME exporters can realistically gain from existing FTAs and should not be ignored.