



**Victorian
Chamber of Commerce
and Industry**



Inquiry into access to free trade agreements by small and medium sized enterprises

Victorian Chamber Submission

April 2017

Introduction

The Victorian Chamber of Commerce and Industry welcomes the opportunity to provide a submission to the Joint Standing Committee on Foreign Affairs, Defence and Trade's inquiry into access to free trade agreements by small and medium sized enterprises.

As the State's leading business organisation, each year the Victorian Chamber informs and services more than 15,000 members, customers and clients across the State, encompassing all industry sectors and spanning small, medium and large-sized businesses.

The Victorian Chamber works closely with over 5,000 exporters (over 3,500 of which are registered under Australia's various free trade agreements).

The Victorian Chamber recognises that international engagement is at the core of Victoria's economy, generating output and contributing vital income, investment and jobs.

Victoria's trade performance is strong. Victoria now accounts for 9.4 per cent of Australia's goods exports (\$27 billion) and is the second largest contributor to the nation's service exports, representing 25.6 per cent.

Major goods exports include meat (\$2.45 billion), dairy products (\$1.75 billion), wool (\$1.79 billion), and wheat (\$1.81 billion). Important service exports include education (\$9.09 billion), tourism and travel (\$5.17 billion), and professional services and management consulting (\$1.32 billion).

Although traditional markets such as Europe, the USA and the Middle East remain important to Victoria, merchandise exports to Asia now account for over fifty percent of Victoria's exports. The share is even larger when the value of service exports is added.

Newly established Free Trade and Preferential Trade Agreements with China, Japan and Korea mean Victoria is well placed to secure further growth in the fast-growing Asia region.

The Victorian Chamber's role in encouraging exporters

The Victorian Chamber has extensive experience in supporting Victorian businesses to grow their presence in export markets. As part of this, we deliver a number of export development programs and services, including a training program to assist businesses access FTAs.

- **FTA Export Pathway Program** (includes FTA Training workshops, FTA Advice Line, FTA one-on-one coaching, and Online Knowledge Centre).
 - Since the launch of the program, the Victorian Chamber has supported more than 1,800 businesses to access the three new FTAs.
 - Overwhelmingly, the strongest interest from business relates to the Chinese-Australia FTA.
- **Asia Gateway Voucher Program** - The Victorian Chamber is a registered provider for the Asia Gateway Voucher Program, a Victorian Government program offering funding of up to \$50,000 on a one-to-one co-contribution basis, to support Victorian businesses develop and implement market development plans to increase export and business activities with Victoria's top Asian trading partners.
- **Export documentation services** - The Victorian Chamber helps businesses with all of their international customs and export documentation needs and is the only body in Victoria that is authorised to issue both Certificates of Origin and ATA Carnets. Having an independent third-party certify the origin of a good and manage compliance provides certainty and important protections to business exporters.

- **Migration services** - The Victorian Chamber's migration and visa service provides consulting for corporate and individual immigration and visa matters.
- **Victoria Jiangsu Business Placement Program (VJBPP)** - First launched in 2014, the Victorian Chamber's VJBPP has conducted four successful delegations to China. The structured program helps Victorian businesses develop new links and mutually productive trade and investment opportunities by placing participants with carefully selected Jiangsu business hosts. Participants benefit from training and coaching from leading Chinese professors and educators on the fundamentals of doing business with China. Other benefits include pre-qualified introductions to potential business partners or investors, introductions to key industry leaders and high level government officials, and participation in strategic networking events.

Challenges faced by SMEs accessing opportunities with Australia's leading trade partners

Based on our extensive experience in supporting Victorian businesses on trade related matters, and our experience engaging with members through our recent International Engagement Taskforce, we have identified the following key challenges for SMEs in establishing and building trade with our leading trading partners.

- The most common barrier for businesses using FTAs is understanding the 'Rules of Origin' (RoO) requirements for their products, and hence proving that they qualify to access the FTA benefits. RoOs are incredibly complex and often differ between trade agreements. Determining whether a product meets RoO requirements can be time consuming, costly and frustrating for business. The complexity of RoO requirements and the barrier they pose to assessing the benefits of trade agreements has recently been highlighted by the Productivity Commission¹.
- Progress in achieving bilateral and multilateral FTAs (such as the Trans-Pacific Partnership Agreement) offers businesses many benefits. However, where multiple FTAs apply, deciphering which agreement offers the best conditions for trade can be complex and time consuming for businesses. Without clear and accessible information, SMEs will miss the opportunities available to them.
- FTAs have made significant progress in removing tariffs, making it more cost effective for Victorian exporters to expand into international markets. However, a number of constraints and non-tariff barriers still exist that are preventing many businesses from accessing export opportunities. These include:
 - Challenges identifying and developing relationships with distributors and customers.
 - Difficulties navigating local languages, cultures, customs and business practices.
 - Costs and uncertainty around the protection of intellectual property.
 - Difficulties complying with local laws and regulation (in particular labour and tax laws).
 - Restrictions or delays in the repatriation of funds to Australia.
 - Resource intensive in-country product testing and validation requirements, some of which may be inconsistent with Australian requirements and practices.

¹ Crook, W. and Gordon, J., *Rules of Origin: can the noodle bowl of trade agreements be untangled?* Productivity Commission Staff Research Note, Canberra, May 2017 .

- Export quotas as well as sanitary and phytosanitary (SPS) measures also pose restrictions on trade, particularly for exports of agri-food products. These measures can significantly limit market access, regardless of whether an FTA is in place.

Recommendations to support SMEs access the benefits of FTAs

Based on the trading challenges identified by our members and clients, the Victorian Chamber recommends the following actions to support the use of FTAs by SMEs.

- Continue Austrade support for the Victorian Chamber FTA Export Pathway Program to allow the program to reach more businesses. We also recommend that the program be expanded to provide advice on additional agreements including the ASEAN Australia-New Zealand Free Trade Agreement (ANZTAFA), the Malaysia Australia Free Trade Agreement (MAFTA), the Singapore-Australia Free Trade Agreement (SAFTA), and the Thailand Australia Free Trade Agreement (TAFTA).
- Focus on simplicity, implementation and ease of use by business in the negotiation of new Free Trade Agreements, particularly in respect of RoO requirements.
- Maintain the existing robust system of issuing independently verified Certificates of Origin that is accepted and successfully used worldwide.
- Provide a single open source information tool to provide information on market entry conditions. This includes applicable tariff rates for all goods and services and information on how to minimise market access impediments and non-tariff barriers (such as cultural and business practices, product testing requirements, hidden fees, quotas and SPS measures).
- Specifically include reductions in known non-tariff barriers in the negotiation of new agreements.
- Use the expertise of business associations such as the Victorian Chamber to deliver advice and assistance to businesses in accessing the benefits of FTAs.
- Take advantage of agreement provisions that allow governments to provide preferential treatment to local SMEs, thereby supporting import competing businesses.
- Fund a 'Supply Chain Development' program that encourages large companies to work with small and medium sized businesses within their supply chain, assisting them to build new networks and business opportunities in export markets
- Realign international engagement support programs towards individual business needs. The objective must be to build capability and capacity among exporters and help businesses overcome key obstacles to international engagement by:
 - Closing gaps in information and business practices relating to local culture in the greater Asian region.
 - Identifying and progressing commercialisation pathways.
 - Strengthening skills and know-how to bring new products or services to market.
 - Protecting intellectual property.
 - Embracing e-commerce technology to boost firm innovation and export performance.
- Strengthen in-country support for internationally engaged businesses by maximising synergies between state government overseas business offices and Austrade offices to provide Australian businesses with the best in-market support.

- Strengthen pre and post-mission support for trade mission participants to capitalise on identified opportunities and build longer term, trusted business relationships.
- Improve Asian cultural and language capabilities by reforming the school curriculum to ensure that Asian cultural studies are a core unit of study among high school students.
- Prioritise economy wide reforms that build a more competitive operating environment for trade engaged businesses including (but not limited to) lower business taxes and charges, less regulation and improved trade related infrastructure.

Concluding comments

International engagement is at the core of Victoria's economy. Victoria now accounts for 9.4 per cent of Australia's goods exports and is the second largest contributor to the nation's service exports.

This performance reflects the efforts of individual Victorian businesses to develop new products, services and markets. These efforts have been buoyed by a low Australian dollar, historically low interest rates and the opening up of new market opportunities through FTAs with increasingly important trading partners like China, Korea and Japan.

The challenge is to build on this momentum. Deeper and wider international engagement will not only benefit the Australian economy through the transfer of traded goods and services, skills, ideas and knowledge. It will contribute to rising living standards, stronger wages and wider cultural and social benefits.

Getting more small and medium sized businesses internationally engaged will require steps to improve their understanding of the potential new business opportunities associated with FTAs. It will also require action to minimise market access impediments and support the creation of enduring and sustainable business relationships.

The Victorian Chamber's submission makes a number of recommendations to ensure Australia's SMEs can become more competitive and more active in building their international trade capability and presence.

The Victorian Chamber's International Engagement Taskforce report, *Trading on our strengths*, makes a number of other recommendations to accelerate Victorian business success in international engagement.

We would welcome the opportunity to brief the committee on this submission and the International Engagement Taskforce report which is available on the Victorian Chamber website:

www.victorianchamber.com.au/international-engagement-taskforce.