

## Republic of Korea

Australia and ROK are strong economic, political and strategic partners with common values and interests.<sup>1</sup>

### The trade and investment relationship

#### Background

- 3.1 The Republic of Korea (ROK) is Australia's fourth largest trading partner and the two countries share a longstanding and complementary trade relationship.
- 3.2 The historical linkages between Australia and the ROK, which extend back to Australia's participation in the Korean War, were emphasised throughout this inquiry, as was the importance of the ongoing, modern trade and investment relationship. Mr Wahn-Seong Jeong of the South Korean Embassy described Australia as a country with which Korea has had strong feelings of friendship since the Korean War.<sup>2</sup>
- 3.3 The Committee heard about the ROK's achievements as a market based economy that has transformed itself from one of the poorest countries in the world at the end of the Korean War to the world's 15<sup>th</sup> largest economy. The ROK was also the first country to move from being an aid recipient to donor and the first Asian country to host the G20.<sup>3</sup>

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1 ANZ, *Submission 9*, p. 4.

2 Mr Wahn-Seong Jeong, Embassy of the ROK, *Committee Hansard*, 29 November 2012, p. 4.

3 See Korean Embassy, *Submission 8*, p. 1.

- 3.4 The trade relationship between Australia and the ROK developed rapidly from the 1960s onwards as Korea sought raw materials to support its industrial development. Bilateral trade increased from \$6.6 million in 1965-66 to \$176 million in 1975.<sup>4</sup> Energy and minerals/metals exports have dominated Australia's exports to the ROK since the 1960s and in 2009-10, Korea was Australia's largest export market for coal, iron ore, crude petroleum and copper.<sup>5</sup>
- 3.5 Australia and Korea have 'pursued trade based on having complementary economies.'<sup>6</sup> The Australian and Korean economies are now about the same size, with Australia's minerals, food and energy exports underpinning Korea's manufacturing-based industry. In turn, Korea supplies Australia with consumer products, including cars, electronics and refined fuels.<sup>7</sup>
- 3.6 In its *Australia in the Asian Century* profile for the ROK, the Government described the relationship as follows:
- Australia and South Korea share a broad and deeply-rooted set of global interests and values and, as fellow liberal democracies in Asia, are complementary middle powers.<sup>8</sup>
- 3.7 While the ROK was described to the Committee as a 'powerhouse', it was also emphasised that the relationship is generally not well known in Australia.<sup>9</sup> The Ai Group commented that '[t]he relationships...are underdone and underappreciated within Australia ... in many ways it is the forgotten north Asian relationship.'<sup>10</sup>
- 3.8 Mr Colin Heseltine, Deputy Chairman of the Australia-Korea Business Council (AKBC) referred to the 'Australian north east Asian gaze', which moves from Japan to China and back again, but overlooks Korea.<sup>11</sup>
- 3.9 Sir Rod Eddington of the Australia Japan Business Cooperation Committee (AJBCC) made the following comment:
- ... if we underestimate the importance of Japan today because we are preoccupied with other places, it is true in spades of Korea. It
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4 DAFF, *Submission 12 (Korea)*, p. 4.

5 DFAT and Austrade, *Submission 3 (Korea)*, pp. 3-4.

6 DAFF, *Submission 12 (Korea)*, p. 4.

7 Korean Embassy, *Submission 8*, p. 2.

8 Australian Government, *Australia in the Asian Century Republic of Korea Profile*, viewed 4 February 2013, < <http://dfat.gov.au/publications/asian-century/rok.html>>.

9 Mr Colin Heseltine, AKBC, *Committee Hansard*, 14 November 2012, p. 25.

10 Mr Innes Willox, Ai Group, *Committee Hansard*, 14 November 2012, pp. 2, 5.

11 Mr Colin Heseltine, AKBC, *Committee Hansard*, 14 November 2012, p. 25.

is our third major trading partner. Australian troops fought in the Korean War and made real sacrifices through that period. They are a very important partner. As I understand it, our Prime Ministers have a good relationship, yet no one ever talks about it.<sup>12</sup>

## Overview of goods and services trade

3.10 The ROK is Australia's fourth largest overall trading partner with two-way trade worth \$32.7 billion in 2011, representing more than five percent of Australia's international trade.<sup>13</sup>

## Exports

3.11 The ROK is Australia's third largest goods export market with exports valued at \$23.4 billion in 2011. In the last five years, Australia's exports to the ROK have grown, on average, a third faster than Australia's exports as a whole. Iron ore, coal, crude petroleum, copper and other ores, and beef are important exports.<sup>14</sup>

3.12 Agricultural trade is an important part of the relationship. Trade in agricultural, fish and forestry products was valued at \$2.2 billion in 2010-11. As with Japan, Australia's safe and reliable supply of high quality food products contributes to Korea's food security.<sup>15</sup>

3.13 Korea imports about 70 percent of its food needs.<sup>16</sup> It is Australia's fifth largest agricultural export market, accounting for 8.8 percent of Australia's farm exports, and third largest market for beef.<sup>17</sup> Korea is also a significant market for sugar, wheat, dairy products, malt, animal feed, horticultural products and wine.<sup>18</sup>

3.14 The ROK is a key market for the Australian beef industry. Beef exports were valued at \$773 million in 2011, an increase from \$633 million in

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12 Sir Rod Eddington, AJBCC, *Committee Hansard*, 14 November 2012, p. 7.

13 DFAT, *Republic of Korea Country Brief*, January 2013, viewed 23 January 2013, <[http://www.dfat.gov.au/geo/rok/brief\\_index.html](http://www.dfat.gov.au/geo/rok/brief_index.html)>.

14 DFAT and Austrade, *Submission 3 (Korea)*, p. 1; DFAT, *Republic of Korea Country Brief*, January 2013, viewed 23 January 2013, <[http://www.dfat.gov.au/geo/rok/brief\\_index.html](http://www.dfat.gov.au/geo/rok/brief_index.html)>.

15 Ms Jo Evans, DAFF, *Committee Hansard*, 19 March 2012, p. 1.

16 DAFF, *Submission 12 (Korea)*, p. 2.

17 DAFF, *Submission 12 (Korea)*, pp. 5, 8, 10.

18 DFAT and Austrade, *Submission 3 (Korea)*, p. 5.

2010.<sup>19</sup> The Korean market represents 15 percent of Australia's global beef exports.<sup>20</sup>

## Imports

3.15 The ROK is Australia's ninth largest source of imports, valued at \$7.13 billion in 2011.<sup>21</sup> Key imports are passenger motor vehicles, refined petroleum, civil engineering equipment and parts, and vehicle part and accessories.<sup>22</sup> Australia is also a growing market for a broad range of manufactured products, such as mobile phones, information technology equipment, specialised maritime platforms and high-value consumer durables, such as flat-screen TVs.<sup>23</sup>

## Services

3.16 Services exports to the ROK were worth \$1.7 billion in 2011. Australia's services exports to Korea grew at an average annual rate of 15 percent from 2000 to reach \$1.9 billion in 2010, with education and tourism accounting for 91 percent of services exports.<sup>24</sup> South Korea is Australia's third largest source of foreign students after China and India, with 27,719 enrolments in Australian institutions at the end of 2012, representing 5.4 percent of total enrolments.<sup>25</sup>

## Overview of investment

3.17 Investment between Australia and the ROK has grown and diversified in the last decade. ROK stock in Australia increased twenty-seven-fold from 2001 to \$12.8 billion in 2011, representing 0.6 percent of foreign investment in Australia.<sup>26</sup> The Ai Group stated that ROK investment is primarily focussed on resource development and import and distribution. Major

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19 DFAT, *Republic of Korea Country Brief*, January 2013, viewed 23 January 2013, <[http://www.dfat.gov.au/geo/rok/brief\\_index.html](http://www.dfat.gov.au/geo/rok/brief_index.html)>.

20 Mr Andrew McCallum, MLA, *Committee Hansard*, 28 November 2012, p. 1.

21 DFAT, *Republic of Korea Country Brief*, January 2013, viewed 23 January 2013, <[http://www.dfat.gov.au/geo/rok/brief\\_index.html](http://www.dfat.gov.au/geo/rok/brief_index.html)>.

22 DFAT, *Republic of Korea Country Brief*, January 2013, viewed 23 January 2013, <[http://www.dfat.gov.au/geo/rok/brief\\_index.html](http://www.dfat.gov.au/geo/rok/brief_index.html)>.

23 DFAT and Austrade, *Submission 3 (Korea)*, pp. 3-4.

24 DFAT and Austrade, *Submission 3 (Korea)*, p. 6.

25 Australian Education International, *End of Year Summary of International Student Enrolment Data – Australia – 2012*, viewed 14 February 2013, <<https://aei.gov.au/research/International-Student-Data/Pages/default.aspx>>.

26 DFAT, *Republic of Korea Country Brief*, January 2013, viewed 23 January 2013, <[http://www.dfat.gov.au/geo/rok/brief\\_index.html](http://www.dfat.gov.au/geo/rok/brief_index.html)>.

Korean investments have included Korea Zinc's investment in the Sun Metals Corporation refinery in Queensland and POSCO's investment in BHP-Billiton's iron ore resources in Western Australia.<sup>27</sup>

3.18 In 2010, Australian investment stock in the ROK was \$6.8 billion, a three fold increase from 2001. ANZ noted that Australian investment has been concentrated in technology-intensive sectors, infrastructure and utilities, financial services, and education and training.<sup>28</sup>

3.19 According to the Department of Foreign Affairs and Trade and Austrade, there is scope to increase both Australian investment in Korea and Korean investment in Australia. The Department also commented that:

The noticeable increase in Korea's foreign investment in Australia in recent years partly reflects an attempt by Korean firms to diversify their suppliers of resources.<sup>29</sup>

3.20 The Korean Embassy told the Committee:

Australia is a country with which Korea foresees continuing a strong and sustained partnership. This is driven to a large extent by Korea's need to achieve a stable supply of energy and resources. Australia's abundant mineral and energy resources supplies, stable political situation, sound infrastructure and the know-how in exploiting and developing resources make it an attractive investment market for Korea. Korean investments in Australia are expected to increase further, fuelled by its strong demand for natural resources.<sup>30</sup>

3.21 The Australian Chamber of Commerce in Korea pointed out that Korea has become a significant exporter of capital with expectations that this will grow significantly in the medium to long term:

Korea can become an important source of capital for Australia's infrastructure and industrial needs and Australia can capitalise on its proximity to Korea to attract much needed investment funds.<sup>31</sup>

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27 Ai Group, *Submission 6*, p. 4.

28 ANZ, *Submission 9*, p. 4.

29 DFAT and Austrade, *Submission 3 (Korea)*, p. 8.

30 Korean Embassy, *Submission 8*, p. 6.

31 Australian Chamber of Commerce in Korea, *Submission 17*, p. 6.

## Emerging trends

3.22 The Department of Foreign Affairs and Trade and Austrade identified a number of emerging trends that are likely to affect trade and investment links with Australia in the future, including:

- increasing concerns over resource, energy and food security, particularly given Korea's dependence on imports, with 97 percent of its energy and 70 percent of its food needs imported;
- the need to entrench foreign markets for Korean products and secure Korea's continuing economic growth; and
- Korea's growing middle class with its increasing political and consumer-driven demands.<sup>32</sup>

3.23 The Department argued that the Korean Government sees 'green technology' as an effective means to address emerging trends and to maintain Korea's competitiveness when compared with Japan and China.<sup>33</sup>

3.24 The AKBC told the Committee:

Importantly, the bilateral relationship is also moving beyond a focus only on minerals and energy as major opportunities emerge in new areas such as financial services and green industries, including renewables and infrastructure, not only in Korea and Australia but with firms from both countries working together in third countries. This trend is actually reflected in AKBC's membership.<sup>34</sup>

3.25 The AKBC also saw the increasing economic integration between China, Japan and Korea as having 'enormous new opportunities' for Australia.<sup>35</sup>

## Resources and energy

3.26 In its submission, the Department of Foreign Affairs and Trade and Austrade highlighted the significance of energy and mineral/metal exports:

Securing energy and mineral resources is central to the ongoing development of the Korean economy, and this trade and

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32 DFAT and Austrade, *Submission 3 (Korea)*, pp. 9-10.

33 DFAT and Austrade, *Submission 3 (Korea)*, p. 9.

34 Mr Colin Heseltine, AKBC, *Committee Hansard*, 14 November 2012, p. 24.

35 Mr Colin Heseltine, AKBC, *Committee Hansard*, 14 November 2012, p. 25.

associated investments will continue to form the bedrock for the bilateral economic relationship.<sup>36</sup>

- 3.27 The Department pointed out that the Korean Government's 2010 overseas resource development plan aims to meet 30 percent of Korea's petroleum and gas consumption from overseas Korean developments by 2019. This is three times more than the stated aim in the previous 2007 plan. 42 percent of Korea's coal, uranium, steel, copper, tin, zinc and nickel requirements are also to be met from overseas. As a result, Korean companies are increasingly active in resource development.<sup>37</sup>
- 3.28 In its submission, the Korean Embassy pointed to the substantial investment by the ROK, particularly in the resources sector, in the ten year period between 2000 and 2010, and stated that the ROK is 'seeking to establish more opportunities for partnership with Australian companies in order to secure a reliable supply of energy and mineral resources.'<sup>38</sup>
- 3.29 Korean companies, including POSCO, the Korea Resource Corporation (KORES), the Korea Gas Corporation (KOGAS) and SK Energy (SKE) 'import a huge amount of resources such as coal, iron ore, petroleum and natural gas which contribute to Korea's sustained economic development.' These companies also have significant investments in Australian resource projects, include coal and iron ore mines, and liquefied natural gas (LNG).<sup>39</sup>
- 3.30 Embassy representatives also told the Committee:
- More than one-third of the mineral resources Korea requires are imported from Australia, which contributes to Korea's sustained economic development. POSCO, the world's third biggest steel maker today, has been importing iron ore and coking coal since 1968. As a single company, it is still the biggest importer. Last year and this year, large-scale LNG purchase contracts were signed, including for Gladstone, Prelude and Ichthys. Put together, they will supply nine million tonnes of LNG from 2013 to 2015, and Australia will become Korea's No. 1 natural gas supplier from 2014.<sup>40</sup>
- 3.31 The Department of Resources, Energy and Tourism noted that the pattern of Korean investment in Australia has changed over time with investors
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36 DFAT and Austrade, *Submission 3 (Korea)*, p. 23.

37 DFAT and Austrade, *Submission 3 (Korea)*, p. 23.

38 Korean Embassy, *Submission 8*, p. 5.

39 Korean Embassy, *Submission 8*, p. 6.

40 Mr Wahn-Seong Jeong, Embassy of the ROK, *Committee Hansard*, 29 November 2013, p. 1.

increasingly taking a direct stake in projects through equity partnerships and minority shareholdings. For example, in January 2011, KOGAS acquired a 15 percent stake in the Gladstone LNG coal seam gas-based LNG project, which was Korea's first equity stake in an Australian LNG project.<sup>41</sup>

3.32 The Korean Embassy also pointed out that in recent years, the level of equity acquired by Korean companies has increased significantly. For example, investment in coal mines has increased from typically 10 percent or less to:

- 20 percent in the Mount Thorley mine held by POSCO;
- 50 percent held by KORES in the Springvale mine; and
- 95 percent of the Wyong coal mines by KORES, SK Networks and Kyung Dong.<sup>42</sup>

3.33 Korea is the world's second largest importer of LNG behind Japan. While currently sourcing the majority of its LNG from the Middle East, Malaysia and Indonesia, the Department of Resources, Energy and Tourism indicated in its submission that 'Korea is targeting Australia for new long-term supplies of LNG expected to come on stream in the 2015-16 timeframe.' For example:

- KOGAS has signed non-binding Heads of Agreements with Chevron to purchase 1.5 mtpa of LNG from the Wheatstone Project over 20 years and 1.5 mtpa of LNG from the Gorgon Project for 15 years; and
- KOGAS has purchased a 15 percent equity stake in the Gladstone LNG Project and will receive up to 3.5 mtpa of LNG from the project.<sup>43</sup>

3.34 Australia's LNG exports to the ROK are expected to increase from two to around 25 percent of the ROK's LNG supply from 2015 onwards when full production commences on three major LNG contracts.<sup>44</sup>

3.35 In the area of floating liquefied natural gas (FLNG), Samsung Heavy Industries is constructing a FLNG vessel for the Prelude FLNG project to be delivered in 2016. Shell and the Technip-Samsung Heavy Industries consortium have also reached agreement to work on the design,

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41 DRET, *Submission 16*, p. 14.

42 Korean Embassy, *Submission 8*, p. 6.

43 DRET, *Submission 16*, p. 16.

44 DFAT, *Republic of Korea Country Brief*, January 2013, viewed 23 January 2013, <[http://www.dfat.gov.au/geo/rok/brief\\_index.html](http://www.dfat.gov.au/geo/rok/brief_index.html)>.



construction and installation of multiple FLNG facilities for up to 15 years.<sup>45</sup>

- 3.36 Hyundai Heavy Industries is also involved in conventional offshore LNG projects, constructing modules for the Gorgon project's processing trains and fabricating topsides for the North West Shelf Venture's North Rankin B platform.<sup>46</sup>
- 3.37 With a goal to lead the world in green-energy technologies by 2030, Korea is also interested in responding to climate change and energy security considerations through clean and renewable technologies.<sup>47</sup> The Department of Resources, Energy and Tourism considered there were opportunities to use the complementarity between the two countries (and between Australia and Japan) to pursue clean energy opportunities.<sup>48</sup>
- 3.38 Another area of potential cooperation is in the production of rare earth oxides, required by both Japan and Korea for the manufacture of high technology items and green-energy and energy-efficient technologies.<sup>49</sup>

### Opportunities for small and medium-sized businesses

- 3.39 The AKBC pointed out in its submission that there is an increasing focus on South Korea from small and medium-size businesses rather than the traditional large corporate entities. Mr John Wotton told the Committee:

We are certainly starting to see – in the food industry, for example – smaller companies moving into the Korean market as they get a better understanding of how important it is to us. As Korea has relaxed some of its regulations with regard to investment in Korea, you are also starting to see accounting, investment and some of the companies involved in green energy here in Australia looking at Korea for potential opportunities. We are also seeing Australian companies that are involved in research here in Australia looking to Korea as perhaps a place where they can start to put some of the research to market, particularly in the areas of technology, biotechnology and nanotechnology, which are still very much in the research phase, even here in Australia. Some

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45 DRET, *Submission 16*, p. 17.

46 DRET, *Submission 16*, p. 17.

47 DRET, *Submission 16*, p. 17.

48 DRET, *Submission 16*, p. 18.

49 DRET, *Submission 16*, p. 17.

of them are looking at Korea as a potential way to take their research to market.<sup>50</sup>

- 3.40 The AKBC also identified that, regardless of the outcome of the Presidential elections in December 2012, 'freeing up of the chaebols, the big conglomerates, is on the agenda.' Mr Colin Heseltine of the AKBC explained the significance of this for Australian companies:

The importance of that for a country like Australia is that [the chaebols] operate as very self-contained business units. They do everything. Everything is in-house. If the freeing up of chaebols proceeds, a lot of outsourcing would take place in IT, maintenance, communications, whatever. If this happens – and it is expected that it will, to some degree at least – it will offer a lot of new opportunities for Australian companies, which are very good at these sorts of things.<sup>51</sup>

- 3.41 Specifically, it will improve competition and opportunities for businesses that are not associated with the chaebols, and particularly for small and medium-sized business enterprises that have been 'stifled' by the existing approach.<sup>52</sup>

## Defence materiel cooperation

- 3.42 The Department of Defence told the Committee that Australia's relationship with the ROK 'reflects our mutual interest in regional stability and our common alliance with the United States.'<sup>53</sup>

- 3.43 The trade and investment relationship between Australia and the ROK in defence materiel and goods was formalised by a Memorandum of Understanding (MoU) in August 2001. The objective of the MoU:

... is to develop materiel cooperation activities that benefit the military of both countries. The MOU specifically relates to defence industry cooperation and seeks to help enable Australian and ROK defence companies to work within each other's defence procurement framework and to provide through life support to the respective armed forces. A Joint Committee has been set up

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50 Mr John Wotton, AKBC, *Committee Hansard*, 14 November 2012, p. 26.

51 Mr Colin Heseltine, AKBC, *Committee Hansard*, 14 November 2012, p. 26.

52 Mr Colin Heseltine, AKBC, *Committee Hansard*, 14 November 2012, p. 28.

53 Department of Defence, *Submission No. 4*, p. 1.

under the auspices of this MOU to oversee and facilitate cooperation activities.<sup>54</sup>

3.44 Defence considered materiel cooperation to show 'promise', stating:

Our respective Airborne Early Warning and Control (AEW&C) aircraft programs, AEGIS systems and programs to develop next generation submarines present good opportunities for potential cooperation.<sup>55</sup>

3.45 Defence elaborated on the areas where Australia and the ROK are currently cooperating:

The Defence Materiel Organisation (DMO) currently cooperates with its Korean counterpart (DAPA - Defence Acquisition and Procurement Agency) on AEW&C and to a lesser extent on self-propelled howitzers (under LAND 17). Project Land 17 Phase 1 seeks to acquire both towed and self-propelled howitzers, their support systems, ammunition and enhanced digital battle management systems for targeting, and command and control. The tender for the project closed in April 2008 and received two submissions, including from Samsung Techwin/Raytheon Australia with the South Korean AS-9. Defence anticipates submitting the acquisition business case to government for Second Pass consideration in late 2011 or early 2012. Korean Ammunition Companies (Hanwha and Poongsan) are currently cooperating with Thales Australia on munitions (particularly the 155mm and the 5"/55 ammunitions) and continue to look for further opportunities to cooperate under the spirit of the 2001 MOU.<sup>56</sup>

3.46 The Committee notes, however, that ultimately Samsung Techwin/Raytheon Australia did not win the tender for Project Land 17.<sup>57</sup>

3.47 Defence also told the Committee that Australia and the ROK are in the process of finalising a Mutual Government Quality Assurance Arrangement, which will enable Defence agencies to provide quality assurance functions on behalf of both governments and industry.<sup>58</sup>

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54 Department of Defence, *Submission No. 4*, p. 1.

55 Department of Defence, *Submission No. 4*, p. 1.

56 Department of Defence, *Submission No. 4*, p. 1.

57 'Australia's \$450-600 million LAND 17 Artillery Replacement', *Defence Industry Daily*, 17 October 2012, viewed 31 January 2013, <<http://www.defenseindustrydaily.com/australias-a-450m600m-land-17-artillery-replacement-gets-goahead-01928/>>.

58 Department of Defence, *Submission No. 4*, p. 1.

- 3.48 In addition to this, Australia and the ROK entered into the *Agreement on Protection of Classified Military Information*, in 2010. This agreement provides a legally binding framework for the secure exchange of classified military information between defence organisations and related industry contractors. Practical defence and defence industry cooperation is facilitated by this agreement.<sup>59</sup>

## Multilateral cooperation

- 3.49 Australia and the ROK cooperate in a variety of multilateral organisations. Australia and the ROK pursue a shared commitment to an open-rules-based multilateral trading system via the World Trade Organization (WTO). Both countries are committed to conclusion of the WTO Doha Round.<sup>60</sup>
- 3.50 The ROK provided active support to Australia's efforts to establish the Asia Pacific Economic Cooperation (APEC) in 1989 and became a founding member. The Department of Foreign Affairs and Trade and Austrade told the Committee that:
- Australia and Korea have a good working relationship in APEC, with both countries like-minded on most APEC issues. Korea supports Australia's efforts to promote domestic structural reform and is a strong proponent of aid-for-trade capacity building efforts. Australia supports Korea's efforts to strengthen capacity building for trade negotiators in developing APEC economies.
- 3.51 Other areas of collaboration within APEC include APEC's Supply-Chain Connectivity Framework and supporting APEC's analytical arm, the Policy Support Unit.<sup>61</sup>
- 3.52 The East Asia Summit is another forum for multilateral cooperation between Australia and the ROK, where Australia and ROK are working together on 'a possible Comprehensive Economic Partnership in East Asia.'<sup>62</sup>
- 3.53 Other areas of cooperation include the G20, Food and Agriculture Organization, OECD and, as discussed in chapter two, the Regional

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59 Department of Defence, *Submission No. 4*, p. 1.

60 DFAT and Austrade, *Submission 3 (Korea)*, p. 30.

61 DFAT and Austrade, *Submission 3 (Korea)*, p. 31.

62 DFAT and Austrade, *Submission 3 (Korea)*, p. 31.

Comprehensive Economic Partnership negotiations launched in November 2012.<sup>63</sup>

## Barriers and impediments for Australian businesses

### Background

3.54 The Committee heard about the difficulties experienced working in Korea. Ai Group told the Committee:

The Korean market is a very nascent industry. I think it is fair to say that it is not the first place or even the second place that Australian industry would think of going. There are issues around language barriers and cultural barriers that are very difficult for Australian industry to penetrate. It is a market that is perceived by Australian industry to be very much self-contained, self-reliant.<sup>64</sup>

3.55 According to the Ai Group, the market has been particularly difficult to access for agricultural products and manufactured goods. In the case of manufactured goods, Mr Willox stated '[t]hat many have tried and many have failed would be a fair assessment of the Korean market...'<sup>65</sup>

3.56 Mr Colin Heseltine of the AKBC commented that:

No-one who has ever done work and business there would say it is not tough.<sup>66</sup>

3.57 ANZ noted that since the 1980s, the ROK has embarked on significant trade liberalisation. That said, however, barriers and impediments to trade and investment remain in many sectors, with particularly high barriers in agriculture and restrictions across a range of services industries and on investment.<sup>67</sup>

### Goods barriers

3.58 Australian businesses face various barriers and impediments to exporting goods to the ROK. These fall into two categories: tariff barriers and non-

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63 DFAT and Austrade, *Submission 3 (Korea)*, pp. 31-32; DAFF, *Submission 12 (ROK)*, p. 28.

64 Mr Innes Willox, Ai Group, *Committee Hansard*, 15 November 2012, p. 5.

65 Mr Innes Willox, Ai Group, *Committee Hansard*, 15 November 2012, p. 5.

66 Mr Colin Heseltine, AKBC, *Committee Hansard*, 14 November 2012, p. 27.

67 ANZ, *Submission 9*, p. 4.

tariff barriers. The latter includes constraints within the ROK, sanitary and phytosanitary issues, and technical market access issues. Both tariff and non-tariff barriers are particularly significant in the agricultural sector.

### Tariff barriers

- 3.59 The ROK applies tariffs at an average of 12.1 per cent.<sup>68</sup> This has decreased from an average of nearly 24 per cent in 1982 but remains high compared with other OECD countries.<sup>69</sup> The ROK applies significant tariffs to agricultural products, at an average of 48.6 per cent, compared to 6.6 per cent for non-agricultural products.<sup>70</sup>
- 3.60 Australia's major exports are subject to tariffs ranging from 40 per cent for beef up to 513 per cent for malt and barley. Key products within this range include animal fodder (100 per cent), dairy (up to 176 per cent), horticulture (up to 304 per cent) and maize (up to 328 per cent).<sup>71</sup> Other agricultural products such as vegetables, fruit, nuts, cattle, sheep, goats, horses, beverages and tobacco products have average tariff rates above 20 per cent.<sup>72</sup>
- 3.61 Moderate tariffs are applied to other sectors, such as engines, pharmaceuticals, chemicals and wine.<sup>73</sup> Some non-agricultural products are subject to 'nuisance tariffs', which apply to approximately 31 per cent of the value of Australia's non-agricultural exports, including resources, pharmaceuticals and vehicle parts.<sup>74</sup>

### Non-tariff barriers

- 3.62 Non-tariff barriers in the ROK include tariff-rate quotas, quantitative import quotas, special agricultural safeguards, flexible tariffs and adjustment duties, and domestic subsidies.
- 3.63 Tariff-rate quotas are applied to 179 agricultural products, with rates ranging from zero to 50 percent and 'out-of-quota' rates ranging up to 887 per cent. Tariff-rate quotas apply to milk powder, butter, cheese, malt and malting barley, animal fodder, potatoes and citrus.<sup>75</sup>

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68 DFAT and Austrade, *Submission 3 (Korea)*, p. 11.

69 DAFF, *Submission 12 (Korea)*, p. 24.

70 DFAT and Austrade, *Submission 3 (Korea)*, p. 11.

71 DFAT and Austrade, *Submission 3 (Korea)*, p. 11.

72 DAFF, *Submission 12 (Korea)*, p. 24.

73 Ai Group, *Submission 6*, p. 5.

74 DFAT and Austrade, *Submission 3 (Korea)*, p. 11.

75 DFAT and Austrade, *Submission 3 (Korea)*, pp. 11-12; DAFF, *Submission 12 (Korea)*, p. 24.

- 3.64 These quotas are operated by 22 different organisations in the ROK, including government ministries, state trading enterprises and producer organisations. This can cause a conflict of interest where producer organisations are owned by the domestic producers that compete with Australian exports, such as for raw ginseng, pine nuts and citrus fruits.<sup>76</sup>
- 3.65 Tariff-rate quotas are administered by auction, allocation to designated organisations, first-come-first-served, or a combination of these methods. Additional mark-ups can be applied by state trading enterprises. These currently apply to rice, garlic, onions, nuts, seeds, beans, spices and soybeans. Rice is also subject to a quantitative-import quota, as the ROK increases its annual rice quota.<sup>77</sup>
- 3.66 As a member of the WTO, the ROK can take 'safeguard action' to temporarily restrict imports by increasing tariffs if an increase in imports would impact on domestic industry. In the agricultural sector, a potential impact to domestic industry is adequate to institute safeguards, and the ROK has done this for 124 agricultural products. These safeguards have been consistently applied to soya and adzuki beans, buckwheat, starches and groundnuts with a significant negative impact on trade in these products.<sup>78</sup>
- 3.67 Agricultural products are also subject to significant technical market access, sanitary and phytosanitary, and quarantine barriers.<sup>79</sup>
- 3.68 Additional, temporary 'flexible tariffs' can also be applied to goods. These can be altered at the authority's discretion, with the maximum limited by the ROK's agreement with the WTO. This mechanism is used to encourage and discourage imports of particular goods, such as dairy, where domestic production is affected.<sup>80</sup>
- 3.69 Further to these impediments are domestic subsidies, which averaged 52 per cent of farmers' incomes in 2007-09. The OECD reported that 91 per cent of subsidies are 'the most distorting type: payments linked to output and variable input use.'<sup>81</sup>

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76 DFAT and Austrade, *Submission 3 (Korea)*, p. 11; DAFF, *Submission 12 (Korea)*, pp. 24-25.

77 DFAT and Austrade, *Submission 3 (Korea)*, pp. 11-12.

78 DFAT and Austrade, *Submission 3 (Korea)*, p. 12.

79 DFAT and Austrade, *Submission 3 (Korea)*, p. 18; Ai Group, *Submission 6*, p. 5; DAFF, *Submission 12 (Korea)*, pp. 25-27.

80 DFAT and Austrade, *Submission 3 (Korea)*, p. 12.

81 DFAT and Austrade, *Submission 3 (Korea)*, p. 12.

- 3.70 Key non-tariff barriers identified by the Ai Group, particularly in the automotive manufacturing sector, are discriminatory taxes and burdensome regulatory and safety compliance requirements.<sup>82</sup>

### Services barriers

- 3.71 There are various barriers to the services trade for Australian businesses in the ROK. The key barrier is related to the treatment of non-nationals, as indicated by the Department of Foreign Affairs and Trade and Austrade:

Broadly speaking, foreign service-providers' main complaint about Korea relates to national-treatment limitations, including barriers related to Korean state-owned enterprises, business ventures having to be Korean-organised and residency requirements.<sup>83</sup>

- 3.72 ANZ identified some general barriers, including 'third party' rules, levies, and restrictions on licencing and outsourcing.<sup>84</sup> The Australian Chamber of Commerce in Korea identified others, including increasing regulation of the labour market (including restrictions on hiring foreign staff without Korean licences), limited opportunities for input into regulatory changes prior to their enactment, and reversals of previous tax rulings or interpretations.<sup>85</sup>
- 3.73 Each sector faces different barriers. The ROK has restrictions on agriculture, particularly for wholesale and retail trade and storage services.<sup>86</sup>

### Accounting and taxation services

- 3.74 Accountants must pass an examination and complete field work before becoming licensed and registered to provide chartered public accounting or certified taxation accounting services in the ROK.<sup>87</sup>

### Architectural services

- 3.75 Foreign architects who wish to practise in the ROK must pass an examination to gain a Korean architect licence. Foreign companies can

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82 Ai Group, *Submission 6*, p. 5.

83 DFAT and Austrade, *Submission 3 (Korea)*, p. 13.

84 ANZ, *Submission 9*, pp. 5-6.

85 Australian Chamber of Commerce in Korea, *Submission 17*, p. 7.

86 DFAT and Austrade, *Submission 3 (Korea)*, p. 13.

87 DFAT and Austrade, *Submission 3 (Korea)*, p. 13.



only provide architectural services in the ROK in a joint venture with a Korean-licensed architect.<sup>88</sup>

## Education

- 3.76 To operate on their own, foreign educational institutions must be non-profit and approved by the Korean Minister of Education, Science and Technology. Institutions cannot train primary school teachers or provide 'higher education services through broadcasting.' Depending on the level of foreign property ownership, the boards of educational institutions must include between 33 and 50 per cent Korean nationals. Foreign universities are able to partner with Korean universities to provide joint programs.<sup>89</sup>
- 3.77 A non-regulatory barrier to attracting Korean students to study in Australia is the highly competitive international market, where many students consider studying at universities in other English-speaking countries such as the United States before they consider Australia as an option.<sup>90</sup> Other factors that impede university links with the ROK include limited English-language proficiency, limited numbers of students wanting to go on exchange to the ROK, and difficulty in getting professional accreditation in ROK. Despite these factors, the ROK is still a large source for incoming students.<sup>91</sup>

## Financial services

- 3.78 Financial services firms are prohibited from providing cross-border services, but can establish branches within the ROK with some licensing and funding conditions. Foreign banks cannot open branches that would conduct business as credit unions, mutual savings banks, specialised capital finance companies, capital brokerage firms, credit information companies, general fund administrative firms, collective investment vehicle appraisal companies and bond appraisal companies. They are also 'prohibited from acquiring real estate for non-business purposes' and data laws require that 'most or all' of the IT systems of foreign firms must be located in the ROK.<sup>92</sup>
- 3.79 ANZ considered Korea's 'behind the border' barriers should be addressed in free trade agreement negotiations, including the regulatory approvals

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88 DFAT and Austrade, *Submission 3 (Korea)*, p. 13.

89 DFAT and Austrade, *Submission 3 (Korea)*, pp. 13-14.

90 Mr Brett Cooper, Austrade, *Committee Hansard*, 22 March 2012, p. 6.

91 DFAT and Austrade, *Submission 22*, p. 16.

92 DFAT and Austrade, *Submission 3 (Korea)*, p. 14.

process, licence processes and the ability to move data offshore so as to enable services to be provided in the most efficient way. Korea also requires the whole core banking system to be kept in country.<sup>93</sup> For a super-regional bank:

... you would obviously need the flexibility to have things in different countries to make it an efficient network.<sup>94</sup>

3.80 Other matters ANZ considered should be addressed in the FTA negotiations are:

- Market access: additional retail branch openings and a more predictable licence approval process;
- Business deregulation/outsourcing: greater flexibility to share back-office functions across group entities inside and outside Korea; and
- Bank Levy Exemption for Trade Finance: exemption from the Bank of Korea imposed bank levy on foreign currency liabilities of less than one year.<sup>95</sup>

### Legal services

3.81 The ROK is virtually closed to foreign legal services firms. Firms cannot establish practices in the ROK and foreign lawyers must pass the Korean bar examination and complete two years of professional education in order to provide any form of legal advice.<sup>96</sup>

### News service

3.82 Foreign firms cannot provide news services directly, and the state has a monopoly on news channels. News services can only be provided by a commercial contract with a Korean news agency.<sup>97</sup>

### Telecommunications

3.83 The telecommunications and broadcasting sectors are restricted in that telecommunications services licences are only granted to ROK entities.<sup>98</sup>

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93 Mr Michael Johnston, ANZ, *Committee Hansard*, 15 November 2012, p. 24.

94 Mr Robert Bell, ANZ, *Committee Hansard*, 15 November 2012, p. 24.

95 ANZ, *Submission 9*, pp. 5-6.

96 DFAT and Austrade, *Submission 3 (Korea)*, p. 14.

97 DFAT and Austrade, *Submission 3 (Korea)*, p. 15.

98 DFAT and Austrade, *Submission 3 (Korea)*, p. 15.

## Investment barriers

- 3.84 Barriers to investment in the ROK have lessened since the Asian financial crisis in 1998, when the ROK was required to implement 'FDI-friendly' policies in order to gain assistance from the IMF. Since then, ROK policies have encouraged FDI but it remains low, especially compared with other OECD countries.<sup>99</sup>
- 3.85 Barriers that remain include foreign ownership ceilings in key service sectors, restrictive product market regulations, a lack of transparency in tax and regulatory policies and an unreformed labour market.<sup>100</sup> In some sectors, foreign investment is limited through legislation.<sup>101</sup> Domestic protection<sup>102</sup> and non-regulatory barriers, such as the Korean language, are also impediments to investment.<sup>103</sup>
- 3.86 Furthermore, the cost of doing business is high, some sectors are highly regulated, some labour unions have a militant reputation, and some Korean practices are hard to internationalise, such as the practice of promotion based on length of service rather than merit.<sup>104</sup>
- 3.87 There are specific barriers in the accounting and taxation, agricultural, energy, financial and news sectors. Australian businesses cannot invest in accounting or tax agency corporations in the ROK.<sup>105</sup> Foreign investment is not permitted in rice or barley farming, and a 50 per cent equity limit is set on beef-cattle farming.<sup>106</sup>
- 3.88 Major energy suppliers are government owned and operated, with foreign holding limits of 30 and 40 per cent in the two major companies (KEPCO and KOGAS). Additionally, the ROK has limits on the aggregate foreign share of power generation facilities (30 per cent) and electric power transmission, distribution and sales businesses (50 per cent).<sup>107</sup>
- 3.89 The ROK restricts the flow of inbound and outbound capital, including from foreign bank branches. Foreign financial institutions must be approved as an internationally recognised financial institution by ROK

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99 DFAT and Austrade, *Submission 3 (Korea)*, p. 16.

100 DFAT and Austrade, *Submission 3 (Korea)*, p. 16.

101 Ms Jan Adams, DFAT, *Committee Hansard*, 14 March 2012, p. 4.

102 Mr Peter Rowe, DFAT, *Committee Hansard*, 14 March 2012, p. 4.

103 Mr Brett Cooper, Austrade, *Committee Hansard*, 14 March 2012, p. 4.

104 DFAT and Austrade, *Submission 22*, p. 8.

105 DFAT and Austrade, *Submission 3 (Korea)*, p. 13.

106 DFAT and Austrade, *Submission 3 (Korea)*, p. 13.

107 DFAT and Austrade, *Submission 3 (Korea)*, p. 14.

regulators in order to hold more than 10 per cent of the shares of a ROK commercial bank or bank-holding company.<sup>108</sup>

- 3.90 Foreign investment in the news sector is limited to 30 per cent for newspapers and 50 per cent for other periodicals. Foreign enterprises are also prohibited from publishing periodicals. The ROK also limits foreign investment in 'facilities-based public-telecommunications services, cable-television operators and signal-transmission-network operators' to 49 per cent. Foreign ownership limits also apply to Korea Telecom Corporation and satellite broadcasters. Foreign investment is prohibited in 'terrestrial-television broadcasting'.<sup>109</sup>
- 3.91 The Committee asked the Department of Foreign Affairs and Trade and Austrade to provide particular information about the foreign investment regime in South Korea. An outline of the regime, provided by the Department, is included in full at Appendix E.
- 3.92 The Committee supports the Government's efforts to address the tariff and non-tariff barriers experienced by Australian businesses in the Korean market.

## **Free trade agreement**

### **Background**

- 3.93 The FTA under negotiation between Australia and the ROK received considerable attention throughout this inquiry. This section discusses the importance of the agreement and some of the issues affecting negotiations. This section also reports in some detail about the discussions undertaken by the Committee delegation during its visit to South Korea. These discussions provided a useful perspective to the Committee on the attitudes within different sectors of the Korean community to the FTA.
- 3.94 Negotiations for the FTA commenced in 2009. After rapid progress in 2011, negotiations were delayed in 2012 by the conclusion and entry into force of the Korea-US FTA (KORUS). The Department of Foreign Affairs and Trade and Austrade stated, however, that the FTA 'is currently the

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108 DFAT and Austrade, *Submission 3 (Korea)*, p. 14.

109 DFAT and Austrade, *Submission 3 (Korea)*, p. 15.

main focus of our bilateral trade and investment engagement with Korea...'<sup>110</sup>

3.95 The ROK has concluded FTAs with the United States, Chile, Singapore, European Free Trade Association (EFTA), the Association of South East Asian Nations (ASEAN), India, the European Union and Peru and has a number of other agreements under negotiation.<sup>111</sup> Of particular note, these agreements:

... contain concessions on agriculture that will result in the eventual elimination of many of Korea's very high tariff barriers for its FTA partners.<sup>112</sup>

3.96 Korea's agreements with the United States and European Union also liberalise a number of services markets, remove some foreign investment limits in the telecommunications sector and liberalise aspects of Korea's education sector. The agreements include strong outcomes in financial services, environmental services and transport.<sup>113</sup>

## Objectives of the agreement

3.97 The FTA is expected to promote stronger trade and commercial ties, open opportunities for Australian exporters and secure Australia's competitiveness with Korea's other key trading partners.

3.98 The Government's Trade Policy Statement outlines the following objective for FTA negotiations with Korea:

Our objective in the negotiations is to put Australian exporters on an equal footing with US and EU competitors which have obtained improved access to the Korean market. The agreement would also include strong liberalising commitments by Korea in services while Australia would eliminate its remaining tariffs on auto imports from Korea and would liberalise its foreign investment requirements.<sup>114</sup>

3.99 Australia is seeking outcomes in the FTA that protect the competitiveness of key agricultural exports, including beef, sugar, wheat, dairy, malt and malting barley, wine and horticultural products. These products have all

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110 DFAT and Austrade, *Submission 3 (Korea)*, p. 26.

111 DFAT and Austrade, *Submission 3 (Korea)*, p. 19.

112 DFAT and Austrade, *Submission 3 (Korea)*, p. 20.

113 DFAT and Austrade, *Submission 3 (Korea)*, p. 22.

114 *Gillard Government Trade Policy Statement: Trading our way to more jobs and prosperity*, April 2011, p. 11.

received either tariff elimination or changes to duty-free quotas in one or more of Korea's other agreements.<sup>115</sup>

3.100 The Ai Group indicated that beyond the agricultural sector, there would be benefits if Australia obtained tariff reductions in areas where tariffs are more modest but trade is growing. This includes automotive engines, pharmaceutical products, chemicals and wine.<sup>116</sup>

3.101 Measures to address non-tariff barriers such as discriminatory taxes and regulatory and safety compliance requirements that have been used to protect particular Korean industries, such as the automotive sector, were also advocated by the Ai Group.<sup>117</sup> Ai Group noted that the Korean automotive market is almost exclusively dominated by domestically produced vehicles. This contrasts with the high import penetration in the Australian market.<sup>118</sup>

3.102 The Department of Agriculture, Fisheries and Forestry explained that under KORUS beef tariffs will reduce to zero over the next 15 years. In comparison, Australia's access to the Korean market currently has most-favoured-nation status under the World Trade Organization. For beef, therefore, the tariff is between 18 and 72 percent depending on the specific type of product.<sup>119</sup>

3.103 Meat and Livestock Australia (MLA) told the Committee:

In Korea, it is critically important now that we proceed to secure a free trade agreement and that the 40 per cent tariff on Australian beef is eliminated. That delivery is crucial, given our major competitor in the market – the United States – has secured a reduction in the 40 per cent tariff to zero over 15 years.

3.104 Further:

Our market share will, in that market in Korea, come under extreme pressure unless similar tariff reductions are also extended to Australia.<sup>120</sup>

3.105 MLA stated that from 1 January 2013, when a tariff differential of 5.33 percent applies, consumer shift to US beef is expected. The following year,

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115 DFAT and Austrade, *Submission 3 (Korea)*, p. 20.

116 Ai Group, *Submission 6*, p. 5.

117 Ai Group, *Submission 6*, p. 5.

118 Ai Group, *Submission 6*, p. 5.

119 Ms Jo Evans, DAFF, *Committee Hansard*, 19 March 2012, p. 2.

120 Mr Andrew McCallum, MLA, *Committee Hansard*, 28 November 2012, p. 1.

when the differential becomes 8 percent, significant movement from consumers, solely as a result of price, is expected.<sup>121</sup>

3.106 Seafood Services Australia pointed out the impact Korea's FTAs with Chile, Singapore and the United States have had upon Australia's seafood exports. For example, a number of seafood tariffs were subject to immediate elimination in the agreements with Chile and Singapore, with other tariffs to be phased out over five to ten years.<sup>122</sup> In the US agreement, tariffs will be eliminated over a twelve year period.<sup>123</sup>

3.107 Seafood Services Australia highlighted the impact of tariffs on the Australian industry:

As significant global economic powers continue to aggressively pursue FTAs with [Japan and South Korea], the challenges already faced by Australian seafood exporters will be further exacerbated by agreements that reduce or eliminate tariffs and non-tariff barriers on seafood supplied by our trading competitors in the markets.<sup>124</sup>

3.108 Seafood Services Australia argued that Australia should seek FTA outcomes on seafood that are, at a minimum, as favourable as those in other FTAs with both Japan and Korea.<sup>125</sup>

3.109 The National Farmers' Federation stated that Korea's free trade agreements with the United States and European Union 'will leave Australia's farm exports at a significant competitive disadvantage', citing the Centre for International Economics (CIE):

... the US deal with Korea will slash Australia's agricultural and food exports into Korea by 12.4% by 2030 – gouging around \$800 million from our accumulated agricultural and food exports. That is, of course, unless we act quickly to get our own deal with Korea.

The CIE also estimates that an Australia-Korea trade agreement would see our agriculture and food exports into the Korean market increase by 53.3% by 2030 (or around \$700 million), even if the US deal is ratified.<sup>126</sup>

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121 Mr Stephen Kelly, Australian Meat Industry Council, *Committee Hansard*, 28 November 2012, p. 2.

122 Seafood Services Australia, *Submission 23*, pp. 8, 12-15.

123 Seafood Services Australia, *Submission 23*, pp. 9, 16-17.

124 Seafood Services Australia, *Submission 23*, p. 10.

125 Seafood Services Australia, *Submission 23*, p. 10.

126 National Farmers' Federation, *Submission 15*, p. 5.

## Scope of the agreement

- 3.110 The Department of Foreign Affairs and Trade and Austrade stated in its submission that:

The final agreement will be comprehensive and ambitious and will provide many opportunities to deepen commercial links. It will be one of the strongest bilateral trade agreements that Australia has concluded. The FTA will include a highly-liberalising and transparent negative-list approach to services and investment commitments. Australian investments in Korea will benefit from the investments protections ... Australian services providers will benefit from liberalising commitments that go beyond GATS obligations...<sup>127</sup>

- 3.111 In discussions with the Committee, departmental representatives emphasised that:

... the agreement that is in prospect with Korea is a very high-quality, liberalising agreement that would offer Australian agriculture exporters significant new market access into Korea along the lines of the agreements that have been concluded with the EU and the US.<sup>128</sup>

- 3.112 From a Korean perspective, Embassy representatives told the Committee that the FTA:

... will give us some valuable opportunities to increase the trade and investment flows, especially in the areas of IT, automotive, communication, education, tourism and financial services. Financial trade is going well, so once the ongoing FTA negotiations are completed – and in the future – very important and new dimensions will be added to the already flourishing economic ties between Australia and Korea.<sup>129</sup>

- 3.113 Embassy representatives considered services exporters would benefit from greater liberalisation of and access to the services market through the removal of specific barriers.<sup>130</sup>

- 3.114 The Ai Group made the point to the Committee that it 'very much supports the notion and concept of a free trade agreement' provided the

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127 DFAT and Austrade, *Submission 3 (Korea)*, p. 30.

128 Ms Jan Adams, DFAT, *Committee Hansard*, 14 March 2012, p. 2.

129 Mr Wahn-Seong Jeong, Embassy of the ROK, *Committee Hansard*, 29 November 2012, p. 2.

130 Korean Embassy, *Submission 8*, p. 8.



agreements are wide-ranging, broad and comprehensive.<sup>131</sup> Mr Innes Willox told the Committee:

We do support a Korean FTA but in no way should an agreement be seen as a trade-off between sectors. We hear a lot of concern about notions of a trade-off between particularly the beef sector and the auto sector.

...

We are a little concerned that at some point the pressure, whether real or perceived to achieve an outcome for perhaps political purposes, may lead to big sectors of the Australian economy missing out on advantages.<sup>132</sup>

## Issues

### Sensitive sectors

3.115 The Department of Innovation, Industry, Science and Research told the Committee that the manufacturing sector may face significant challenges as a result of trade liberalisation with both South Korea and Japan. Some of the challenges faced by Australian businesses are that they have a strong domestic focus and do not view themselves as global competitors. Mrs Judith Zielke told the Committee:

They do not have to be exporting to be a global competitor, and therefore companies need to understand that they are competing against firms from overseas whether they are only selling here or if they are also selling internationally.<sup>133</sup>

3.116 The Department:

... is therefore working with Australian industry to assist it to become more internationally competitive and to facilitate access to global value chains.<sup>134</sup>

3.117 This includes educating businesses about their opportunities, encouraging best practice, and improving management capacity, including leadership skills, human resources arrangements and business strategies.<sup>135</sup>

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131 Mr Innes Willox, Ai Group, *Committee Hansard*, 15 November 2012, p. 1.

132 Mr Innes Willox, Ai Group, *Committee Hansard*, 15 November 2012, p. 1.

133 Mrs Judith Zielke, DIISR, *Committee Hansard*, 2 November 2011, p. 5.

134 Mrs Judith Zielke, DIISR, *Committee Hansard*, 2 November 2011, p. 2.

135 Mrs Judith Zielke, DIISR, *Committee Hansard*, 2 November 2011, p. 5.

- 3.118 The Department indicated that it is also working to ensure that there are arrangements in the FTA to accommodate sensitive sectors, such as tariff phasings, and to address non-tariff and technical barriers concerning market access.<sup>136</sup> The Ai Group argued that a narrow scope of items may require transitional arrangements, such as certain textile, clothing and footwear (TCF), automotive, and machinery and equipment products. It also considered the FTA outcomes should include strategies to remove non-tariff barriers to Australian exporters in the automotive markets of both countries.<sup>137</sup>

### Investor-State Dispute Settlement

- 3.119 The Committee is aware that agreement on Investor-State Dispute Settlement (ISDS) is one of the remaining outstanding issues in FTA negotiations.<sup>138</sup>
- 3.120 ISDS clauses are included in a number of trade agreements. These clauses typically empower businesses from one country to take international legal action against the government of another country for alleged breaches of the agreement.<sup>139</sup>
- 3.121 The Committee notes Australia's position on ISDS as outlined in the Government's Trade Policy Statement:

The Gillard Government supports the principle of national treatment – that foreign and domestic businesses are treated equally under the law. However, the Government does not support provisions that would confer greater legal rights on foreign businesses than those available to domestic businesses. Nor will the Government support provisions that would constrain the ability of Australian governments to make laws on social, environmental and economic matters in circumstances where those laws do not discriminate between domestic and foreign businesses. The Government has not and will not accept provisions that limit its capacity to put health warnings or plain

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136 Mr Karl Brennan, DIISR, *Committee Hansard*, 2 November 2011, pp. 6-7.

137 Ai Group, *Submission 6*, p. 5.

138 See, for example, Mr Wahn-Seong Jeong, Embassy of the ROK, *Committee Hansard*, 29 November 2012, p. 2.

139 *Gillard Government Trade Policy Statement: Trading our way to more jobs and prosperity*, April 2011, p. 14.

packaging requirements on tobacco products or its ability to continue the Pharmaceutical Benefits Scheme.<sup>140</sup>

- 3.122 The Committee also notes the statement by the Deputy Leader of the Opposition and Shadow Minister for Trade, the Hon Julie Bishop MP:

The Coalition would, as a matter of course, put ISDS clauses on the negotiating table and then negotiate ISDS provisions on a case-by-case basis.<sup>141</sup>

- 3.123 This issue has received ongoing media attention and was raised during the Committee's visit to South Korea.

### Impact of KORUS

- 3.124 The Department of Foreign Affairs and Trade referred to political fallout from the contentious debates over finalisation and implementation of KORUS that have impeded finalisation of the Australian agreement.<sup>142</sup>

- 3.125 Mr Peter Rowe of the Department of Foreign Affairs and Trade commented:

There are not really obstacles – no particular items – in the agreement that are holding it up; I am sure we can come to a conclusion on those. It is the fact that getting through the United States free trade agreement has been so politically debilitating.<sup>143</sup>

- 3.126 The AKBC expressed its concern that with the delay in negotiations:

Australia risks falling behind its competitors...<sup>144</sup>

- 3.127 This issue was raised throughout the inquiry and is discussed in further detail below.

### Delegation discussions

#### Political perspective

- 3.128 The FTA was a dominant theme in discussions in the ROK. The delegation recognised the opportunities presented by the FTA to strengthen trade
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140 Gillard Government Trade Policy Statement: *Trading our way to more jobs and prosperity*, April 2011, p. 14.

141 Hon Julie Bishop MP, 'Free Trade Focus', *On Line Opinion*, viewed 15 May 2013, <<http://www.onlineopinion.com.au/view.asp?article=14855>>.

142 Ms Jan Adams, DFAT, *Committee Hansard*, 14 March 2012, p. 2.

143 Mr Peter Rowe, DFAT, *Committee Hansard*, 14 March 2012, p. 3.

144 Mr Colin Heseltine, AKBC, *Committee Hansard*, 14 November 2012, p. 24.

and investment between the two countries. It also noted the effect that agreements concluded by Korea with a number of Australia's major competitors, including the United States, European Union, ASEAN and Chile have had.

- 3.129 The delegation met with the Ministers for Trade and Knowledge Economy as well as the Chairs of the National Assembly Committees on Agriculture, Knowledge Economy and Trade. In each of these meetings, the FTA was the main discussion topic, with Ministers and Committee Chairs expressing a commitment to conclude the agreement.
- 3.130 Chairman Choi Kyu-Sung of the Agriculture Committee informed the delegation that while there was strong opposition from farmers to KORUS, the Committee's consensus view was that free trade agreements are inevitable. The ROK's food self sufficiency is only 5 percent and food imports in 2011 were worth \$33 billion, double imports of the previous year.
- 3.131 Chairman Sung also considered the FTA must be mutually advantageous and achieve the right balance. He identified that one of the biggest concerns is beef, with half of the market dominated by imported beef. Farmers are concerned about the price impact on their own products as tariffs are reduced and eventually eliminated.
- 3.132 The Minister for Trade, Dr Bark Tae-Ho, spoke about ISDS. He said that it had been a feature of the KORUS and some would wonder why it is not in the Korea-Australia FTA.
- 3.133 The delegation noted that the Korea-Australia FTA legislation will come before the Foreign Affairs, Trade and Unification Committee for review after its approval by the National Assembly. It will then be reviewed by the Judiciary Committee before a final vote in the Plenary Session. Chairman of the Foreign Affairs, Trade and Unification Committee, Mr Ahn Hong Joon, stated that the ROK will make every effort to conclude the FTA at the national level in the shortest possible time.
- 3.134 Similarly, the Chairman of the Knowledge Economy Committee, Mr Kang Chang il, with other Committee members, indicated support for timely conclusion of the FTA, which they considered would bring mutual economic benefits to both countries.
- 3.135 Mr Kang emphasised however that while in his view the FTA is inevitable, efforts must be made to minimise impacts, especially on agriculture.

- 3.136 While the delegation acknowledged concerns about the proposed agreement, it considered that attention should also be given to the opportunities that the FTA will provide both countries.

### Importer perspectives

- 3.137 While in Seoul, the delegation held a series of meetings with Korean importers where issues associated with the FTA also received considerable attention. The delegation also had the opportunity to informally discuss a range of matters with Korean importers at a dinner hosted by Australia's Ambassador to the ROK.
- 3.138 The delegation was aware from evidence received to the inquiry of the concerns of agricultural exporters that Australia would lose market share in the ROK as a result of the competitive disadvantages arising from Korea's agreements with major competitors.
- 3.139 Importers told the delegation that with FTA's concluded with the US and EU, products are cheaper to import from these countries and that without conclusion of the Korea-Australia FTA, they will need to look to markets other than Australia. However, the attractiveness of importing from Australia includes its clean image, the ability to secure good quality ingredients, and its logistical infrastructure.
- 3.140 Some examples presented by importers were:
- Dairy manufacturer, Binggrae's production in Australia is export focussed, with the company using Australia as a base for exporting to third countries. Binggrae representatives told the delegation that Australia is well placed compared with other markets such as Brazil and other South American countries and that the key attraction of Australia is that it can secure good quality ingredients, the production costs of raw milk are lower, and Australia is well placed to provide logistic infrastructure. On the other hand, it can be negatively affected by labour and other costs in Australia.
  - Pulmuone imports organic soybean and flour and some meat and seafood from Australia. It indicated that the reduction in tariffs from the FTA would facilitate greater imports, highlighting that the soybean quota is currently over 400 percent.
  - Orion imports potatoes and corn from Australia. Its other import markets are the United States and Japan. From Australia, it imports 5,000 to 10,000 tonnes of potatoes per year, mostly from South Australia and NSW. Orion's representative highlighted that Australian products

are twice the price of US imports. Orion made it clear to the delegation that without the Korea-Australia FTA it will need to change suppliers as soon as possible as contracts operate on a year to year basis.

- Sugar importers also emphasised the need to conclude the FTA. CJ indicated that Australia provides a reliable, high quality supply, and timely service that is better than elsewhere. Samyang Corporation also imports from Brazil, Guatemala and Thailand. For each country the tariff is 3 percent with the exception of Thailand where the tariff is zero because of the ASEAN FTA.

- 3.141 The delegation also received a comprehensive briefing about the wine market in the ROK. The top five wine imports to Korea (based on value) are France, Chile, Italy, United States (California) and Australia. Of these five, Australia is the only country that does not have a free trade agreement with the ROK.
- 3.142 In 2011, wine imports totalled 26 million litres, valued at US\$132 million.
- 3.143 The delegation was informed that as the first nation to sign a FTA with the ROK, Chilean wines and other products have benefitted from considerable media exposure and publicity and an aggressive marketing campaign, and have gained market share. In 2010-11, there was a 19.3 percent increase in value and an 11 percent increase in volume of Chilean wine.<sup>145</sup>
- 3.144 Similarly, when Korea's FTA with the European Union took effect on 1 July 2011, the 15 percent basic tariff on wine was removed, resulting in a price drop of about 12 percent for EU wines. This is combined with aggressive marketing and support by EU wine exporting countries.<sup>146</sup>
- 3.145 Price, quality, image, and country of origin are important to the Korean market. While Australian wine is attractive because of its clean image, very good quality and associations with Australia, price is a major barrier. Australian market share has declined to five percent as Australia's key competitors benefit from the abolition of tariffs.
- 3.146 Austrade pointed out that many Australian wine exporters have relatively limited knowledge of the Korean market and indicated in discussions with the Committee that Wine Australia marketing is now one of its priorities.<sup>147</sup> In subsequent discussions, Mr Justin Ross of Primary Industries and Regions SA told the Committee:

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145 Austrade Seoul, *Wine Market Overview-Korea*, July 2012, p. 1.

146 Austrade Seoul, *Wine Market Overview-Korea*, July 2012, p. 3.

147 Austrade Seoul, *Wine Market Overview-Korea*, July 2012, p. 3.

... the success of the wine industry, particularly in the UK and US, was built around that concerted effort to build the brand 'Australia' and to raise awareness and I know that the same degree of effort is not going into these Asian markets at this stage. I think the benefit of having that umbrella brand is not necessarily there.<sup>148</sup>

3.147 On its return to Australia, the delegation received a letter from C&H Food Speciality Co Ltd, which has an exclusive agreement with Victorian cheese producing company, Lemnos Foods, to import and sell in products in Korea. C&H Food Speciality has imported Australian products to Korea for the last seven years.

3.148 C&H Food Speciality highlighted that the market has experienced significant changes since the Korea-EU FTA and KORUS came into effect. Changes to tariffs and quotas have resulted in more European and US cheese being imported and sold at lower prices. Importers from Australia are finding it increasingly difficult to compete, with other factors such as the high Australian dollar and regulations to protect many European products also contributing to difficulties.

3.149 In his letter, company president Mr Sungmin Choi advocated proactive cooperation between Australia and Korea, stating:

Australia is a very positive country for Koreans and accordingly the image towards the Australian products are also very positive. For this reason, I established my company to import and sell Australian products only.<sup>149</sup>

## Agricultural reform

3.150 As noted earlier in the report, agricultural trade forms an important part of the relationship between Australia and South Korea. The relationship has been dynamic, with the composition of trade changing over time.<sup>150</sup>

3.151 While Korea's industrialisation has brought many benefits, it has also had implications for its agricultural sector, including:

- an increasing gap in income between those working in the agricultural sector and those working in other sectors;

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148 Mr Justin Ross, Primary Industries and Regions SA, *Committee Hansard*, 15 November 2012, p. 29.

149 Sungmin Choi, President, C&H Food Specialty Co. Ltd, private correspondence to the Committee, undated translation.

150 DAFF, *Submission 12 (Korea)*, p. 2.

- less arable land due to urbanisation and competition for resources; and
  - an ageing rural population as younger Koreans move toward more lucrative jobs in the industrial sector – for example, in 2005, 54.8 percent of Korean farmers were 60 or older, compared with 6.4 percent in 1970.<sup>151</sup>
- 3.152 The sector is now defined by small-scale, highly protected farms operated by an increasingly ageing farmer population.<sup>152</sup>
- 3.153 Unlike Australia’s agricultural sector, which is highly trade exposed, Korea’s agricultural policies offer a high degree of protection for Korean domestic agriculture through measures such as domestic support and subsidies, high tariffs and non-tariff barriers such as quotas.<sup>153</sup> Korea’s support of the agriculture sector ranks amongst the highest in the world. In 2009, the OECD estimated that government support to farmers accounted for around half of gross farm receipts. This compares with one percent in New Zealand, four percent in Australia and 61 percent in Norway.<sup>154</sup>
- 3.154 Korea’s agricultural imports are affected by changes in food consumption patterns as incomes increase and a ‘western’ lifestyle is increasingly adopted. This includes increased consumption of meat, poultry, fish, shellfish, fruit and vegetables and a decline in cereal and soybean consumption.<sup>155</sup> For example, the percentage of animal products consumed by Koreans increased from 3.9 percent of daily calories in 1965 to 15.1 percent in 2005.<sup>156</sup>
- 3.155 Korean agricultural policy has been largely driven by protection of its agricultural industries and a desire for self-sufficiency, particularly in rice production, which covers more than 50 percent of cultivated land and is the main agricultural commodity.<sup>157</sup>
- 3.156 The Department of Agriculture, Fisheries and Forestry indicated, however, that Korea is using its FTA agenda to address the need for stable food supply. Food security issues are also driving agricultural reform that

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151 DAFF, *Submission 12 (Korea)*, p. 18.

152 DAFF, *Submission 12 (Korea)*, p. 3.

153 DAFF, *Submission 12 (Korea)*, p. 2.

154 DAFF, *Submission 12 (Korea)*, p. 20.

155 DAFF, *Submission 12 (Korea)*, p. 16.

156 DAFF, *Submission 12 (Korea)*, p. 17.

157 DAFF, *Submission 12 (Korea)*, p. 21.



has seen Korea open-up much of its agriculture sector to foreign competition through the FTA process.<sup>158</sup>

- 3.157 The Committee considers that improved agricultural access to the Korean market would make a significant contribution to Korea's food security issues and changing food consumption patterns.
- 3.158 The Committee notes that in December 2012, Korea elected a new President. The Committee considers that efforts to conclude Australia's FTA with Korea need to be sustained. The Committee shares the concern that, with ongoing delays, Australia's exports to Korea will suffer. During its visit to Korea, the Committee heard directly from Korean importers that they will look to other markets in the absence of a Korea-Australia agreement.
- 3.159 The Committee believes that the FTA will strengthen the relationship between both countries and provide significant opportunities for business. The Committee considers it important that the outcomes achieved under the FTA ensure that Australia businesses can compete on equal terms with our competitors, especially in those markets where other countries have already received preferential treatment through conclusion of a FTA.
- 3.160 The FTA will also provide an ongoing contribution to Korea's energy and food security, and encourage further growth in bilateral investment and services trade.
- 3.161 Noting the political difficulties within Korea, the Committee supports the Government's efforts to conclude a comprehensive agreement with the ROK. The Committee considers that such negotiations should continue to be prioritised by the Government, including at the Ministerial and Prime Ministerial level with their Korean counterparts.

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158 DAFF, *Submission 12 (Korea)*, p. 3.

## Recommendation 4

**The Committee recommends that the Australian Government seek to conclude negotiations on a comprehensive and liberalising free trade agreement with the Republic of Korea as a matter of urgency.**

## Services trade

- 3.162 Education and tourism represent the vast majority of Australia's services exports to Korea, which were valued at \$1.9 billion in 2010. From 2000, Australia's services exports grew at an average annual rate of 15 percent.<sup>159</sup>

## Education

- 3.163 As noted in chapter two, education is Australia's largest services export. The Tourism Transport Forum commented that the international education market has grown substantially over the last decade, with South Korea featuring very strongly in the market, including in short courses.<sup>160</sup> Korea is Australia's third largest source of foreign students after China and India. At the end of 2012, there were 27,719 students enrolled in Australian institutions.<sup>161</sup> The Department of Foreign Affairs and Trade and Austrade told the Committee:

English language proficiency is recognised as important for success in Korea's export-driven economy and the strong demand among Koreans for overseas education is likely to continue. Korean perceptions of the price/quality ratio of Australian education will remain the key factor determining Australian enrolments.<sup>162</sup>

- 3.164 From Australia's perspective, the Korean market is important to educational institutions seeking to diversify their foreign student

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159 DFAT and Austrade, *Submission 3 (Korea)*, p. 6.

160 Students studying short courses fall within the visitor rather than the student visa category so their numbers are not reflected in student visa data. Mrs Adele Labine-Romain, TTF, *Committee Hansard*, 14 November 2012, p. 42.

161 Australian Education International, *End of Year Summary of International Student Enrolment Data – Australia – 2012*, viewed 14 February 2013, <<https://aei.gov.au/research/International-Student-Data/Pages/default.aspx>>.

162 DFAT and Austrade, *Submission 3 (Korea)*, p. 10.

enrolments. The Committee heard that over the next three years, Austrade will focus on increasing enrolments in tertiary studies, with the target of doubling the number of Korean students by 2015.<sup>163</sup>

- 3.165 The Committee also heard however that it is often difficult for Korean students to come to Australia for formal student exchanges and short-term semester studies as, although English is widely studied in Korea, proficiency levels are mixed. It is similarly difficult for Australian students to study in Korea as few have the necessary level of proficiency in Korean.<sup>164</sup>
- 3.166 Australia's major English-speaking competitors in the Korean market are the United States, United Kingdom, Canada, the Philippines and to some extent New Zealand. Each of Australia's competitors use similar recruitment strategies to Australia, including education fairs, agents, websites and social media. The United States also offers generous scholarship schemes and is the only country that has not experienced a recent decline in student numbers. Canada has mitigated immigration requirements to increase student numbers. The Philippines offers a low-cost option.<sup>165</sup>

### Delegation discussions

- 3.167 The Committee delegation received a comprehensive briefing on Australia's education links with the ROK during its visit to Korea, and met with representatives of the Korean Ministry of Education, Science and Technology.
- 3.168 The delegation heard that while the ROK represents Australia's third largest source of overseas students, numbers have declined due to the high Australian dollar and competition with the United States. While there are just under 30,000 Korean students in Australia, there are only 136 Australian students in Korea. Around half of the Korean students in Australia are in NSW, where there is a large Korean community.
- 3.169 The delegation was interested to learn more about Korea's education policies and the strong emphasis placed on education by Korean parents, which have led to high results in international tests, low high school dropout rates and college completion rates amongst the highest in the world.

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163 DFAT and Austrade, *Submission 3 (Korea)*, p. 25.

164 DFAT and Austrade, *Submission 22*, p. 16.

165 DFAT and Austrade, *Submission 22*, p. 17.

- 3.170 Officials of the ROK Ministry of Education, Science and Technology briefed the delegation. Mr Chun Hong Kim of the Ministry's Policy Planning area highlighted the achievements in universal education and student performance obtained since the introduction of compulsory primary education in the 1960s. In 2009, the college advancement rate was 90.2 percent. In his presentation, Mr Kim also emphasised that for Koreans, education is regarded as an investment for the future. A high level of aspiration has been a driving force in the development of Korea's education system. However, this aspiration has also resulted in a highly competitive environment, with long school work hours, unhappy school life and high expenditure for private tutoring.
- 3.171 Some of the challenges facing Korean education are:
- Private education: excessive private education expenditure is having a negative impact on families, students and schools, both in terms of the amount of money being spent and also its impact on physical and mental health. The enormous costs paid by parents for after school tutoring is a significant contributor to the declining birth rate.
  - Rapidly decreasing student population: Mr Kim identified a strong need for university restructuring, fundamental changes in university admissions, and importance of nurturing the talent and potential of all individual students.
- 3.172 Mr Kim also outlined the vision of education for all under the slogan 'No Students, No Talents Missed Out'. Areas of focus are underachieving students, special needs students, multicultural/North Korean defector students, universalised early childhood education, vocational education, and expanding job opportunities for high school graduates.
- 3.173 Mr Kim informed the delegation that the goal of the vocational Meister High Schools is that all graduates are employed immediately upon graduation. To this end, Memoranda of Understanding are in place with some companies guaranteeing jobs. In the last four years, the employment rate of vocational high school graduates has increased from 16.7 to 40.2 percent.
- 3.174 Other areas of focus include:
- strengthening public education;
  - improving the college admission system;
  - advancing STEAM (science, technology, engineering, arts and mathematics) education;

- implementing SMART education, a promotional strategy that including digital textbooks and online courses;
  - English (communication ability);
  - math (problem solving ability);
  - full implementation of the five day school week; and
  - expansion of after school programs.
- 3.175 Education policy is also focussed on higher education reform, including strengthening research capacity in Graduate Schools, attracting renowned overseas education and research institutions, university specialisation, and enhancing graduate employability.
- 3.176 The delegation also heard about Austrade's marketing and promotion activities, which are focussed on utilising social media networks, agent workshops, alumni activity, the Australian Future Unlimited Education Exhibition, and working holiday makers and ELICOS (English Language Intensive Courses for Overseas Students).
- 3.177 In terms of overseas study, the delegation met representatives of Bada, the largest education agent for Australia, with two offices in Korea and four in Australia (Sydney, Melbourne, Adelaide and Canberra). Bada sends 400 Korean students per year exclusively to Australia. Representatives of Bada spoke to the delegation about Australia as an important destination to study English and its reputation as a safe and clean destination. The delegation also heard about the importance of education agents, a highly competitive market that plays a major role in providing information to potential students. One of Austrade's priority areas is building networks with agents.
- 3.178 The Committee notes that Korea's education system is amongst the five highest performing education systems in the world with almost universal post-secondary education.<sup>166</sup>
- 3.179 During the inquiry, the Committee discussed the importance of building cultural understanding between countries, in addition to language learning.<sup>167</sup> The Committee was interested to learn about the Korean

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166 Australian Government, *Australia in the Asian Century*, White Paper, October 2012, p. 34.

167 See also M. Jones, 'Moving out from the Shadows: A commentary on the South Korean-Australian Relationship in the Year of Friendship, marking the 50<sup>th</sup> Anniversary of the Commencement of Diplomatic Relationships', May 2011, *Exhibit 3*.

Government's cultural centre in Sydney, which is designed to introduce Korean culture to Australia.<sup>168</sup>

3.180 The Committee notes that the Government's *Australia in the Asian Century* White Paper outlines the following national objective:

11. All Australian students will have the opportunity, and be encouraged, to undertake a continuous course of study in an Asian language throughout their years of schooling.

. All students will have access to at least one priority Asian language; these will be Chinese (Mandarin), Hindi, Indonesian and Japanese.<sup>169</sup>

3.181 The White Paper then states that governments should continue to support efforts to increase the study of other languages such as Korean, Vietnamese and Thai.

3.182 The Committee notes that:

The selection of priority languages reflects those nations where the majority of opportunities will be available to Australians in the Asian century.<sup>170</sup>

3.183 The AKBC raised concerns that Korean was not included in the list of priority languages. Mr Colin Heseltine told the Committee:

Korea's importance for Australia is recognised in section 9 of the white paper, which names Korea, along with China, India, Indonesia and Japan, as the key priorities in Asia for Australia. It is puzzling and perplexing, therefore, that Korean is not listed among the priority Asian languages for teaching in Australian schools...

Increasing integration of the three major north-east Asian economies suggests that Australia should take an integrated approach to furthering our relationships with these countries and identifying the growing opportunities there. This includes language and country studies. Not including Korean as a priority Asian language is, in the AKBC's view, an unfortunate and backward step which lacks vision in a document that looks to Australia's future from now to 2025.<sup>171</sup>

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168 Mr Wahn-Seong Jeong, Embassy of the ROK, *Committee Hansard*, 29 November 2012, p. 3.

169 Australian Government, *Australia in the Asian Century*, White Paper, October 2012, p. 170.

170 Australian Government, *Australia in the Asian Century*, White Paper, October 2012, p. 171.

171 Mr Colin Heseltine, AKBC, *Committee Hansard*, 14 November 2012, p. 25.

- 3.184 The Committee received private correspondence from the Chair and Members of the Korea-Australia Parliamentary Friendship Group that also expressed concern about the omission of Korean as a priority language in the White Paper.<sup>172</sup>
- 3.185 The Committee considers the omission of Korean from the list of priority languages to be a regrettable outcome of the White Paper process. The Committee is of the view that, in light of the significant relationship Australia enjoys with Korea, and its potential future growth, the Government should prioritise Korean language learning.

### **Recommendation 5**

**The Committee recommends that the Australian Government recognise the significance of Australia's current and potential relationship with the Republic of Korea by designating Korean as a priority language in school education.**

- 3.186 The Committee found comments about the lack of appreciation of the importance of Australia and Korea's relationship disturbing. Although the Committee sought to maintain an equal focus on Japan and Korea during this inquiry, it did observe more familiarity and a greater depth of knowledge about Japan generally. Given the importance of Australia's relationship with the ROK, and the potential for it to be broadened and deepened into the future, the Committee considers that the Government should prioritise and promote this relationship more broadly.

### **Recommendation 6**

**The Committee recommends that the Australian Government prioritise and promote Australia's relationship with the Republic of Korea, with the objective of broadening and deepening the relationship between the two countries.**

## **Tourism**

- 3.187 In 2010, the Korean inbound market was Australia's sixth largest by value and Australia's eighth leading market in terms of international visitor

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<sup>172</sup> Korea-Australia Parliamentary Friendship Group, private correspondence to the Committee, 23 January 2013.

arrivals. Tourism Australia told the Committee that the South Korean tourism market delivers around \$1.3 billion annually, with around 197,000 visitors. The Committee notes that although the market is of similar value to the Japanese market, the number of visitors annually is much smaller.

3.188 Tourism Australia explained that:

The reason for the high level of expenditure is that it is a large youth component in that market – working holiday-maker visa arrangements and education. The average duration of stay for a Korean visitor is 67 days. The ABS calculates the figures by treating a student or a working holiday-maker in Australia as a visitor. Therefore, you get that long length of tenure. The average Japanese visitor's stay is around 22 days because it has a much larger leisure component. Korea is more driven by the education and employment market, while there is a much larger leisure component in the Japanese market.<sup>173</sup>

3.189 Tourism Australia expected that Korean tourism would continue to be driven by education and employment opportunities into the future.<sup>174</sup>

3.190 Tourism Australia's Market Profile for the ROK provides the following key statistics and predictions for the South Korean market:

- arrivals from South Korea have seen a compound annual growth rate of 1.2 percent between 2001 and 2011;
- arrivals dropped sharply following the Asian Financial Crisis in 1997. Other events to impact outbound travel in the last decade have included the outbreak of SARS in Asia, influenza outbreaks, and the Tohoku earthquake and tsunami;
- the availability of the Working Holiday Visa to Koreans since 1995 has also helped drive youth arrivals;
- South Korea's top five outbound destinations in 2011 were China, Japan, Thailand, the US and the Philippines. Australia ranked 14<sup>th</sup>.
- excluding North East Asian countries, South Korea's top five destinations were Thailand, the US, Philippines, Vietnam and Singapore. Australia ranked 10<sup>th</sup> among out of region travel.

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173 Mr Simon Westaway, Tourism Australia, *Committee Hansard*, 14 November 2012, p. 30.

174 Mr Simon Westaway, Tourism Australia, *Committee Hansard*, 14 November 2012, p. 31.



- aviation capacity between Korea and Australia experienced modest growth in 2011. Korean Air and Asiana Airlines are the key carriers on the route with direct services from Seoul.
  - the Korean market is highly seasonal with carriers increasing and reducing capacity in line with seasonal demand. Peak travel times are December and January.<sup>175</sup>
- 3.191 The Committee notes that no Australian carrier directly services the Korean market. Services are provided by Korean Air, which operates four services a week from Seoul to Brisbane, three services a week from Seoul to Melbourne and daily services from Seoul to Sydney, while Asiana Airlines operates daily services from Seoul to Sydney (on which Qantas code-shares).<sup>176</sup>

### Working Holiday Program

- 3.192 Australia's Working Holiday Program was introduced in 1975, when it was initially available to the United Kingdom, Ireland and Canada. Japan was the fourth country to join the scheme in 1980, followed by the Republic of Korea in 1995.
- 3.193 As at 31 December 2011, there were 26 partner nations and regions. The program is intended to foster closer ties and cultural exchange between Australia and partner countries.<sup>177</sup>
- 3.194 Mr Simon Westaway of Tourism Australia told the Committee about the significance of the working holiday-maker visa category:

We think it is a good way to get visitors into our country and get them to go through the country, and, importantly, it will take up a lot of work roles that perhaps have been displaced through the growth in the mining sector. It will also take up the latent demand that the accommodation and hospitality sector requires in terms of baristas, front-of-house and back-of-house support around our tourism sector.<sup>178</sup>

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175 Tourism Australia, *Korea Market Profile*, May 2012, viewed 11 December 2012, <<http://www.tourism.australia.com/en-au/markets/North-Asia.aspx>>.

176 DRET, *Submission 16*, p. 12.

177 Department of Immigration and Citizenship, *Working Holiday Maker visa program report*, 31 December 2011, p. 3. The Working Holiday visa is available to passport holders from Belgium, Canada, Republic of Cyprus, Denmark, Estonia, Finland, France, Germany, Hong Kong, Republic of Ireland, Italy, Japan, Republic of Korea, Malta, the Netherlands, Norway, Sweden, Taiwan and the United Kingdom.

178 Mr Simon Westaway, Tourism Australia, *Committee Hansard*, 14 November 2012, p. 31.

- 3.195 The Tourism Transport Forum (TTF) stated that ‘South Korea has been a standout’ in the program. In 2011, 33,000 Korean holidaymakers came to Australia under the program, representing 15 percent of the market.<sup>179</sup> The TTF considered South Korea and Japan (with 9,000 participants in 2011) to be models for expansion of the program to allow participation by a greater number of countries and also increased quotas for countries such as Malaysia and Thailand that have a cap of 500 people. In the TTF’s view, the benefits of the program are:

What happens once these young people have been here ... is that they go back as tremendous ambassadors for Australia. They will be return visitors. They will send their students here to study. It is a really key program for establishing a mutual engagement partnership.<sup>180</sup>

- 3.196 The Committee notes that the TTF’s submission to the *Australia in the Asian Century White Paper* described the program as a ‘major policy success for Australia’. In addition to its stated goal of fostering cultural ties and cultural exchange between Australia and partner countries, the program has also resulted in:

Australia gaining a mobile and committed source of labour to satisfy seasonal labour demand in agriculture and visitor economy; provided direct returns to the visitor economy as the visa holders travel around the country; and produced a large number of ambassadors for Australia when they return home.<sup>181</sup>

- 3.197 The Korean Embassy echoed this view in discussions with the Committee. The Committee heard that in addition to being a popular destination for young Koreans, they are also very happy to come to Australia to work. There is a barrier, however, in Australian requirements around English language proficiency.<sup>182</sup>

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179 Mrs Adele Labine-Romain, TTF, *Committee Hansard*, 14 November 2012, p. 38.

180 Mrs Adele Labine-Romain, TTF, *Committee Hansard*, 14 November 2012, p. 39.

181 Tourism Transport Forum, *Australia in the Asian Century: Visitor Economy Opportunities*, March 2012, viewed 1 November 2012, <<http://www.ttf.org.au/Content/asiancenturysub.aspx>>.

182 Mr Wahn-Seong Jeong, Embassy of the ROK, *Committee Hansard*, 29 November 2012, pp. 3, 4.

## Investment opportunities

3.198 There has been an increasing focus on investment in Australia from Korea over the last decade. Mr Wahn-Seong Jeong of the ROK Embassy told the Committee:

Korean investment in Australia, especially in the resources sector, has grown strongly. Korea's investment in Australia in 2011 was the highest ever recorded, at over \$1.4 billion. Korea's investment during the first half of 2012 exceeded \$1.5 billion. Korea's corporations have made direct investment in 36 mining projects across the nation, mostly in joint ventures, including 10 coalmines in Queensland and 12 in New South Wales, as well as the \$1.5 billion investment in the Roy Hill project in Western Australia by POSCO. This is by far the biggest overseas investment by a Korean company anywhere in the world. Since 1968 the total amount of Korea's investment in Australia has amounted to over \$10 billion. On the other hand, Australia's total investment in Korea since 1962 has been \$2.1 billion. Much of this is portfolio investment.<sup>183</sup>

3.199 In relation to LNG, Mr Jeong told the Committee:

... Korean shipbuilding companies are manufacturing floating LNG as well as gas processing modules. Samsung Heavy Industries is building the world's biggest and most modern floating LNG facility for Western Australia's Prelude project. It amounts to \$3.5 billion. Hyundai Heavy Industries, which is the world's biggest shipbuilder, is building modules for the Gorgon project, to be completed by 2013. Daewoo Shipbuilding and Marine Engineering are building an offshore gas processing platform for the Wheatstone LNG project, which will allow 55 million cubic metres of gas to be processed per day.<sup>184</sup>

3.200 Mr Colin Heseltine, Deputy Chairman of the Australia-Korea Business Council commented:

What we are seeing now, as Korea looks for security of supply, is a growing focus in the resources sector on investment.<sup>185</sup>

3.201 Embassy representatives were of the view, however, that Korean investment was likely to diversify beyond the resources sector.<sup>186</sup>

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183 Mr Wahn-Seong Jeong, Embassy of the ROK, *Committee Hansard*, 29 November 2012, p. 1.

184 Mr Wahn-Seong Jeong, Embassy of the ROK, *Committee Hansard*, 29 November 2012, p. 1.

185 Mr Colin Heseltine, AKBC, *Committee Hansard*, 14 November 2012, p. 24.

- 3.202 Mr Heseltine told the Committee that Korea, with the world's sixth largest pension fund, has 'a major capability as a giver rather than a taker of capital.' Other areas of potential Korean investment and interest are Australian infrastructure and financial services.<sup>187</sup>
- 3.203 In terms of Australian investment in Korea, Mr Heseltine told the Committee:
- Again it gets back to Australians not naturally looking to Korea to invest in. I think they see it as difficult.<sup>188</sup>
- 3.204 The Committee heard that both Macquarie Bank and ANZ are active in Korea. Since 2000, Macquarie Bank 'has built up a successful and diversified group of financial services businesses in Korea, employing over 300 staff.'<sup>189</sup>
- 3.205 ANZ commenced operations in the ROK in 1978. It has one branch in Seoul, which is a fully licensed commercial bank. The ROK is an important part of the ANZ's super regional strategy, which was discussed in chapter two. ANZ focuses its activities in Korea in the following areas: global/regional and large local corporates, State owned companies and financial institutions, electronics, oil and gas, trade and utilities, chemicals, shipbuilding, steel and nonferrous metal manufacturing, construction and engineering, and auto manufacturing.<sup>190</sup>

## Delegation discussions

- 3.206 The delegation heard about investment opportunities in Korea during a meeting with representatives of Macquarie Securities, Pure Commerce, Boral Korea and Austcham Korea. Representatives described their company's involvement in Korea and the opportunities for Australian businesses, emphasising the importance of relationship building.
- 3.207 The delegation was also very pleased to visit two significant Korean companies with strong trade and investment ties to Australia.

## POSCO Steelworks

- 3.208 The delegation welcomed the opportunity to meet with POSCO's Chairman, Mr Chung Joon-Yang in Seoul and then visit the POSCO

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186 Mr Wahn-Seong Jeong, Embassy of the ROK, *Committee Hansard*, 29 November 2012, p. 4.

187 Mr Colin Heseltine, AKBC, *Committee Hansard*, 14 November 2012, p. 24.

188 Mr Colin Heseltine, AKBC, *Committee Hansard*, 14 November 2012, p. 28.

189 DFAT and Austrade, *Submission 3 (Korea)*, pp. 24-25.

190 ANZ, *Submission 9*, p. 3.

Steelworks in Pohang. General Superintendent and Senior Executive Vice President, Mr Cho Bong-Rae, hosted the delegation in Pohang. POSCO is Australia's largest corporate customer.

- 3.209 POSCO was established in 1968 and privatised in 2000. It has 17,500 employees and the plant operates 24 hours per day, using 1.8 million tonnes of raw materials every 20 days. Limestone is the only raw material used at the plant that is sourced within the ROK and POSCO sources 60 percent of its iron ore from Australia, where it also has significant investments.
- 3.210 The delegation toured the steelworks, including the iron rolling plant, environment centre and FINEX facility. FINEX is a more environmentally friendly alternative to the blasting process, in which the coking process is eliminated, dramatically reducing emissions. The delegation heard about POSCO investment of US\$2 billion in environmental measures, including planting over 2 million trees on site and recycling 98 percent of its industrial water.
- 3.211 POSCO has also invested substantially in harbour facilities as well as other infrastructure, including residences, a university, and other sporting facilities.

### Hyundai Heavy Industries

- 3.212 Following the visit to Pohang, the delegation travelled to Ulsan to visit Hyundai Heavy Industries (HHI).
- 3.213 Mr Kim Dae Young, Executive Vice President of the Offshore Division hosted the delegation's visit. HHI is the largest shipbuilding and offshore manufacturing company in the world. HHI commenced shipbuilding in 1972 and has undertaken four projects in Australia since 1982, including its current project to construct plant modules for the Gorgon LNG project, with completion expected in 2013.<sup>191</sup> HHI sources its steel from POSCO.
- 3.214 The scope of the company's activities includes the following divisions: shipbuilding (15 percent of all steel ships worldwide); engines and machinery (with 35 percent of the global marine market); offshore and engineering; industry plant and engineering; construction equipment; and research and development. HHI also has a substantial human resources infrastructure for its employees, including housing, hotels, medical centre,

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<sup>191</sup> Hyundai Heavy Industries Co. Ltd, *Offshore and Engineering*, Brochure provided to delegation, p. 51.

sports complex, schools and accommodation for foreign workers, as well as overseas study tours and language studies.

- 3.215 The delegation toured the shipyards where 100 ships are constructed each year and saw the platforms being built for the Gorgon project.

## **Government assistance**

- 3.216 As discussed in chapter two, Austrade and the Department of Innovation, Industry, Science and Research play an important role in developing and promoting the trade and investment relationship.

- 3.217 In Korea, Austrade works with other government departments and agencies to:

- build better brand awareness of Australian capability;
- break down barriers to market entry;
- develop new market sectors for Australia;
- create new pathways to market; and
- expand market share.<sup>192</sup>

- 3.218 In its submission, the Department of Foreign Affairs and Trade and Austrade stated that Korea is a challenging market for Australian exporters. Austrade provides particular assistance in business partner identification, which can be difficult in Korea, and government imprimatur. The involvement of Austrade through the Australian Embassy can elicit greater interest for individual businesses.<sup>193</sup>

- 3.219 Ai Group saw an opportunity for government assistance through Austrade in providing local industry knowledge and on the ground information to assist in understanding language, cultural and global business perceptions in Korea:

Korea as a whole, as a market, is where industry could do with a bit more assistance to understand the market and to penetrate it.<sup>194</sup>

- 3.220 Mr Innes Willox told the Committee about the importance of on the ground information, particularly in a market such as Korea:
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<sup>192</sup> DFAT and Austrade, *Submission 3 (Korea)*, pp. 27-28.

<sup>193</sup> DFAT and Austrade, *Submission 3 (Korea)*, p. 27.

<sup>194</sup> Mr Innes Willox, Ai Group, *Committee Hansard*, 15 November 2012, p. 5.

It is a different market in terms of language, in terms of culture, in terms of global business perceptions. The common thing that I get told when I talk to members and others about Korea is that it is like operating in a whole different landscape altogether. So as much assistance as government can provide in local industry knowledge, background, contacts...

... on the ground information is, I think, essential. It is something that business is calling out for. I think business as a whole understands – it absolutely gets it, and we have made this point through the Asian white paper process – that we need to be in the region, and part of the success of being in the region is going back, making repeat visits. They get that. But you have to make sure that you are going to the right places, meeting the right people, doing the right things, having a better cultural understanding and awareness and being at the right access points.<sup>195</sup>

3.221 Further, Mr Willox stated:

The point I would make on Korea, finally, is that if we were to achieve a free trade agreement ... there needs to be a lot of thought given by government to how we then take advantage of it, because beyond those key areas of beef and agriculture more generally, which are obvious access points, for us to really take advantage of a free trade agreement I think we need to put a lot of effort into market development and exploration for Australian business and any support government gave.<sup>196</sup>

3.222 In the Ai Group's view, although the ROK is Australia's fourth largest trading partner, the focus on energy and minerals means that 'in many ways you could treat Korea as an emerging market because it is very deep in one sector and very narrow in others...'<sup>197</sup>

3.223 As noted earlier, the Australian Government has identified that Korea is a challenging market for Australian exporters. The Committee considers that, given the ongoing importance of Australia's relationship with Korea, the Government should prioritise support for Australian businesses seeking to enter this market.

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195 Mr Innes Willox, Ai Group, *Committee Hansard*, 15 November 2012, p. 5.

196 Mr Innes Willox, Ai Group, *Committee Hansard*, 15 November 2012, pp. 5-6.

197 Mr Innes Willox, Ai Group, *Committee Hansard*, 15 November 2012, p. 5.

**Recommendation 7**

**The Committee recommends that the Australian Government prioritise its support for Australian businesses seeking to enter the Korean market, with a focus on improving understanding of the market and maximising opportunities to conduct business in the Republic of Korea.**

**Australian products in South Korea**

- 3.224 As it did during its visit to Japan, the Committee delegation sought the opportunity to see Australian produce on sale in Korea. The delegation was therefore interested to visit EMart, Korean's largest grocery chain with 127 stores. EMart is a key importer of Australian products and the delegation observed fresh, frozen and tinned beef, cheese, butter and wine for sale during its visit.
- 3.225 Representatives of MLA explained some of their marketing activities, including 'Australian Beef – Clean and Safe' and 'Kids Love Aussie Beef'. Australia's clean and safe image has been promoted through the 'Australia Beef – Clean and Safe' promotion since 2002. The delegation saw samples of Australian beef in store that are packaged (including in cans) to suit the Korean market. MLA's research indicates that 78 percent of consumers buy Australian beef following sampling.
- 3.226 The Committee heard that marketing within Korea is based on country of origin differentiation. This approach to marketing has put Australia:
- ... in a good position because safety is paramount right across Asia in terms of food consumption, so people recognise Australian beef in Korea as clean and safe and that is a message that has stuck with consumers and has encouraged them to favour our product over some of our competitors.<sup>198</sup>
- 3.227 The delegation also visited Kim Youngmo Patisserie, which imports 2,000 tonnes of organic wheat flour from Australia each year. Mr Kim Youngmo, President, together with his wife and son hosted the visit. A baker for more than 45 years, Mr Youngmo has three stores with 200 employees. He informed delegation members that he uses Australian wheat flour in his bakeries because of its reputation.

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198 Mr Andrew McCallum, MLA, *Committee Hansard*, 28 November 2012, p. 3.



- 3.228 The delegation was interested in organic produce and the complex certification system currently in place in Australia, and sought further information upon its return to Australia.
- 3.229 The Committee heard from Mr Andre Leu, Chair of the Organic Federation of Australia that the organic market is the fastest growing agricultural trade sector in the world. There are difficulties for Australia, however, associated with the lack of a national organic mark:
- There is no control system for products that are labelled as organic in Australia. That raises issues with our trading partners ... Part of the solution for us has been to bring in an Australia standard so that we have one consistent standard for organic products.<sup>199</sup>
- 3.230 Once there is industry uptake of the national standard, Australia needs to secure an equivalency agreement with Korea (and Japan), which will remove the need for multiple certifications and reduce costs for organic producers significantly. It will also improve market access with the potential to significantly increase trade in beef, grains, dairy products and wines. Mr Leu advocated inclusion of organic equivalence in the current FTA negotiations with each country.<sup>200</sup>
- 3.231 The delegation also made a brief visit to the Garak Agriculture and Marine Products Wholesale Market while in Seoul, where members met with Mr M K Kim of Global Trading Co. Ltd, an importer of Australian citrus and mangos.
- 3.232 Established in 1985, Garak was the first public wholesale market in Korea. Currently, 2,304,000 ton of produce is traded at the market annually, an average of 7,725 ton per day. Auctions are conducted via electronic bidding, with prices listed on the internet in real time.
- 3.233 The market is open to imported products from overseas competitors. Bananas, oranges, pineapples, garlic and grapes are the main imported agricultural products but represent less than 10 percent of trade volume. Mr Kim told the delegation he has been importing Australian citrus for the past ten years and from next year, will also be importing table grapes. A key advantage presented by Australian produce is that it is counter-seasonal.

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199 Mr Andre Leu, OFA, *Committee Hansard*, 14 November 2012, p. 21.

200 Mr Andre Leu, OFA, *Committee Hansard*, 14 November 2012, pp. 21-22.

## Concluding comments

- 3.234 The longstanding and complementary relationship between Australia and the Republic of Korea was emphasised through this inquiry. Australia supported Korea's industrial development from the 1960s onwards through exports of raw materials. Energy and minerals/metals exports continue to be the 'bedrock' of the ongoing relationship.<sup>201</sup>
- 3.235 In recent years, there has been an increased focus from Korean companies on investing in Australia to secure Korea's ongoing energy needs. The Committee heard that Korean companies are taking increasingly large stakes in a variety of projects in the resources sector.
- 3.236 Agricultural trade is also important with 70 percent of Korea's food needs met from imports. Australia provides safe, high quality foods that contribute to Korea's food security. In turn, Australia continues to demand Korea's consumer products, including cars, electronics and refined fuels.
- 3.237 The ongoing FTA negotiations were a central focus of the Committee's discussions regarding Korea. The Committee heard with some concern about the implications of the delay in concluding negotiations, particularly as Korea's FTAs with countries such as the United States are now in force.
- 3.238 The Committee agrees that the competitiveness of Australia's key exports must be protected. The Committee heard first hand during its visit to Korea that without an Australia-Korea agreement, a number of Korean importers will turn away from Australia to other countries for their products.
- 3.239 The Committee strongly supports the Government's efforts to conclude a comprehensive and liberalising agreement that addresses the barriers for Australian businesses. While recognising that there are outstanding issues, such as agreement on Investor-State Dispute Settlement clauses, the Committee considers that the negotiations should continue to be prioritised with a view to finalising the agreement as a matter of urgency. At the same time, the Committee believes that the agreement should be comprehensive and advantageous to all sectors.
- 3.240 The Committee heard that there are a variety of difficulties faced by Australian businesses attempting to work in Korea, including language and cultural barriers, and a lack of understanding of the market amongst potential exporters. The Committee considers the importance of the

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201 DFAT and Austrade, *Submission 3 (Korea)*, p. 1.

relationship between Australia and Korea warrants priority from the Government in providing assistance in this market.

- 3.241 Education is an important export to South Korea, which has the third highest number of foreign student enrolments in Australia. The Committee supports Austrade's initiatives to increase Korean enrolments in Australian educational institutions over the next few years.
- 3.242 South Korea's participation in Australia's Working Holiday Program has also been significant with South Koreans representing 15 percent of this market in 2011. The Committee heard about the opportunities this program presents for Australia in strengthening ties between the two countries.
- 3.243 The Committee has raised concerns about the exclusion of Korean as a priority language in the *Australia in the Asian Century* White Paper. As with other areas where the relationship between the two countries is often overlooked, the Committee considers that the importance of Korea should be more widely recognised and promoted.
- 3.244 The delegation that visited the Republic of Korea took the opportunity to see Australian products on sale and to learn more about the marketing strategies employed by organisations such as Meat and Livestock Australia, which has tapped into food safety with its 'Australian Beef – Clean and Safe' promotion. The Committee also learned about opportunities in the organic food sector, particularly if Australia adopts a national organic mark.
- 3.245 More generally, the Committee's view is that implementation of the recommendations contained in its report *Australia's Overseas Representation – Punching below our weight?* would assist with the promotion of Australia's trade interests overseas and aid in securing agreements.

## Recommendation 8

**The Committee recommends that the Australian Government prioritise implementation of the recommendations of the Joint Standing Committee on Foreign Affairs, Defence and Trade report *Australia's Overseas Representation: Punching below our weight?***

Ms Janelle Saffin MP  
Chair  
Trade Sub-Committee  
May 2013

Hon Joel Fitzgibbon MP  
Chair  
Joint Standing Committee on Foreign  
Affairs, Defence and Trade  
May 2013