

# **AUSTRALIA-THAILAND FREE TRADE AGREEMENT, AND ASSOCIATED EXCHANGES OF LETTERS**

**Documents tabled on 12 May 2004**

## **National Interest Analysis**

**Text of the Australia-Thailand Free Trade Agreement**

**Agreed text of Exchange of Letters on Tariff Rate Quotas**

**Agreed text of Exchange of Letters on Trade in Services**

## **Regulation Impact Statement**

### **Annexes:**

1. Consultations
2. Obligations
3. Thailand political brief
4. Thailand fact sheet
5. List of other treaties with Thailand
6. List of treaties of the same type with other countries

## **NATIONAL INTEREST ANALYSIS: CATEGORY B TREATY**

### **SUMMARY PAGE**

#### **Australia-Thailand Free Trade Agreement, and associated exchanges of letters**

##### **Date of Tabling of Proposed Treaty Action**

1. 12 May 2004.

##### **Nature and Timing of Proposed Treaty Action**

2. The Australia-Thailand Free Trade Agreement (FTA) is being tabled before signature with the consent of both Parties. Signature is expected in the middle of 2004. The proposed treaty action is to bring into force the FTA. Article 1910 states that the FTA will enter into force 30 days after written notice is provided by both sides that their respective internal processes for the entry into force of the FTA have been fulfilled. Subject to enactment of the Australian implementing legislation, entry into force is expected around the beginning of 2005.

##### **Overview and National Interest Summary**

3. The Australia-Thailand FTA liberalises and facilitates trade and investment between the Parties. The FTA will deliver new trade and investment opportunities and an improved climate for commercial exchanges.

4. The most significant feature of the FTA is that it will remove all of Thailand's tariff and quota barriers on imports of merchandise from Australia that meet the Rules of Origin (ROOs) criteria. It also includes initiatives to free up and facilitate trade in services and two-way investment.

5. In addition to the core trade liberalisation commitments on goods and services, the FTA also contains provisions on the protection of intellectual property, customs procedures, electronic commerce, competition policy and government procurement.

6. Thailand was Australia's fourteenth largest export destination in 2003, with two-way trade valued at \$A 5.9 billion. Thailand is already an important and expanding market for Australian exports of goods and services, but economic linkages have been hampered by Thailand's high trade restrictions and barriers.

7. On top of the increased trade and investment opportunities the FTA provides, the initiative to negotiate the FTA also reflected Australia's broader trade and economic interests in the Asian region. The conclusion of a substantive and comprehensive FTA with Thailand will signal strong support for multilateral, regional and bilateral initiatives, help create an open global and regional trading environment

and promote strength and stability in the region. The deal establishes a platform for Australia to work towards greater economic integration with the second-largest economy in South East Asia.

### **Reasons for Australia to Take the Proposed Treaty Action**

8. The FTA will result in direct benefits for many sectors of the Australian economy. Some of these benefits include:
  - More than three-quarters of Australia's current exports to Thailand will be tariff free immediately upon the entry into force of the FTA, with over half of all Thailand's tariffs on imports from Australia eliminated
    - more than \$700 million of current Australian exports to Thailand will benefit from substantial tariff reduction on entry into force.
  - All Thai tariffs that are not immediately eliminated will be reduced when the FTA enters into force.
  - Virtually all tariffs will be scrapped by 2010, although a few will be eliminated in the period after 2010.
  - Tariffs on large passenger motor vehicles, currently at 80 per cent, will be eliminated upon entry into force of the FTA.
  - Thailand will eliminate by 2010 its tariffs on all nearly all industrial goods (current tariffs up to 30 percent), with a few steel products being the main exception.
  - The FTA will see the elimination of Thailand's high tariffs on agricultural products and processed foods
    - Thailand's current simple average tariffs on these goods is about 25 percent.
  - Thailand will eliminate upon entry into force of the FTA its tariffs on wheat, barley, rye and oats, as well as its tariff and tariff rate quota on rice.
  - Thailand will immediately eliminate the current tariffs on infant formula (5 percent), lactose (up to 20 percent), casein and milk albumin (10 percent), and phase the tariffs on butter fat, milkfood, yoghurt, dairy spreads and ice cream to zero in 2010.
  - Thailand will phase the current 32 percent tariff for sheep meat to zero in 2010.
  - Thailand will phase tariffs on most fresh fruit and vegetables (current rates mostly 33 percent or 42 percent) to zero in 2010.
  - Thailand will provide immediate additional access for sugar, expanding by 10 percent annually, with tariff and quota free access in 2020.
  - Thailand has guaranteed more open access for Australian companies to its services markets in a range of sectors, eliminating its strict foreign equity restrictions on certain distribution, construction and consultancy services, and easing restrictions in a range of sectors, including mining.
  - The FTA includes a commitment to further liberalise two-way services trade within three years of entry into force

- one of the associated exchanges of letters sets out priorities for discussion in the review of commitments (financial and telecommunications services, as well as conditions applying to Australian business people visiting Thailand).
- Australians will be granted visas and work permits for up to five years (for intra-corporate transferees) and three years (for contractual service suppliers) provided they have ongoing employment and comply with Thai laws.
- The number of documents required for work permits and renewals of work permits will be reduced.
- The FTA incorporates provisions on investment protection which guarantee a range of rights of Australian direct investors in Thailand, including the right to transfer their funds freely.

9. Although these economic gains from the Australia-Thailand FTA will be significant for some sectors and firms, their impact on Australia's macroeconomic aggregates such as GDP, employment or net exports is not expected to be large (estimated by the Centre for International Economics at \$US 2.4 billion over the first 20 years of operation). This is because Australia already has a relatively open economy, leaving room for few expected efficiency gains as a result of this FTA.

10. Apart from the direct economic benefits, implementation of the FTA will also enhance Australia's broader trade, economic and security interests in the region. A substantive and comprehensive FTA between the two countries will signal strong support for multilateral, regional and bilateral initiatives, help create an open global and regional trading environment and promote strength and stability in the region.

## **Obligations**

11. The FTA is a broad agreement that will liberalise and facilitate trade and investment between the two Parties. Each Party will eliminate all tariff barriers and tariff rate quotas, either immediately upon entry into force or through a phased reduction. The vast majority of tariffs will be eliminated by 2010, although a handful will remain until 2015 or 2020.

12. **Annex 2** provides a detailed summary of the obligations of the Australia-Thailand FTA.

## **Implementation**

13. For Australia to fulfil its obligations under the FTA, the *Customs Tariff Act* 1995 and the *Customs Act* 1901 will need to be amended to incorporate the preferential tariff rates that will apply to goods imported from Thailand under the FTA. Amendments to the *Customs Tariff Act* 1995 and/or the *Customs Act* 1901 may also be required to implement the provisions in the FTA on safeguards.

14. Australia's commitments on services and investment will not require any changes to existing measures in these areas. The Australia-Thailand FTA does include

binding commitments that go beyond Australia's existing WTO obligations and limit the Government's flexibility in adopting new regulations in some areas in the future.

### **Costs**

15. The Treasury has estimated that the financial cost of the Australia-Thailand FTA to the Commonwealth Government will amount to \$45 million in 2004/05, \$90 million in each of 2005/06 and 2006/07 and \$110 million in 2007/08. This estimate is based on the expected loss of tariff revenue from imports from Thailand, which are assumed to grow steadily over time in line with the domestic economy. It is also assumed that the FTA will enter into force at 1 January 2005. The estimates do not take account of the scope for additional lost tariff revenue that could arise if imports from Thailand displaced imports from other countries. At the same time, the estimates do not take into account the potential economic growth that the Australia-Thailand FTA may generate and any additional taxation revenue resulting therefrom.

### **Consultations**

16. The proposed action will not have a substantial impact on the States and Territories. Although many of Australia's obligations relating to services will need to be implemented at the State/Territory level, the commitments Australia has made will require no change to State or Territory legislation. The States and Territories were consulted throughout the negotiations through meetings in capitals, joint meetings in Canberra and through other forums such as the National Trade Consultations.

17. Extensive consultations were also held with peak industry bodies and a limited number of individual companies. Meetings were held in most states, as well as in Canberra. In addition, information was posted on the website, and updates on the progress of the negotiations were emailed to contacts on a regular basis.

18. **Annex 1** contains a comprehensive account of the consultations conducted regarding the Australia-Thailand FTA.

### **Regulation Impact Statement**

19. A Regulation Impact Statement is attached.

### **Future Treaty Action**

20. Articles 1703 and 1704 provide for the regular review of the FTA. The first review will take place within one year of entry into force and annually thereafter. A number of chapters of the FTA also contain provisions for consultation and review of specific provisions. Any amendments to the FTA would be subject to the Australian treaty process.

### **Withdrawal or Denunciation**

21. Under Article 1910, either Party may terminate the FTA by giving the other Party twelve months notice in writing. Termination of the Australia-Thailand FTA would be subject to the Australian treaty process.

### **Contact Details**

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