

## Trade relations and bilateral free trade agreements

### Introduction

- 3.1 Faced with slow progress in the World Trade Organisation Doha trade negotiations, countries have adopted the strategy of entering into FTAs with their major trading partners. The aim of such FTAs is to boost bilateral trade by lowering barriers. Under this policy, Australia entered into FTAs with:
- Singapore in July 2003;
  - Thailand in January 2005;
  - United States in 2005; and
  - ASEAN, together with New Zealand, in February 2009.
- 3.2 The first three agreements were considered by the Committee in 2005 and reported separately.<sup>1</sup> In this chapter the Committee considers:
- the implications of the Global Financial Crisis on trade between Australia and ASEAN member countries;

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<sup>1</sup> The Committee concluded at the time that it was 'too soon to make objective judgements about the lasting impact of the three FTAs'. JSCFADT, *Report 128, Australia's free trade agreements with Singapore, Thailand and the United States*, Canberra, 2005, p. 9.

- existing trading relationships between Australia and ASEAN member countries;
  - Australia's experience of current FTAs with Singapore and Thailand; and
  - the effects of current FTAs on specific Australian industries engaged in the export goods and services to ASEAN countries.
- 3.3 The new ASEAN-Australia-New Zealand FTA (AANZFTA), its anticipated effects, and the degree to which it can be expected to resolve challenges is discussed in Chapter 4.

## Implications of the Global Financial Crisis

- 3.4 The scope of the Global Financial Crisis (GFC) became increasingly apparent over the course of the Committee's Inquiry. Although it is too soon to make reliable predictions, the GFC will undoubtedly have a significant impact on Australia's trade with ASEAN member countries.
- 3.5 DFAT told the Committee that conditions had changed rapidly even in the space of six months. It observed that 'the gravity of the global financial crisis' had resulted in countries in the region coming under 'a lot of domestic pressure'.<sup>2</sup>
- 3.6 There have been attempts to estimate the impact of the GFC on Australia. A senior commercial analyst noted that while 'Australia's status as a major importer of capital and a major exporter of basic materials presents a very complex forecasting problem in the current climate', it was clear that reduced access to finance and a downturn in commodities exports would have a negative effect on Australia's economy.<sup>3</sup>
- 3.7 The Reserve Bank of Australia concurred, noting that 'almost all of Australia's major trading partners are expected to experience growth rates of 2 percentage points or more below trends rates in 2009'. This

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2 Mr Michael Mugliston, *Transcript 16 March 2009*, p. 11

3 McKay, Huw 2008, 'The Impact of the GFC on the Chinese and Australian Economies', *Australia China Connections*, viewed 24/03/09  
<<http://www.chinaconnections.com.au/Nov/Dec-2008/The-Impact-of-the-GFC-on-the-Chinese-and-Australian-Economies.html>>.

represented 'the most synchronised downturn in Australia's trading partners since the 1970s.'<sup>4</sup>

- 3.8 There are different views on the part China will play in determining Australia's fortunes under the GFC. One view is that Chinese industrial production 'will, in the year ahead, slow from 17 per cent, 18 per cent to 10 per cent', resulting in 'much less need for raw material imports than it had in recent years'.<sup>5</sup> Another view is that 'Chinese growth should be quite resilient due to an assumed sensitivity to policy stimulus and a lack of financial linkages to the rest of the world', but that there will be negative effects for Australia from other sources, resulting in 'deceleration for Australia'.<sup>6</sup>
- 3.9 There are other more positive views, however. Tim Harcourt, Chief Economist of the Australian Trade Commission noted the continuing persistence of small to medium enterprises in the export trade, in spite of recent events. Such firms became 'better businesses with experience', and lower exchange rates for the Australian dollar domestic policy settings were helping exporters.<sup>7</sup>
- 3.10 This more optimistic view suggests that such exporters are resilient. Moreover:
- ... thanks to the economic reforms of the 1980s and 1990s ... Australia has built up a higher 'natural rate of exporting'. Overall exporters do things well – and their businesses are built for the long term. Many of our best exporting businesses know that the best way to survive the crisis is to prepare for the recovery.<sup>8</sup>
- 3.11 In short, 'exporters stay in the game even when things get rough'.<sup>9</sup>

## Committee comment

- 3.12 The Committee acknowledges that its comments above concerning the implications of the GFC are limited, especially as the effects of the GFC and government responses have yet to be fully played out.

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4 Reserve Bank of Australia, quoted in Harcourt, Tim 2009, *Survival skills – exporters and the GFC*, Australian Trade Commission, viewed 24/03/09  
<<http://www.austrade.gov.au/Default.aspx?PrintFriendly=True&ArticleID=10008>>.

5 Harcourt, Tim & David Hale 2008, *Crunch time – what does the global financial crisis mean for Australia?*, AusTrade, viewed 24/03/09  
<<http://www.austrade.gov.au/default.aspx?FolderID=1438&ArticleID=9471>>.

6 McKay, 2008, *The Impact of the GFC*

7 Harcourt, 2009, *Survival skills*.

8 Harcourt, 2009, *Survival skills*.

9 Harcourt, 2009, *Survival skills*.

- 3.13 It is the Committee's view, however, that Australia will benefit from adopting a long-term viewpoint on exports, and by continuing to provide support in an activity that is critical to Australia's future prosperity. Despite uncertainties about the GFC and its impact, Australia stands to gain by maintaining a focus on its capacity to export to ASEAN member countries.
- 3.14 The Committee sees value in adopting a strategic position on export trade that seeks to anticipate opportunities that will come with the easing of the GFC. In light of this, the Committee wishes to underscore the continuing importance of free trade agreements as ways to create favourable conditions for trade.

## Current trade position

- 3.15 Trade forms a very significant part of relationships between Australia and ASEAN member countries. Trade with ASEAN accounts for the largest share (16 per cent) of Australian trade, and in 2007 the value of trade with ASEAN countries was \$55.2 billion.<sup>10</sup>
- 3.16 ASEAN member countries represent a very significant potential market for Australian goods and services. DFAT told the Committee that:
- ASEAN, Australia and New Zealand have a combined population of some 600 million people, with an estimated GDP of \$3.2 trillion dollars. Our trade with the ASEAN region exceeds our trade with Japan, China or the United States.<sup>11</sup>
- 3.17 Australia struggles, however, to achieve a favourable balance of trade with ASEAN countries. In 2007, Australian exports of *goods* to ASEAN nations amounted to \$18 billion, but imports amounted to \$37 billion. Similarly, the value of exports for Australian *services* was \$7 billion, while imports were \$8.5 billion.<sup>12</sup>
- 3.18 For commodities trade such as those produced by its mining and agricultural industries, however, Australia enjoys a net surplus. For example, DAFF advised the Committee that ASEAN countries are Australia's 'largest agricultural export destination' and the second largest source of imports in this sector. This resulted in \$5.6 billion in

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10 DFAT, *Submission No. 24*, p. 287.

11 Mr Michael Mugliston, *Transcript 16 March 2009*, p. 2.

12 DFAT, *Submission No. 24*, pp. 287–8.

two-way trade in 2006-2007 and, within this, exports outweighed imports by a factor of 'almost five to one'. This was notable in the context of Australia's position as a net importer in many areas of trade.<sup>13</sup>

## Need for a strong trade position

3.19 A review of export policies and programs provided to the Minister for Trade by David Mortimer and John Edwards in 2008 concluded that, if it is to keep net foreign liabilities within reasonable limits, Australia needs to ensure that it has a healthy export sector. If it cannot:

... the accumulation of net foreign liabilities relative to the size of the economy and the associated servicing commitments will eventually become so big that a potentially painful adjustment process would be likely.<sup>14</sup>

3.20 A country's ability to maintain a healthy services and manufactured goods sector, with strong export capacity, also correlates with other desirable characteristics:

... a nation's export performance is a measure of the capacity of its industries to successfully compete internationally. There is evidence to suggest that export industries and successful exporters within industries have higher productivity levels than those focused only on the domestic market.<sup>15</sup>

3.21 This is because 'international competition is the most common way in which new technologies, new management and marketing techniques, and new business styles are discovered, adapted and incorporated'.<sup>16</sup>

3.22 For these reasons, Mortimer and Edwards argued, Australia must seek to put itself on the best possible footing in trade with other countries. In this, trade with ASEAN member countries is particularly important because of their proximity to Australia, their rapid economic expansion and development, and the resurgence of Asia in the international order.

3.23 These last are new conditions. Mortimer and Edwards concluded that Australia for 'the first time in modern history ... will find itself part of

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13 DAFF, *Submission No. 25*, p. 331.

14 David Mortimer and John Edwards, *Winning in World Markets – Meeting the competitive challenge of the new global economy, Review of Export Policies and Programs*, 2008, p. 19, <[http://www.dfat.gov.au/publications/mortimer\\_report/mortimer\\_report.pdf](http://www.dfat.gov.au/publications/mortimer_report/mortimer_report.pdf)> Accessed January 2009.

15 Mortimer and Edwards, *Winning in World Markets*, p. 19.

16 Mortimer and Edwards, *Winning in World Markets*, p. 19.

an ascendant and self-sustaining economic community within its own longitudinal extent'. In this, 'the tyranny of distance' will be replaced by 'the challenge of proximity' with respect to its regional neighbours.<sup>17</sup>

## Committee comment

- 3.24 Australia's ability to further develop exports of manufactured goods and services depends, amongst other things, on its capacity to negotiate beneficial terms of trade with its trading partners. The rise of trading blocs and FTAs has made this more urgent. If Australia does not participate, it runs the risk of foregoing the benefits of liberalised trading arrangements, which are enjoyed by countries that do.
- 3.25 A number of agreements have come into being. Prominent among these have been FTAs between the USA and other countries and regions, including those with Australia and New Zealand, Canada, and South American countries.<sup>18</sup> These developments have occurred against the backdrop of greater economic integration within the European Union, and WTO negotiations to liberalise trade between nations on a wider scale.
- 3.26 Together these developments – WTO negotiations and agreements, emergent trading blocs, and bilateral and multilateral FTAs – increase the importance of Australia positioning itself within this emerging environment, which is characterised by new levels of economic integration.<sup>19</sup> To do this, Australia must hold a realistic appraisal of its position, and use all available instruments to best advantage.

## Bilateral and multilateral free trade agreements

- 3.27 Arguments in favour of FTAs are that trade liberalisation – that is, the removal of trade barriers – benefits both partners in a trading relationship. Where barriers persist, business is constrained and this has adverse effects, in particular on employment.
- 3.28 In markets open to competition, greater freedom to do business leads to higher levels of business activity and investment, growth in employment, and greater prosperity.<sup>20</sup> These benefits are attributed to

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17 Mortimer and Edwards, *Winning in World Markets*, p. 18.

18 *Exhibit 1*, p. 28.

19 *Exhibit 1*, p. 28.

20 *Exhibit 1*, pp. 7, 29.

both multilateral and bilateral FTAs. Australia is currently party to significant bilateral agreements with the ASEAN nations, Singapore and Thailand.

- 3.29 Australia has significant experience of FTAs with members of ASEAN, by virtue of agreements concluded with Thailand (TAFTA), and Singapore (SAFTA). While both have had significant consequences for Australian export industries, it is TAFTA that attracts the most attention, and at times controversy.
- 3.30 This experience shapes expectations of subsequent FTAs Australia has negotiated in the region, such as AANZFTA, and those currently underway, such as negotiations for a bilateral agreement with Malaysia, and early discussions with Indonesia. Are these are likely to improve or detract from Australian industry?

### Singapore-Australia Free Trade Agreement

- 3.31 Australia's FTA with Singapore, SAFTA, came into force in July 2003.<sup>21</sup>
- 3.32 Despite a small population, Singapore's purchasing power 'equals or exceeds that of many countries in the EU'. Consequently, Australia has a larger volume of trade with Singapore than it does with any other member of ASEAN.<sup>22</sup>
- 3.33 Singapore has a strong economy, based on a 'tradition as a duty-free port and a major trans-shipment hub', and successful industries in consumer electronics, information technology, medical technology and pharmaceuticals, amongst others. Many of these industries export to Australia.<sup>23</sup>
- 3.34 In return, Singapore relies substantially on imports for food, and these account for a significant part of Australian exports to Singapore. The outlook for Australian food exports is regarded as 'strong', particularly in view of rising incomes in Singapore.<sup>24</sup>
- 3.35 DAFF advised the Committee that Singapore was 'a major destination for portfolio exports' and that Australia's relationship with Singapore on agricultural exports was considered 'excellent.'<sup>25</sup> DIISR noted, however, that the main impacts of SAFTA on Australia-Singapore

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21 DFAT, *Submission No. 24*, p. 295.

22 DFAT, *Submission No. 24*, p. 325.

23 *Exhibit 3*, p. 4.

24 *Exhibit 3*, p. 4.

25 DAFF, *Submission No. 25*, p. 336.

trade are not in these areas. In fact, Singapore had 'applied a zero tariff on [most] goods even before the agreement'.<sup>26</sup>

### Services under SAFTA

- 3.36 DIISR noted that Australian benefits gained from SAFTA generally arose from improvements in the trade in services. Much of this depends on a greater parity in standards between the two countries. This had resulted in increased access to the Singapore market for Australian exporters of 'education, environmental, telecommunications, and professional services'.<sup>27</sup>
- 3.37 DFAT noted that there were specific benefits, including:
- ... national treatment and market access commitments for Australian education providers, improved conditions for joint law ventures involving Australian legal firms, recognition of a greater number of Australian law degrees, access for Australian companies to Singapore's government procurement market ... improved access for environmental service providers, removal or easing of residency requirements for Australian professionals, and improved short-term and long-term business entry conditions for Australians.<sup>28</sup>
- 3.38 These are important developments. DIISR advised the Committee that the FTA 'went deeper and further than World Trade Organisation (WTO) commitments with regards to trade in services, technical barriers to trade, intellectual property, investment, and competition policy'.<sup>29</sup>
- 3.39 DFAT noted that Australia's trade in services with Singapore has grown by an average of 11 per cent a year since SAFTA came into force.<sup>30</sup>
- 3.40 Increased parity in standards is also important for other areas of Australia-Singapore trade – it reduces costs for Australian exporters by instituting a 'new framework for determining equivalence of Australian and Singaporean product standards and requirements',

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26 DIISR, *Submission No. 14*, p. 170.

27 DIISR, *Submission No. 14*, p. 170.

28 DFAT, *Submission No. 24*, p. 296.

29 DIISR, *Submission No. 14*, p. 170.

30 DFAT, *Submission No. 24*, p. 296.



committing 'both countries to work towards harmonising mandatory requirements with international norms'.<sup>31</sup>

- 3.41 Consistent with this is 'a new system allowing for mutual acceptance of testing certificates and reports', with particular application to 'horticultural and other food-related products'.<sup>32</sup>
- 3.42 Overall, SAFTA is considered to be a significantly liberalising agreement. In this, a key element is that it employs a 'negative list' system, under which 'unless a restriction is specifically listed in an annex to SAFTA, Australian companies will be treated the same as Singaporean companies'.<sup>33</sup>

### Balance of trade with Singapore

- 3.43 Concerns remain, however, over Australia's balance of trade with Singapore. The overall volume of trade is reported to have increased to 'A\$14.5 billion in 2007 compared to A\$9.4 billion in 2004', but 'Australia's trade deficit with Singapore has more than doubled in the same period'. This is due 'mainly to the increase in refined petroleum imports', but similar imbalances have also been evident in other areas.<sup>34</sup>
- 3.44 Consistent with this, DFAT advised the Committee that in 2007 'merchandise exports to Singapore were valued at \$4 billion and imports were \$10.5 billion', and Australian exports of services were \$3.2 billion while imports were \$4.7 billion. Foreign investments by Singapore into Australia at the end of 2007 were \$32.3 billion, while Australian investment in Singapore was \$17 billion.<sup>35</sup>
- 3.45 These figures represent cause for concern, but not in the same way as those for TAFTA, described below. Singapore as a highly-developed economy, based on more developed manufacturing and services sectors, has many of the characteristics to which Australia aspires. Singapore's superior position in the balance of trade is testimony to the fact that these are indeed worthy aspirations. Australia's trade position with Singapore shows how much further it has to go in order to achieve them.

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31 *Exhibit 3*, p. 3.

32 *Exhibit 3*, p. 3.

33 *Exhibit 3*, p. 3.

34 *Exhibit 3*, p. 4.

35 DFAT, *Submission No. 24*, p. 325.

## Thailand-Australia Free Trade Agreement

- 3.46 When TAFTA came into force in January 2005, it was notable that Thailand, with a population of 65 million, was the second-largest economy in the region, and one of the 'fastest growing'.<sup>36</sup>
- 3.47 TAFTA has been successful in reducing tariff barriers to Australian exports:
- The introduction of TAFTA eliminated more than half of Thailand's 5 000 tariffs, accounting for nearly 80 percent of merchandise trade between Australia and Thailand.<sup>37</sup>
- 3.48 The agreement also provided a process and framework to reduce those tariffs not removed by the agreement, 'over the next five to 15 years', which are expected to 'result in free trade for 95 percent of all trade between Australia and Thailand'.<sup>38</sup> Positive indicators are that TAFTA has increased two-way merchandise trade 'from \$6.8 billion in 2004 to \$12.3 billion in 2007'.<sup>39</sup>
- 3.49 DFAT advised the Committee that in many sectors Thailand has achieved greater trade gains than Australia:
- Thai exports to Australia have increased from \$3.8 billion in 2004 to \$7.9 billion in 2007, while Australia's merchandise exports to Thailand have risen from \$3.1 billion in 2004 to \$4.4 billion in 2007.<sup>40</sup>
- 3.50 DIISR commented that this may yet be remedied by elements of the FTA yet to come into force, under which 'Thai tariffs on virtually all non-agricultural goods exported from Australia to Thailand will be phased out by 1 January 2010'.<sup>41</sup>
- 3.51 Non-tariff barriers that have emerged over the life of the FTA have caused concern in Australia. The Federation of Automotive Products Manufacturers told the Committee that it feared that, even under the progressive relaxation of trade barriers provided for under TAFTA, key Australian export industries could experience serious setbacks before full liberalisation is achieved.<sup>42</sup>
- 3.52 The consequences of TAFTA are complex. On one hand there are benefits to Australia for exports of commodities:
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36 *Exhibit 3*, p. 2.

37 *Exhibit 3*, p. 2.

38 *Exhibit 3*, p. 2.

39 DFAT, *Submission No. 24*, p. 296.

40 DFAT, *Submission No. 24*, p. 296.

41 DIISR, *Submission No. 14*, p. 170.

42 Ms Anna Greco, *Transcript 2 October 2008*, pp. 55, 50, 52.

Australia's exports to Thailand have risen by 44 per cent. In 2007, Australia's principal exports to Thailand were crude petroleum (A\$861 million), aluminium (A\$762 million) and gold (A\$551 million). In the Thailand market, the tariffs for some Australian agriculture and food products are 60 percent less than those for competitors from other countries.<sup>43</sup>

3.53 On the other hand there have been considerable benefits to Thailand's manufacturing exports to Australia. These have seen Thailand establish itself as:

... an alternative source for electronics (computers and electrical machinery), motor vehicles and household goods. Imports of these goods have risen 105 per cent, 868 per cent and 93 per cent respectively since 2004.<sup>44</sup>

3.54 Australian exporters see some aspects of the agreement as particularly disadvantageous. The Federation of Automotive Products Manufacturers told the Committee that there were significant levels of concern within the Australian automotive industry about uneven outcomes from TAFTA.<sup>45</sup>

3.55 DFAT advised the Committee that in such cases Australia relies on an additional framework under the main agreement (the 'inbuilt agenda') to provide a remedy. However, in pursuing this further complications have arisen: the 'uncertain political situation' in Thailand has prevented progress on a number of questions Australia would like to address.<sup>46</sup>

3.56 Australia may face similar challenges in its dealings with other ASEAN member nations. The main focus of concern, however, remains the trade barriers – tariff and non-tariff – that continue to be a feature of Thai-Australia trade. This is particularly the case for the automotive trade, discussed in detail in Chapter 5.

## Proposed bilateral free trade agreements

3.57 Australia's experience with TAFTA and SAFTA will inform its negotiations for future FTAs. DFAT advised that negotiations began for an FTA with Malaysia in April 2005, and a feasibility study was launched in June 2007 into a possible FTA with Indonesia.<sup>47</sup>

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43 *Exhibit 3*, p. 3.

44 *Exhibit 3*, p. 2.

45 Ms Anna Greco, *Transcript 2 October 2008*, pp. 51-52.

46 DFAT, *Submission No. 24*, p. 296.

47 DFAT, *Submission No. 24*, pp. 296, 297.

- 3.58 An FTA with Malaysia represents significant opportunities for Australia. Statistics provided by DFAT show that Malaysia is Australia's third-largest trading partner amongst the members of ASEAN, and is Australia's 11<sup>th</sup> largest trading partner overall, exchanging \$12.8 billion in two-way trade in 2007.<sup>48</sup> Of this, merchandise trade amounted to '\$10.5 billion (exports of \$3.2 billion, imports of \$7.3 billion), while total two-way services trade was \$2.3 billion (exports of \$1.3 billion, imports of \$1 billion)'.<sup>49</sup>
- 3.59 For Indonesia, negotiations toward an FTA are yet to begin in earnest, but evidence tendered to the Committee suggests that there would be significant benefits to Australia. DAFF told the Committee that Indonesia's prominence as a market for Australian export beef,<sup>50</sup> and the challenges Australia has faced there with respect to tariff barriers,<sup>51</sup> could together make such an FTA rewarding for Australia.
- 3.60 DFAT advised the Committee that there are other parts of trade which are areas of mutual interest between Australia, Malaysia and Indonesia, and which promise 'substantial benefits', including the provision of education.<sup>52</sup> The Federation of Automotive Products Manufacturers also identified automotive manufacture as a potential area of benefit.<sup>53</sup>
- 3.61 At the final public hearing, DFAT told the Committee that there had been no diminution of interest from Indonesia for pursuing an FTA following the signing of AANZFTA.<sup>54</sup>
- 3.62 The Committee draws conclusions regarding free-trade agreements at the end of the next chapter which discusses AANZFTA.

## Free trade agreements and non-tariff barriers

- 3.63 Free trade agreements are intended to remove barriers to trade and increase mutual prosperity. The apparent simplicity of this aim is belied by the complexities of achieving a balance between interests of nations party to the agreement, and the challenges of implementation.

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48 DFAT, *Submission No. 24*, p. 297.

49 DFAT, *Submission No. 24*, p. 324.

50 Mr Paul Morris, *Transcript 2 October 2008*, p. 12.

51 Mr Paul Ross, *Transcript 2 October 2008*, p. 6.

52 DFAT, *Submission No. 24*, pp. 296, 300.

53 Ms Anna Greco, *Transcript 2 October 2008*, p. 50.

54 Mr Michael Mugliston, *Transcript 16 March 2009*, p. 6.

- 3.64 High levels of complexity are also generated by the combination of tariff and non-tariff barriers. There were different assessments on the relative importance of non-tariff barriers. DAFF told the Committee it rated tariff and non-tariff barriers at a similar order of magnitude, and commented on challenges posed by the potential for rapid change in either case.<sup>55</sup>
- 3.65 Other, secondary, sources described non-tariff barriers as being, arguably, ‘a more serious challenge’ than those created by tariffs:
- The protective and taxing effect of [non-tariff barriers] is substantially higher than that of formal tariffs that apply to trade. [non-tariff barriers] raise the price of products in the region, making exports less competitive, and undermining the impact of tariff reductions.<sup>56</sup>
- 3.66 The Australian Wine and Brandy Corporation told the Committee this was so for Australian wine exports.<sup>57</sup> DAFF made similar observations regarding the influence of religious constraints on the export of Australian meat to ASEAN countries,<sup>58</sup> and the influence of ‘import licensing and food labelling’ over Australian agricultural exports in the region.<sup>59</sup>
- 3.67 DFAT told the Committee that in negotiating AANZFTA on behalf of Australia it was well aware of the significance of non-tariff barriers.<sup>60</sup> However, the complexity of the task of dealing across all categories and types of trade barrier has, in practice, reduced the capacity of DFAT negotiators to address them:
- We recognise that the non-tariff barriers are major issues here that need to be tackled. Quite frankly, it has not been possible to progress that as far as we would have liked in the context of the regional FTA because it has been difficult enough just focusing on tariff reductions and tariff elimination commitments.<sup>61</sup>
- 3.68 DFAT advised the Committee that this has led Australia to rely on ‘work programs’ appended to FTAs (such as TAFTA’s ‘inbuilt

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55 Mr Paul Ross, *Transcript 2 October 2008*, p. 6

56 *Exhibit 1*, p. 7 quoting Oxford Analytica, *ASEAN: Non-tariff barriers threaten integration hopes*, 12 August 2008.

57 AWBC, *Submission No. 1*, p. 2.

58 Mr Paul Ross, *Transcript 2 October 2008*, p. 6; DAAF *Submission No. 25*, p. 337.

59 DAFF, *Submission No. 25*, p. 337.

60 *Exhibit 1*, p. 7; Mr Michael Mugliston, DFAT, *Transcript 12 September 2008*, pp. 7-8.

61 Mr Michael Mugliston, *Transcript 12 September 2008*, p. 7.

agenda'<sup>62</sup>), in which signatories undertake to resolve such matters within specific time-limits.<sup>63</sup> There is, however, general acknowledgement that progress through these avenues is slow.<sup>64</sup>

## Committee comment

- 3.69 Contemporary trade relations are complex. Tariffs and similar mechanisms are explicit factors that fall more readily within the scope of trade negotiations, and within the broader scope of policy and action by governments.
- 3.70 Other obstacles to trade such as non tariff barriers are more difficult to negotiate. These can take the form of:
- differences in standards;
  - caps on foreign ownership;
  - different kinds of subsidy, and
  - unnecessarily bureaucratic processes for approvals and permits.
- 3.71 Non-tariff barriers are more difficult to quantify, and to target, manage and control through a trade negotiation process. Australia's recent experience of outcomes from such negotiations suggests that non-tariff barriers do indeed present special challenges.
- 3.72 Distinctions between tariff and non-tariff barriers are linked to the range of views on Free Trade Agreements described in this report. More positive statements are made by government departments responsible for negotiating free-trade agreements. These describe important progress made on reducing tariffs and similar explicit barriers to trade.<sup>65</sup>
- 3.73 On the other hand, industry representatives have encountered non-tariff barriers in their daily business within the ASEAN region. From industry's perspective, concessions gained at the negotiating table on tariffs can be undermined by the more fluid behaviour of non-tariff barriers. This can foil attempts to liberalise markets, and has led to concerns that Australia's trading partners are achieving a higher level of benefit from free-trade agreements.
- 3.74 Both are valid points of view. There are indeed positive and negative outcomes that have come from the FTAs Australia has concluded thus far. Questions over the overall level of benefit to Australia remain

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62 DFAT, *Submission No. 24*, p. 296

63 Mr Michael Mugliston, *Transcript 12 September 2008*, pp.7-8

64 *Exhibit 1*, p. 7.

65 See for example DFAT, *Submission No. 24*, p. 295.

complex: it is possible that short-term sacrifices may lead to longer-term benefits, and reductions in one area of trade may be compensated by improvements in another.

- 3.75 Amongst this complexity, however, it is vital that Australia is satisfied that it is able to conclude successful FTAs that foster Australia's interests, at the same time as they contribute to wider prosperity in its region.

