



Australian Government

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Mr John Carter
Secretary
Foreign Affairs Sub-Committee
Joint Standing Committee on Foreign Affairs,
Defence and Trade
Parliament House
Canberra ACT 2600

Dear Mr Carter

Joint Standing Committee Inquiry - Australia's relationship with ASEAN

I refer to Mr Michael Danby MP's letter of 15 July 2008 to the Hon Kim Carr, Minister for Innovation, Industry, Science and Research, concerning the Inquiry into Australia's relationship with the Association of South-East Asian Nations.

The Department of Innovation Industry, Science and Research has prepared a submission for the Foreign Affairs sub-Committee of the Joint Standing Committee on Foreign Affairs, Defence and Trade.

The submission is attached.

Yours sincerely

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August 2008



Australian Government

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Industry, Science and Research**

**SUBMISSION TO THE
JOINT STANDING COMMITTEE ON FOREIGN AFFAIRS,
DEFENCE AND TRADE**

**INQUIRY INTO AUSTRALIA'S RELATIONSHIP WITH THE ASSOCIATION OF
SOUTH EAST ASEAN NATIONS (ASEAN)**

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TERMS OF REFERENCE

The Joint Standing Committee on Foreign Affairs, Defence and Trade shall examine and report on opportunities for expanding Australia's relationship with the countries of ASEAN, with particular attention to:

- opportunities to improve Australia's involvement in ASEAN;
- opportunities to enhance regional security through Australian involvement;
- free trade agreements with individual ASEAN countries;
- opportunities to enhance the regional economy;
- opportunities to improve cultural links; and
- the impact of global warming on the region.

The purpose of this submission is to provide factual material to the Committee in relation to the Terms of Reference.

The Department of Innovation, Industry, Science and Research has several current activities in relation to the current inquiry. These are outlined in the following pages.

ASEAN-DIISR RELATIONSHIP – SUMMARY

The Department of Innovation, Industry, Science and Research (DIISR) has significant interests in the ASEAN-Australia relationship. The Department's portfolio interests have evolved alongside the ASEAN-Australia bilateral relationship and include trade in manufactured goods and science and technology collaboration.

With major national trading interests in the region, DIISR undertakes extensive consultations in order to effectively represent a broad range of industry interests in the formation of Government industry policy. Departmental representatives were actively involved in the negotiation of Australia's bilateral Free Trade Agreements (FTAs) with Singapore and Thailand and have since participated in follow-up processes under those agreements. Recent activities have included participation in the negotiations for an ASEAN-Australia, New Zealand Free Trade Agreement (AANZFTA), an FTA with Malaysia and the feasibility study for a possible FTA with Indonesia.

DIISR's primary interests are in the manufacturing sector: specifically automotive; textiles, clothing and footwear (TCF); chemicals, plastics and metals.

The current Science and Technology relationship is modest, limited to bilateral engagements on a case by case basis, primarily with Singapore and Indonesia. These relationships are largely driven by external bodies and initiatives aimed at improving bilateral research partnerships. Please note that this submission does not provide comment on CSIRO-ASEAN engagement.

This submission does not include any commentary or general descriptive material on the trade and investment relationship with ASEAN. We understand that the Department of Foreign Affairs and Trade will provide a submission with that content.

FREE TRADE AGREEMENTS (FTAs)

In regional bilateral and plurilateral FTA negotiations the Department is active in securing market access for non-agricultural goods¹ and in the negotiations related to trade facilitation (e.g. technical barriers to trade, rules of origin) and trade rules (eg anti-dumping and countervailing duties).

DIISR recognises that opening up markets, particularly those in the Asia and Pacific region (with a focus on China, India and the ASEAN grouping of nations) has the potential to provide wealth creating export opportunities to Australian industry and businesses.

Competitive pressures in some industry sectors do present some defensive issues. Those sectors include automotives and textile, clothing and footwear items (which are covered by industry plans), chemicals, plastics, and steel. The Department's aim in negotiations is generally to seek flexibility for our sensitive sectors, through the phasing of tariff reductions over a suitable period of time in order to protect the integrity of the existing industry plans and provide time for industry adjustment.

Bilateral FTAs that have been concluded by Australia since the early eighties have enhanced the competitiveness of Australian industry by reducing tariff protection on a preferential basis. The agreements have also opened markets to local producers. Other FTAs currently under negotiation with ASEAN countries and elsewhere could take this process much further. Indeed, if all the current negotiations are concluded, Australia could expect to be trading on a duty free basis for substantially all industrial goods trade with countries accounting for more than 55% of our total industrial goods trade. To some degree, such broad-based free trade should mitigate the adverse effects of *trade diversion*² that might apply in a single FTA.

Non-Tariff Barriers to Trade (NTB)

The Department has been active in reducing the non-tariff barriers to trade in the ASEAN Region, most prominently through the ASEAN Consultative Committee on Standards and Quality (ACCSQ) - Australia New Zealand Closer Economic Relations Trade Agreement (ANZCERTA) relationship.

ASEAN, Australia and New Zealand have been collaborating over a number of years in developing a competent regional standards and conformance infrastructure. This includes the provision of training, exchange visits and consultancies to facilitate capacity building.

Existing Free Trade Agreements with ASEAN countries

The Department was actively involved in the negotiation of two existing FTAs with ASEAN member countries: Thailand and Singapore, and have since participated in follow-up processes under those agreements.

¹ DIISR's coverage of non-agricultural goods includes resource-based goods beyond the mine. For example iron and steel products fall within DIISR's coverage as do other metals in their primary form.

² *Trade diversion* occurs under a preferential arrangement like an FTA when trade that previously occurred with a third country is reduced and replaced by trade between the parties. While the prices of the new imports from the agreement partner appear to be lower than for imports from the third country, that occurs only because of the lower tariff imposed on the agreement partner. The actual payment across the exchanges is higher and there is a net loss to national welfare of the importing country.

Singapore-Australia Free Trade Agreement (SAFTA)

The Singapore–Australia Free Trade Agreement entered into force on 28 July 2003. Singapore applied a zero tariff on almost goods even before the agreement and under the agreement the remaining small group of dutiable items were made duty free for imports from Australia. SAFTA secured improved market access for Australian exporters of services, particularly education, environmental, telecommunications, and professional services. The FTA secured outcomes for Australia that 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.

Thailand-Australia Free Trade Agreement (TAFTA)

Negotiations for the Thailand-Australia Free Trade Agreement were concluded in October 2003 and TAFTA came into force on January 1 2005. TAFTA was Thailand's first comprehensive FTA and first with a developed country. The agreement secured significant bilateral tariff reductions presenting significant opportunities for both Australian exporters and importers. Thai tariffs on virtually all non-agricultural goods exported from Australia to Thailand will be phased out by 1 January 2010. TAFTA also made substantial inroads to improving the environment for bilateral services trade and investment.

ASEAN-Australia-New Zealand Free Trade Agreement (AANZFTA)

In 2004, leaders from ASEAN members, Australia and New Zealand agreed to commence negotiations for an AANZFTA that would cover trade in goods, services and investment - the most comprehensive FTA negotiations thus far for ASEAN. For Australia, AANZFTA marks the first plurilateral trade negotiation, and the first time trade negotiations with a third party have been undertaken jointly with New Zealand. The Department has been closely engaged in the negotiation of non-agricultural market access (including rules of origin) and provisions on technical barriers to trade.

The first round of negotiations took place in 2005 and the agreement is currently expected to be concluded in 2008.

The increased economic activity generated by an AANZFTA is expected to stimulate both trade and investment. The enhanced competition should encourage greater efficiency amongst Australian producers and benefit consumers. Economic modelling released as part of the AANZFTA feasibility study estimated that a fully liberalising FTA would provide a present value increase in GDP of \$48 billion by 2020.

As with other recent FTAs, Australia has sought to negotiate product specific rules of origin (ROOs) based on a Change of Tariff Classification (CTC) and have also sought to ensure that ROOs are as consistent as possible across FTAs to reduce costs of compliance. DIISR has also sought to ensure that customs procedures of the parties are transparent, efficient, consistent, and that they facilitate trade.

SECTORAL ISSUES

Automotive

Two-way automotive trade with ASEAN has steadily grown over the last decade to over \$4.7 billion. Between 2002 and 2007, automotive imports from ASEAN countries rose from over \$950 million to nearly \$4.5 billion, while Australian automotive exports to the region decreased from \$255 million to \$216 million which leaves a significant trade imbalance in ASEAN's favour. Imports from Thailand accounted for a large proportion of the rise, increasing by 89% to more than \$3.7 billion since TAFTA came into force on 1 January 2005.

Improved market access into ASEAN economies would present useful export opportunities for the Australian automotive sector. Many ASEAN economies maintain high tariff and non-tariff barriers in the automotive sector that have restricted access for Australian exports of vehicles, parts and related services. These restrictions on market access are part of the focus of bilateral FTAs currently being considered and under negotiation.

Review of Australia's Automotive Industry

In July 2008, the Hon Steve Bracks submitted his report on Australia's automotive industry to the Australian Government. At the time of preparing this submission, the Government was yet to respond to the report. Inter alia, Mr Bracks' report recommended that Australia should focus its FTA negotiations on countries with which it has a competitive advantage, or on countries where very high barriers to trade exist. The report identified ASEAN as one of three key destinations for negotiations.

Non-tariff barriers can continue to exist or arise even after free trade arrangements are established. For example, the Australian automotive industry is concerned that, after conclusion of the TAFTA, Thailand restructured its excise on motor vehicles. Vehicles with larger engine capacities pay a higher rate of excise. The excise effectively disadvantages exports of Australian-made vehicles, because Australia produces mainly larger-engine vehicles. Ford, for example, reported that the change in Thai excises resulted in the Ford Territory having a 30 percent disadvantage over its main competitors." To address such concerns, some FTAs include dispute resolution provisions which enable behind-the-border barriers to be addressed after the agreements are in place.

Textile, Clothing and Footwear (TCF)

The Australian TCF industry faces strong import competition and has undergone major structural adjustment.

Tariff rates for the majority of TCF goods have decreased at staged intervals, with all TCF tariffs currently legislated to reach five per cent in 2015³. This progressive increase in import competition has encouraged it to become more outward-looking and change its product mix. The industry's output generally moved from commodity goods to specialised and niche market goods, such as specialised textiles for emergency and defence services. This was reflected in falls in the industry's total value-added and employment. In 2006-07, the sector employed more than 50,000 people, as against 98,000 in 1996-97. The latest

³ At the time of making this submission, the Government's Review of Australia's Textile, Clothing and Footwear Industry has not reported. That Review will address the issue of future tariffs.

official figures for the TCF industry as a whole (including wool, hides and skins) show that it contributed nearly \$3 billion in industry value-added during 2006-07, down from almost \$5.8 billion in 1996-97.

Global competition, particularly from low labour cost countries, has also resulted in a recent decline in export performance. According to unpublished data sourced from the ABS, TCF manufactured goods exports fell from approximately \$965 billion in 2002-03 to \$814 million in 2006-07.

FTAs have, in some cases, made it more viable for Australian TCF manufacturers to service the domestic market with imported goods rather than domestically produced goods. While these agreements had potential to increase access to new markets, non-tariff barriers remain difficult hurdles for our TCF exporters. Concessions to ASEAN — a relatively low cost production base — will pose challenges for the TCF industry in Australia.

Chemicals and Plastics

The Asia-Pacific Economic Cooperation (APEC) Chemical Dialogue is proving to be a valuable means for engaging our ASEAN partners on chemical and plastics issues, especially in the development of better, more consistent regulation. Excepting Laos, Burma and Cambodia, all ASEAN member countries are members of APEC. Australia has recently contributed a paper on best practice regulation.

The AANZFTA has the potential to deliver significant benefits for the chemical and plastics industry in Australia. The tariff rate for import of chemicals and plastics into Australia is either free or 5%, so the FTA does not have much scope to impact on competition between imports and local products. Many inputs for the industry are sourced from overseas where there are larger scale producers.

From an export perspective, Australian industry will stand to gain by the reduction of tariff rates for the chemical and plastic products it exports to ASEAN countries. There are some products which still face relatively high tariff rates of up 30% for some of our top export product lines.

In relative terms, total trade in chemicals and plastics with ASEAN countries was valued at \$1.13 billion in 2002-03 and \$1.05 billion in 2006-07, about 12% of Australia's total trade in the sector. In 2006-07 Australian exports of chemicals and plastics to the ASEAN region were \$445.9 million; imports \$607.9 million. The export/import ratio with the ASEAN region has improved from 70.9% in 2002-03 to 73.4% in 2006-07. In terms of the respective share of chemicals and plastics trade with ASEAN members, Australia's most significant trading partners are Thailand (26%), Malaysia (25%), Indonesia (20%) and Singapore (17%). Australia can expect some overall benefit from further reduction of tariff on certain high tariff lines through an AANZFTA.

Services

Trade in services has grown considerably in recent years to become a major aspect of the ASEAN-Australia bilateral trade relationship. In 2007, total two way trade in services was worth \$15.5 billion. Australian services exports to ASEAN were worth \$7 billion, and imports \$8.5 billion. The Department has responsibility for a selection of sectoral interests within the services sector, specifically: professional services; business, distribution and retail services; and services incidental to manufacturing.

There are considerable opportunities for Australian service suppliers in the ASEAN region. The fast pace of economic growth in these economies is, in turn, leading to a more wealthy and growing middle class which are demanding rapidly expanding services markets. The relatively underdeveloped nature of many Asian services markets, combined with Australia's significant competitive advantage offers opportunities in, amongst others, telecommunications, financial services, tourism and travel-related services, transport, logistics and distribution services and professional services (eg. engineering and construction).

The low level of development in the services sector also presents challenges for Australian exporters. Barriers to trade in services are typically non-tariff regulations and institutional arrangements related to specific domestic policies. Typical government related barriers encountered by Australian service exporters include foreign equity limitations, lack of recognition of qualifications, restrictions on the issue of licences, various restrictions on commercial presence such as the number and location of branches and restrictions on the forms of commercial presence (such as joint venture requirements). Due to the diversity of the services sector, many of these barriers will be specific to each services industry, making it difficult to address or quantify issues 'across the board'. Effective measures to promote services exports and expand market opportunities for services may need to account for these differences within each service sector.

Innovation

The Government is pushing for a more integrated approach to innovation so that Australia can enhance its international competitiveness. The Review of the National Innovation System was announced on 22 January 2008 by Senator the Hon Kim Carr, Minister for Innovation, Industry, Science and Research. The Review is being Chaired by, Dr Terry Cutler, a respected innovation expert.

The Review of the National Innovation System is about building a national innovation system to bolster Australia's innovation performance, to boost productivity and to help secure high-wage, high-skill jobs for Australia's future. A major focus of the Review is encouraging greater engagement in international innovation systems. The level of this engagement will be decided following the Government's response to the Review.

The Green Paper will be publicly released in September 2008. The Australian Government will review the findings and recommendations contained in the Green Paper in framing a ten-year White Paper on innovation. The White Paper response is expected to be finalised by the end of 2008.

Science and Technology (S&T)

ASEAN-Australia cooperation in S&T started as a result of the launching of the ASEAN-Australia Economic Cooperation Programme (AAECP) in 1974. During the three phases of the AAECP (1974 to 2004), these cooperation activities were implemented in the areas of food science and technology, biotechnology, microelectronics, non-conventional energy, marine science, and technology management.

At present there is limited interest from Australia's S&T community in collaboration with most ASEAN members. Currently, the major avenue for S&T engagement with ASEAN members is at a bilateral rather than regional level, in particular, Singapore and Indonesia.

Singapore

Singapore is currently the only identified ASEAN country for research collaboration support under the International Science Linkages (ISL) Competitive Grants program, with biotechnology as the sole field of research. The ISL program assists Australian researchers to increase their participation in international scientific research. Two applications were received in the 2008 round which listed Singapore as a major partner, which may indicate a current low level of interest from Australian scientists in collaborating with Singapore.

Indonesia

S&T engagement with Indonesia is supported through bilateral projects by Australian agencies including CSIRO, Australian Centre for International Agricultural Research (ACIAR), The Australian Research Council (ARC), The Australian Institute of Marine Science (AIMS) and AusAID. The Australian Nuclear Science and Technology Organisation (ANSTO) is looking to expand its collaboration with Indonesia. Australia and Indonesia have agreed to jointly support a series of bilateral S&T workshops during 2007-09. DIISR has allocated \$100,000 from the Strategic Policy component of the ISL Program in support of these workshops.

National Measurement Institute (NMI)

NMI has an ongoing relationship with ASEAN through joint participation in both the Asia-Pacific Metrology Programme (APMP) and the Asia Pacific Legal Metrology Forum (APLMF). It also had a more direct relationship with the ASEAN Consultative Committee for Standards and Quality (ACCSQ) in partnership with New Zealand through the Closer Economic Relationship (CER) linkage. NMI has been involved in numerous technical assistance projects with ASEAN partners over the past few decades both bilaterally and multilaterally.

NMI's expertise has direct applications to measurements relating to, for example, food safety and monitoring of environmental emissions. NMI experts have initiated, or contributed to, regional workshops and technical training to develop associated measurement capabilities as well as regulatory regimes.

There are opportunities to develop new activities under an existing Memorandum of Understanding between NMI and the German metrology institute (PTB); PTB has a formal exchange of letters with ACCSQ and, over 2008-09, NMI is actively exploring new areas for engagement with PTB under its MoU to support Asia Pacific economies.