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The Parliament of the Commonwealth of Australia

# Inquiry into Australia's Trade and Investment Relations with Asia, the Pacific and Latin America

Joint Standing Committee on Foreign Affairs, Defence and Trade

July 2011  
Canberra

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# Contents

Foreword .....	viii
Membership of the Committee – 42 <sup>nd</sup> Parliament .....	xi
Membership of the Committee – 43 <sup>rd</sup> Parliament .....	xii
Membership of the Trade Sub-Committee – 42 <sup>nd</sup> Parliament .....	xiii
Membership of the Trade Sub-Committee – 43 <sup>rd</sup> Parliament .....	xiii
Terms of reference .....	xv
List of abbreviations .....	xvi
List of recommendations .....	xviii
<b>1 Improving Australia’s Trade and Investment Relations with the Countries of Asia, the Americas and the Pacific.....</b>	<b>1</b>
<b>2 APEC .....</b>	<b>3</b>
Open Regionalism.....	4
Trade Facilitation .....	6
Future Development of APEC .....	8
Dangers of Protectionism.....	11
Membership of APEC.....	14
<b>3 Trade Facilitation.....</b>	<b>17</b>
APEC Trade Facilitation Action Plans.....	22
APEC Business Advisory Council.....	28
Further Support for ABAC’s Views .....	29

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Improving the Logistics Chain .....	31
Wider Recognition of the Importance of Trade Facilitation.....	35
<b>Export Market Development Grants .....</b>	<b>39</b>
<b>4 Latin America.....</b>	<b>43</b>
<b>Introduction .....</b>	<b>43</b>
<b>Argentina .....</b>	<b>48</b>
Trade and Investment .....	50
<b>Brazil .....</b>	<b>53</b>
Trade and Investment .....	54
<b>Chile .....</b>	<b>58</b>
Trade and Investment .....	59
<b>Colombia.....</b>	<b>64</b>
Trade and Investment .....	65
<b>Mexico.....</b>	<b>67</b>
Trade and Investment .....	68
Tourism and Airline Services.....	73
Phytosanitary Issues.....	74
<b>Paraguay.....</b>	<b>75</b>
<b>Peru.....</b>	<b>76</b>
Trade and Investment .....	77
<b>Uruguay .....</b>	<b>80</b>
Trade and Investment .....	82
<b>5 The Pacific .....</b>	<b>91</b>
<b>CER .....</b>	<b>91</b>
<b>Trans-Pacific Partnership.....</b>	<b>94</b>
<b>PACER Plus.....</b>	<b>97</b>
Capacity Building .....	99
Rules of Origin .....	103
Labour Mobility.....	104
Submission on Women's Issues .....	105

---

<b>6</b>	<b>Other Free Trade Agreements .....</b>	<b>113</b>
	<b>ASEAN-Australia-New Zealand Free Trade Agreement .....</b>	<b>113</b>
	<b>Other FTAs Under Negotiation.....</b>	<b>120</b>
	China.....	120
	Republic of Korea.....	122
	Japan .....	124
	Malaysia.....	127
	<b>Under Consideration.....</b>	<b>129</b>
	India .....	129
	Indonesia .....	131
<b>7</b>	<b>Pakistan and the Philippines .....</b>	<b>135</b>
	<b>Pakistan .....</b>	<b>135</b>
	Trade and Investment .....	135
	<b>The Philippines.....</b>	<b>142</b>
	Trade and Investment .....	142
<b>8</b>	<b>Trade in Services .....</b>	<b>147</b>
	Legal Services.....	150
	Education Services.....	152
<b>9</b>	<b>Government Trade Policy Statement .....</b>	<b>161</b>
	Trade Liberalisation.....	168
	The Patchwork Economy .....	168
	Five Principles to Guide Trade Policy.....	169
	Unilateralism .....	169
	Non-discrimination .....	169
	Separation.....	170
	Transparency .....	170
	Indivisibility of Trade Policy and Economic Reform.....	171
	Disciplines in Australia's Trade Policy.....	173

<b>The Government Trade Negotiation Agenda .....</b>	<b>173</b>
<b>Current Negotiations .....</b>	<b>174</b>
The Doha Round.....	174
APEC .....	176
Trans-Pacific Partnership.....	178
Australia-Korea Free Trade Agreement .....	179
Japan-Australia Free Trade Agreement.....	180
China-Australia Free Trade Agreement .....	182
Malaysia-Australia Free Trade Agreement.....	182
Indonesia-Australia Comprehensive Economic Partnership Agreement .....	182
Gulf Cooperation Council Free Trade Agreement.....	183
<b>Applying Non-Discrimination Principles.....</b>	<b>183</b>
Domestic Reform not Dependent on Others.....	183
Non-Trade Objectives .....	184
Investor-State Dispute Resolution.....	187
Trade and Investment Promotion .....	189
 <b>Appendix A – List of Submissions .....</b>	 <b>193</b>
 <b>Appendix B – List of Exhibits.....</b>	 <b>195</b>

---

<b>Appendix C – Witnesses appearing at public hearings .....</b>	<b>197</b>
Canberra, Friday, 28 November 2008.....	197
Canberra, Wednesday, 11 March 2009 .....	197
Canberra, Wednesday, 18 March 2009 .....	197
Sydney, Tuesday, 5 May 2009.....	198
Melbourne, Thursday, 21 May 2009.....	198
Melbourne, Friday, 22 May 2009.....	199
Canberra, Wednesday, 24 June 2009.....	199
Canberra, Friday, 11 September 2009.....	200
Canberra, Wednesday, 28 October 2009.....	200
Canberra, Wednesday, 25 November 2009 .....	201
Canberra, Wednesday, 10 March 2010 .....	201
Canberra, Wednesday, 17 March 2010 .....	201
Sydney, Wednesday, 14 April 2010 .....	202
Canberra, Friday, 3 June 2011.....	202
<b>Appendix D – Port of Melbourne Supply Chain Information Map – February 2006 .....</b>	<b>203</b>



## Foreword

Through a lengthy and informative inquiry, members of the Trade Sub-Committee (TSC) explored how we can improve Australia's trade and investment relations with the countries of Asia, the Pacific, and the Americas. Trade is important to economic health and critical to the development of bilateral and multilateral relationships between countries.

On the eve of going to print with our report, the Minister for Trade, the Hon. Dr Craig Emerson MP, informed the TSC that he would soon publish the Government's Trade Policy Statement. We agreed to wait for the statement and then took evidence on it. This has been incorporated into our report.

When we commenced the inquiry, little did we know that the Global Financial Crisis (GFC) was breathing down our neck and came to besiege our nation and that of most of our trading partners. How Australia weathered the GFC is the envy of the world, in particular those with developed economies. Australia's economy is strong and is ranked 12th within the OECD in terms of Gross Domestic Product (GDP) purchasing power parity (14th if China and Russia are added to the list).

Closer to home, most people seem unaware when the miracle of Singapore is touted that the NSW economy is significantly larger than Singapore's.

The GFC caused some alarm that commitment to open trade would dissolve, and in some cases it did. Surprisingly though, the general commitment to open trade held, largely in order to complete the Doha round of negotiations. Agricultural trade remains the most contentious issue for not only developing countries, but developed economies as well.

Trading figures for Australia are healthy and on the rise. From a deficit in 2007-2008, exports rose 27 per cent to \$278 billion, and imports were up 18.9 per cent to \$283 billion. In 2008, exports dipped to \$249.9 billion and imports fell correspondingly to \$253.9 billion. 2010 saw a rise in exports to \$284.9 billion, with imports increasing to \$267.8 billion. From an historical average monthly trade



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deficit, we now have an average monthly trade surplus of \$1,797 million. The Australian Dollar is currently trading at an all time high against other major trading currencies (USD\$1.04, NZD\$1.22, E €0.72, STG £ 0.64 and ¥79).<sup>1</sup> This generally has the effect of making Australian exports less competitive as the purchasing power of foreign currencies is reduced.

Despite this, healthy export revenues are contributing to trade surpluses through strong market prices and demand for Australian resources. Conversely, a strong Australian Dollar sees imported products become more competitively priced for Australian consumers, leading to increased consumption. Both of these strengths are reflected in the current health of Australia's economy. The latter point was also underscored by the representatives from the Department of Foreign Affairs and Trade at the final TSC inquiry public hearing.

During the course of the inquiry, the ASEAN-Australia-New Zealand Free Trade Agreement was signed off in February 2009, which was greeted enthusiastically by business. The Productivity Commission also released its Report on Bilateral Free Trade Agreements. Both of these were the subject of much attention during the inquiry. The Productivity Commission's report noted however that there is little evidence to date to suggest that Australia's six Free Trade Agreement's have produced "substantial commercial benefits". The Productivity Commission's report also found that where trade had increased it was due to trade diversion rather than trade creation.

Trade facilitation features large in our report, as it did for all who gave evidence to the inquiry. Of particular note is the map at the very last page of the report titled "Port of Melbourne Supply Chain Information Map February 2006". This details what can be a maze for importers and exporters seeking to trade effectively. It highlights the complex chain of events that importers and exporters have to follow, to the nth degree of course. I can only say that we are fortunate that we have many businesses and business operators who embrace the world of trade and the inherent benefits for them and the economy.

Australian jobs depend in a large part on reciprocal trade, and it is so for both city and country alike. This often gets lost in partisan political debate, but cannot. Trade requires an open door, and it cuts both ways.

Services in general account for eighteen per cent of Australia's exports. Trade services, particularly education and legal exports were made a feature. To highlight, a little known figure is that education services are Australia's top services export, generating some \$15.5 billion on 2008 figures.

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<sup>1</sup> Source, National Australia Bank, 14 July 2011

I finish my foreword by thanking all members of the Trade Sub-Committee, including Senator Michael Forshaw Chair of the Joint Standing Committee on Foreign Affairs, Defence and Trade, who is now retired. We started the inquiry with one set of members, and finished it with others, some continuing, like previous Parliamentary Secretary for Trade The Hon. John Murphy MP, and of course a new Parliament.

My Deputy, The Hon. Mr. Bruce Scott MP for Maranoa, provided me with strong support and valuable input. Mr. Scott and I keep on eye as always on what is good for regional Australia, and we were both pleased to affirm that Australia's general strong trading position of itself helps regional Australia.

I would also like to thank all those who participated in this inquiry, particularly those who have written submissions or given evidence and public hearings.

Ms Janelle Saffin MP  
Chair  
Trade Sub-Committee

# Membership of the Committee – 42<sup>nd</sup> Parliament

Chair	Senator M Forshaw	
Deputy Chair	The Hon D Hawker MP	
Members	Senator M Arbib (from 01/07/08 to 10/03/09)	Mr M Coulton MP (from 22/02/10)
	Senator A Bartlett (to 30/06/08)	Mr M Danby MP
	Senator M Bishop	Ms A Ellis MP
	Senator M Cormann (to 23/09/08)	The Hon J Fitzgibbon MP (from 15/06/09)
	Senator A Eggleston (to 19/03/08)	Mr S W Gibbons MP
	Senator the Hon A Ferguson (from 01/07/08)	Ms S Grierson MP
	Senator M Fifield	Mr D Hale MP
	Senator M Furner (from 16/03/09)	The Hon I Macfarlane MP (to 03/02/10)
	Senator S Hanson-Young (from 04/12/08)	Mrs L Markus MP (from 25/09/08)
	Senator the Hon D Johnston (from 23/09/08)	Ms S Mirabella MP (to 10/03/09)
	Senator L J Kirk (to 30/06/08)	The Hon J Murphy MP (from 20/03/09)
	Senator S Ludlam (from 26/11/08)	Mr R Oakeshott MP (from 20/03/09 to 19/07/10)
	Senator the Hon J A L (Sandy) Macdonald (to 30/06/08)	Ms M Parke MP
	Senator C M Moore	Ms K Rea MP (to 19/07/10)
	Senator K O'Brien (from 01/07/08)	Mr B Ripoll MP (to 19/07/10)
	Senator M Payne (from 19/03/08)	The Hon A Robb AO MP (to 25/09/08)
	Senator N Stott Despoja (to 30/06/08)	Mr S Robert MP
	Senator R Trood	The Hon P Ruddock MP
	Senator R S Webber (to 30/06/08)	Ms J Saffin MP
	The Hon B Baldwin MP	The Hon B Scott MP
	The Hon A Bevis MP	Mr K Thomson MP (from 15/06/09 to 15/06/09)
	The Hon J Bishop MP (from 10/03/09)	The Hon W Truss MP (from 03/02/10 to 22/02/10)
		Ms M Vamvakinou MP
Secretary	Dr M Kerley	

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Deputy Chair The Hon B Scott MP

### Members

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Senator the Hon A Ferguson  
(from 01/07/08)

Senator M Forshaw (*ex officio*)

Senator M Furner (from 16/03/09)

Mr S Gibbons MP

Mr D Hale MP

The Hon D Hawker MP (*ex officio*)

The Hon I Macfarlane MP (till 03/02/10)

Mrs L Markus MP

The Hon J Murphy MP (from 20/03/09)

Senator Kerry O'Brien

Mr R Oakeshott MP (from 20/03/09)

Mr B Ripoll MP

Ms M Vamvakinou MP

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Deputy Chair The Hon B Scott MP

### Members

The Hon. Julie Bishop MP

The Hon. Anthony Byrne MP

The Hon. Joel Fitzgibbon MP

Senator M Forshaw (*ex officio*)

Mrs Joanna Gash MP (*ex officio*)

Mr Steve Georganas MP

Senator the Hon. Ian Macdonald

Mrs Sophie Mirabella MP

The Hon. John Murphy MP


Mr Ken O'Dowd MP

## Committee Secretariat – 42<sup>nd</sup> Parliament

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## Committee Secretariat – 43<sup>rd</sup> Parliament

Secretary	Dr Margot Kerley
Inquiry Secretary	Mr Tas Luttrell
Officer Manager	Mrs Jessica Butler
Administration Officers	Mrs Sonya Gasper Ms Gillian Drew



## Terms of reference

The Joint Standing Committee on Foreign Affairs, Defence and Trade shall examine and report on opportunities for expanding Australia's trade and investment relations with the countries of Asia, the Pacific and Latin America, with particular attention to:

- the nature of existing trade and investment relations;
- likely future trends in those relations;
- the role that these countries might play in advancing the DOHA round of multilateral trade negotiations in the WTO;
- the role of the Government in identifying opportunities and assisting Australian companies, especially those in rural and regional areas, to maximise opportunities in these regions; and

In addition, the Committee will take into consideration the review of Australia's future trade policy framework.



## List of abbreviations

ABAC	APEC Business Advisory Council
APEC	Asia-Pacific Economic Cooperation
ASEAN	Association of South-East Asian Nations
COALAR	Council on Australia-Latin American Relations
DFAT	Department of Foreign Affairs and Trade
DOHA	Doha Development Round or Agenda
EPG	Eminent Persons Group
EU	European Union
EVSL	Early Voluntary Sectoral Liberalisation
FTA	Free Trade Agreement
G20	Group of Twenty
GATT	General Agreement on Tariffs and Trade
GFC	Global Financial Crisis
GM	genetically modified
MERCOSUR	Mercado Commun del Sur (South American trading agreement)
MERCOSUR- CER	Mercado Commun del Sur – Closer Economic Relations



NAFTA	North American Free Trade Agreement
NZ	New Zealand
OECD	Organisation for Economic Cooperation and Development
PBF	Pacific Business Forum
PECC	Pacific Economic Cooperation Council
REDIEX	Paraguay's export promotion agency
SME's	small and medium-sized enterprises
TFAP2	Tuberculosis Freedom Assurance Program 2
TPP	Trans-Pacific Partnership
US	United States of America
WCO	World Customs Organisation
WTO	World Trade Organisation



# List of recommendations

## APEC

### Recommendation 1

Work towards the admission of India to membership of APEC as soon as possible.

### Recommendation 2

That Australia continues to strongly support the work in APEC on the identification and elimination of choke points in regional supply chains and the development of modern and efficient communications networks.

### Recommendation 3

That Australia continues to set an example to other APEC member economies by: (i) maintaining its momentum towards trade liberalisation; and (ii) encouraging the APEC membership to push strongly for a positive and forward-looking outcome in the Doha Round.

## Trade Facilitation

### Recommendation 4

That the Australian Government commit itself to a concerted effort to lift Australia into the top 20 countries in the World Bank's list of economies having the easiest trade access.

### Recommendation 5

That Australia work towards the complete introduction of paperless trading as soon as possible and that it encourage and, where necessary, assist its trading partners to achieve the same outcome.

### Recommendation 6

That Australia should strongly encourage the complete acceptance of the APEC Business Travel Card by the remaining members of APEC; and also explore the possibility of establishing a similar arrangement with other trading partners, e.g. non-APEC economies in Latin America, the EU and India.

### Recommendation 7

That Australia should take a leading role in working towards the improvement of supply-chain processes in APEC and in encouraging other trading partners to undertake a similar program.

### Recommendation 8

That, in view of the benefits arising from the Export Market Development Grants Scheme, it should continue indefinitely and be fully funded to provide certainty for exporters seeking to widen their overseas market focus.

## Latin America

### Recommendation 9

The Sub-Committee considers that the introduction of electronic visa applications would be an excellent, and inexpensive, way to assist in improving trade and investment relations with the countries of Latin America. It would have valuable spin-off benefits for the tourism industry and would also facilitate business travel to Australia.

### Recommendation 10

The Sub-Committee recommends that the Government review the processing of applications by skilled migrants and, where appropriate, seek ways to fast track the recognition of their skills.

### Recommendation 11

The Sub-Committee also recommends that urgent attention be given to achieving mutual recognition of university qualification between Australia and the countries of Latin America. This would assist the efforts of Australia's universities to attract post-graduate students, who might otherwise go to American or British universities. It would also assist tourism through attracting the relatives and friends of such students to visit Australia.

### Recommendation 12

Allied to the previous recommendation, the Sub-Committee recommends the adoption of a "working holiday" scheme for visitors from Latin America. At present, visitors from 27 countries can access such arrangements, but of the Latin American countries only Chile is included in that list.

### **Recommendation 13**

All of the Latin American Ambassadors indicated how much they appreciated visits by Ministers, particularly at the head of business delegations, and by Parliamentary representatives. The Sub-Committee recommends that increased priority be assigned to visits such as these to the countries of Latin America – in line with the Government’s declared intention to engage more closely with Latin America and the Caribbean.

### **Recommendation 14**

That COAG make improved cooperation between the Commonwealth and the States, and between the States themselves, a high priority – to achieve higher levels of efficiency in the transport and logistics supply chains, provision of infrastructure, and trade facilitation.

### **The Pacific**

### **Recommendation 15**

The Sub-Committee expressed its satisfaction that AusAID has given some emphasis to gender issues in negotiations with the Pacific Islands Forum countries. It proposes that these issues should continue to be advanced by DFAT and AusAID as a priority.



## Improving Australia's Trade and Investment Relations with the Countries of Asia, the Americas and the Pacific.

- 1.1 The Trade Sub-Committee commenced this inquiry in July 2008. It quickly became apparent that there were too many countries and too wide a disparity in development levels, to adequately cover all of them at once. Consequently, the Sub-Committee decided to divide the inquiry into two parts - the first to cover the APEC economies and the second to include the remaining countries.
- 1.2 Economic conditions facing all of these countries (and also Australia) have undergone a drastic change since the commencement of the inquiry. When it began, Australia's economy was very strong and a number of our trading partners, notably China, were growing very rapidly.
- 1.3 The onset of the financial crisis has changed the picture dramatically. Trade levels are slackening, investment is shrinking and the future growth of many of the world's important economies is in doubt.
- 1.4 As global unemployment levels rise the predictable threat of increasing trade protectionism has begun to make its appearance. The lessons learnt from the disastrous "beggar my neighbour" policies in the 1930s have, it seems, been forgotten in some quarters. Similarly, some industries are already seeking restoration of protection and ignoring the benefits accrued by Australia from its large-scale reductions in protection in the 1970s, 80s and 90s, and the concurrent restructuring of the economy.





## APEC

- 2.1 APEC has now been operating for over twenty years. It has achieved considerable success in removing, or at least reducing, tariff and quantitative restrictions on trade in the region. This role was summed up by the Department of Foreign Affairs and Trade (DFAT):

APEC is the pre-eminent regional forum for Australia's economic engagement with the Asia-Pacific region. It has a strong track record of building support for the multilateral trading system, regional economic integration and structural reform, and has been influential over the past two decades in reducing regional tariff and non-tariff barriers, improving the investment environment and contributing to capacity building among APEC developing economies.<sup>1</sup>

- 2.2 One of the major effects has been to tie the group more closely together:

...unpublished research by APEC's Policy Support Unit suggests that APEC economies tend to trade and invest more intensively with one another than with non-members, underlining the complementarities between trade and investment and the benefits that flow from international cooperation.<sup>2</sup>

- 2.3 Unusually for a grouping of this type, APEC is not a negotiating forum. It seeks to reach agreement by consensus and has adopted the guiding concept of "open regionalism".

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1 Department of Foreign Affairs and Trade, Submission 40, p. 9.

2 Department of Foreign Affairs and Trade, Submission 40, p. 9.

## Open Regionalism

2.4 APEC has based its cooperative efforts on this concept of “open regionalism”. It is used to promote regional economic cooperation and integration “without discrimination against other economies”. It was designed to be distinct from regionalism based on “discriminatory free trade areas and customs unions”.<sup>3</sup>

2.5 The latter arrangements are:

... based on formal legally binding rules: partly because any market-distorting arrangements need to be shored up by regulations and partly because preferential arrangements for trade in goods are not permitted under the General Agreement on Tariffs and Trade/ World Trade Organization (GATT/WTO) in the absence of a formal agreement which meets (at least in broad terms) the provisions of Article XXIV.

In contrast, Asia Pacific governments have embraced an evolutionary and voluntary approach to promote mutually beneficial economic integration.<sup>4</sup>

2.6 In their book on Open Regionalism, Drysdale, Elek and Soesastro indicated that as APEC develops there will be a need to refine the open regionalism idea to take account of ongoing developments:

There is now another set of challenges as governments begin to implement the Manila Action Plan for APEC (MAPA). Up to this point, open regionalism has been used to distinguish between most favoured nation (MFN) and preferential liberalisation of border barriers to trade.

As APEC governments develop concrete proposals to facilitate trade and investment, more precise guiding principles will be needed to ensure that cooperative arrangements are consistent with the basic objective of reducing impediments to trade and investment without detriment to other economies.<sup>5</sup>

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3 Drysdale P., Elek A., and Soesastro H., *Open regionalism: the nature of Asia Pacific integration*, in *Europe, East Asia and APEC A shared Global Agenda?*, Edited by Peter Drysdale and David Vines, Cambridge University Press, Cambridge, 1998, p.103.

4 Drysdale P., Elek A., and Soesastro H., *op. cit.*, p. 103.

5 Drysdale P., Elek A., and Soesastro H., *op. cit.*, p. 104.

- 2.7 They added that application of one of the unique APEC features, highlights the need to ensure that developments within APEC do not throw up new barriers for non-members:

To promote rapid progress, APEC participants have agreed that those who are ready to implement initiatives for closer cooperation can do so, with others to join later.

This makes it imperative to ensure that cooperative arrangements pioneered by some APEC economies are 'open clubs', which take full account of the interests of other economies and encourage them to join.

As APEC gathers momentum, participants will become increasingly aware of the need to ensure that cooperative arrangements among some participants are indeed capable of subsequent region-wide application. They will also need to ensure that new arrangements do not create new sources of discrimination, thereby fragmenting, rather than integrating regional markets.<sup>6</sup>

- 2.8 Its voluntary approach, despite the opinions of sceptics, has allowed APEC to achieve considerable success. Much of this is attributed to the lack of pressure on participating economies from overarching organisations:

APEC is not a negotiating forum. It is a voluntary process of cooperation because Asia Pacific governments are not willing to consider ceding significant sovereignty to a regional supra-national authority.

APEC's successes have been in areas where governments have perceived the benefit of cooperating, voluntarily, to achieve agreed practical objectives. Problems, together with perceptions of failure, have arisen when participants sought to engage in negotiations.<sup>7</sup>

- 2.9 In a recent paper, Dr Andrew Elek noted that:

In 1994, only five member economies were willing to define themselves as developed economies and commit to 2010 as the target date for free and open trade and investment; now 12 of

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6 Drysdale P., Elek A., and Soesastro H., op. cit., p. 104.

7 Elek, Dr Andrew, *Towards a single market: a 21<sup>st</sup> century vision for APEC*, Paper presented to the APEC: the Next Decade APEC Study Centre International Conference, Chinese Taipei, 16 December 2009, p. 5.

them see themselves to be developed and to be assessed against that ambition.<sup>8</sup>

2.10 In giving evidence to the Sub-Committee, Dr Elek commented that APEC:

...is not simply a trade organisation. A lot of people think that the holy grail for APEC is some kind of free trade area of the Asia-Pacific. I do not agree with that. It is not desirable because our interests are increasingly global, not just regional.

...If you tried to include all 21 economies it would either fail or be a bit of a joke. But probably most importantly, it is not really relevant.

This idea of trading with a group of favourites and discriminating against the rest of the world is a very old idea. It is just not relevant to the way international commerce is conducted these days....<sup>9</sup>

## Trade Facilitation

2.11 However, the question is now being asked “where does APEC go from here?” Chapter 3 of this report provides part of the answer; there is still a lot of work to be done in the process of trade facilitation; and not with APEC economies alone.

2.12 DFAT commented that this is a priority area and acknowledges the benefits that can be gained from substantial progress in this area:

Australia is keen for APEC to intensify work on regulatory reform, competition policy and regional economic integration through structural reforms at the border (for example, in customs procedures, standards and conformance, and business mobility); across-the-border (for example, by improving supply-chain connectivity); and behind-the-border (for example by reducing regulatory burdens and squeezing transaction costs).

Australia is working with Singapore, Hong Kong, China and other APEC members on a Framework on Supply Chain Connectivity to identify chokepoints that impede trade logistics in the Asia-Pacific region; assess measures currently in place to ameliorate these

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8 Elek, Dr Andrew, *APEC: regional economic cooperation in a global setting*, Asia-Pacific Perspectives, 2010.

9 Dr Andrew Elek, Committee Hansard, 16 June 2010, p. 2.

chokepoints; and recommend further action to remove impediments to trade logistics.<sup>10</sup>

- 2.13 One result of that work was the announcement on 6 June 2010 that Australia had allocated \$2 million over two years to assist with programs “that promote investment and stronger supply chains in developing APEC economies”. The funding is designed to:

...contribute to APEC’s goal of regional economic integration. It will directly benefit developing economies in the region by improving their ability to attract and sustain foreign investment. It will also complement efforts to help developing economies increase their resilience to turbulence in financial systems.

The \$2 million will be allocated from the AusAID-administered Public Sector Linkages Program (PSLP), which provides grant funding to further APEC’s mandate of facilitating open and secure trade, investment, development and growth in developing APEC economies. Preference will be given to projects that target more than one developing APEC member economy.<sup>11</sup>

- 2.14 DFAT recognised also that success in trade facilitation will depend heavily on the capacity of infrastructure to efficiently handle increased trade flows:

...Australia has been a strong advocate of progressing APEC’s work to address infrastructure challenges within the region. At the sixteenth APEC finance ministers’ meeting in November 2009, Australia tabled an expert public-private partnership (PPP) study on the benefits of greater uniformity in PPP procurement processes. This initiative builds on APEC’s previous work on PPP frameworks.<sup>12</sup>

- 2.15 One of the most successful initiatives on trade facilitation in APEC has been the introduction of the APEC Business Travel Card Scheme; designed to streamline the movement of business visitors between APEC countries. Its advantages have been summarised neatly by the Department of Immigration and Citizenship:

The APEC Business Travel Card cuts through the red tape of business travel. Through a single application form, the card allows

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10 Department of Foreign Affairs and Trade, Submission 40, p. 9.

11 Joint media release: Simon Crean MP, Minister for Trade and Stephen Smith MP, Minister for Foreign Affairs, *Australia commits \$2 million to strengthen investment and supply chains in APEC region*, Canberra, 6 June 2010.

12 Department of Foreign Affairs and Trade, Submission 40, p. 9.

accredited business people to obtain multiple short-term business visitor entry to participating economies.

This saves cardholders time and effort involved in applying for individual visas or entry permits.<sup>13</sup>

2.16 So far, 18 APEC member economies have fully adopted the scheme. The US, Canada and Russia are transitional members, allowing fast-track immigration processing but not pre-clearance of visas.<sup>14</sup>

2.17 The card allows access to visitors who are: exploring business opportunities; attending meetings; or conducting trade and investment activities. It allows the visitor to stay for two months on each visit (three months in some member economies) and is valid for three years or until a new passport is issued. As a further assistance to business travellers, some airports provide special 'APEC' lines for fast-track immigration processing at international airports. In the US, holders can use air-crew lanes but must still present valid passports and visas if required by US law.<sup>15</sup>

## Future Development of APEC

2.18 Dr Elek acknowledged the changes of the last few years in the international trade scene in a recent paper given to an APEC Study Centre International Conference. There he sketched out a path for APEC's future development:

APEC's core objective remains promoting mutually beneficial integration, but the relative importance of obstacles has shifted. Traditional border barriers to trade in some sensitive products remain costly, but affect a rapidly shrinking part of international commerce. Today, it is more efficient to concentrate on problems of communications and logistics, combined with the lack of efficiency, transparency and sometimes arbitrary implementation, of economic policies in different economies.

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13 Department of Immigration and Citizenship, *Visas, Immigration and Refugees*, p. 1, <http://immi.gov.au/skilled/business/apec/>, accessed 5 August 2010.

14 Department of Immigration and Citizenship, *Visas, Immigration and Refugees*, p. 3, <http://immi.gov.au/skilled/business/apec/>, accessed 5 August 2010; and e-mail advice from DIAC on 27 August 2010.

15 Department of Immigration and Citizenship, *Visas, Immigration and Refugees*, pp. 1-2, <http://immi.gov.au/skilled/business/apec/>, accessed 5 August 2010.

The effective constraint on collective action to deal with these problems is not political will. It is limited capacity to design and implement the necessary policy reform. And capacity cannot be created by negotiation.

High-level political attention will be needed to catalyse the resources which will be needed. That, in turn, needs a unifying vision to deal with the across-the-border and behind-the-border obstacles to genuine economic integration, that is, to build a single market.<sup>16</sup>

2.19 He summarised the essential APEC strategy, as follows:

Looking ahead, APEC should play to its strengths; using the comparative advantage of voluntary cooperation to build consensus on ways to promote shared interests, including in economic integration. At the same time, it is essential to accept the limits of a voluntary process of cooperation.

Some issues will continue to need the negotiation of binding commitments, for example to set trade rules or to deal with global warming. ...

The APEC process should concentrate on economic integration in the region in a way which is consistent with the comparative advantage, and the limits, of voluntary cooperation. Moreover, Asia Pacific integration should not seek to divert economic activity away from any economy – it should set positive examples for the rest of the world to follow when they become aware of the advantage of doing so. That is the essence of open regionalism.<sup>17</sup>

2.20 In another recent paper he commented:

APEC now needs a new strategy and a new unifying vision, which take account of:

- the changed international environment for economic cooperation
- the nature of international commerce in the 21<sup>st</sup> century.<sup>18</sup>

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16 Elek, Dr Andrew, *Towards a single market: a 21<sup>st</sup> century vision for APEC*, Paper presented to the APEC: the Next Decade APEC Study Centre International Conference, Chinese Taipei, 16 December 2009, p. 2.

17 Elek, Dr Andrew, *Towards a single market: a 21<sup>st</sup> century vision for APEC*, Paper presented to the APEC: the Next Decade APEC Study Centre International Conference, Chinese Taipei, 16 December 2009, p. 6.

18 Elek, Dr Andrew, *APEC: regional economic cooperation in a global setting*, Asia-Pacific Perspectives, 2010.

2.21 In his evidence to the Sub-Committee, Dr Elek expanded on this idea when he said:

APEC really has broader ambitions. The idea is to help all the Asia-Pacific economies to reach their potential for substantial growth, including us. We see more and more how much we depend on the region, but not just on the region; the region itself depends on the rest of the world.

The way to promote development is not by trying to force people to act against their will... Basically, the idea is to talk to each other, work out what does work and what does not work and encourage people to make better policies and ...to think about the effect on the rest of the region, not just on themselves.

This is best done by consensus building, working out how to design policies and how to implement policies. You cannot do that by negotiation; it is essentially a capacity-building exercise. I see APEC as more or less building the capacity ...to reach our potential.<sup>19</sup>

2.22 Dr Elek also addressed the relationship between the Group of 20 (G20)<sup>20</sup> and APEC and noted some similarities in their methods of operation:

To be useful in the global setting we need to think about global initiatives. The one, if you like, complementary cooperation forum to APEC, which is very important in my mind, is the G20. In a funny sort of way, almost by default, it has emerged very much in the style of APEC.

It is a self-appointed group. It consults and does not try to give directives but tries to get their officials to work out policy positions and to talk about what is the best way to tackle the next financial crisis – it will surely get back on to climate change sooner or later – and not in a directive sort of way but in a consensus-building sort of way. How APEC relates to G20 is very important.<sup>21</sup>

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19 Dr Andrew Elek, Committee Hansard, 16 June 2010, p. 2.

20 G20 members are: Argentina, Australia, Brazil, Canada, China, France, Germany, India, Indonesia, Italy, Japan, Mexico, South Korea, Russia, South Africa, Saudi Arabia, Turkey, the United Kingdom, the United States, and the European Union.

21 Dr Andrew Elek, Committee Hansard, 16 June 2010, p. 4.



## Dangers of Protectionism

2.23 The biggest challenge to APEC's work in recent years has come from the effects of the Global Financial Crisis (GFC). When the crisis took hold, some worried governments tended to think in protectionist terms – trying to safeguard their industries from the worst effects of the crisis.

2.24 Researchers have highlighted the risks inherent in this approach. For example, Kristen Bondiotti, of the Australian APEC Study centre in Melbourne, wrote:

Resort to trade restrictive policy measures and regulatory intervention can be expected to increase. The tendency of governments to erect measures to cushion the impact on producers will intensify.

Creeping protectionism creates risks for trade, competitiveness and recovery. It could see the winding back of many of the historic trade reforms of the 1980s and 90s, which have underpinned high levels of growth in the Asia Pacific region.<sup>22</sup>

2.25 The serious threat posed by protectionist sentiments was recognised and addressed by the G20. The G20 leaders, in their London Declaration following the Summit on 2 April 2009, agreed:

World trade growth has underpinned rising prosperity for half a century. But it is now falling for the first time in 25 years. Falling demand is exacerbated by growing protectionist pressures and a withdrawal of trade credit. Reinvigorating world trade and investment is essential for restoring global growth. We will not repeat the historic mistakes of protectionism of previous eras. To this end:

- we reaffirm the commitment made in Washington: to refrain from raising new barriers to investment or to trade in goods and services, imposing new export restrictions, or implementing World Trade Organisation (WTO) inconsistent measures to stimulate exports. In addition we will rectify promptly any such measures. We extend this pledge to the end of 2010;

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22 Kristen Bondiotti, *Policy Options to Promote Reform in Non Agricultural Market Access (NAMA) in an Era of Falling Demand, Rising Protectionism and Economic Uncertainty*, Summary of key points, The Australian APEC Study Centre, RMIT University, Melbourne, Training Program, 2-8 September 2009, pp. 1-2.

- we will minimise any negative impact on trade and investment of our domestic policy actions including fiscal policy and action in support of the financial sector. We will not retreat into financial protectionism, particularly measures that constrain worldwide capital flows, especially to developing countries;
- we will notify promptly the WTO of any such measures and we call on the WTO, together with other international bodies, within their respective mandates, to monitor and report publicly on our adherence to these undertakings on a quarterly basis;
- we will take, at the same time, whatever steps we can to promote and facilitate trade and investment; and
- we will ensure availability of at least \$250 billion over the next two years to support trade finance through our export credit and investment agencies and through the MDBs. We also ask our regulators to make use of available flexibility in capital requirements for trade finance.<sup>23</sup>

2.26 At the Pittsburgh Summit in September 2009, the G20 Leaders reiterated their stand against protectionism:

Continuing the revival in world trade and investment is essential to restoring global growth. It is imperative we stand together to fight against protectionism. ... We will keep markets open and free and reaffirm the commitments made in Washington and London: to refrain from raising barriers or imposing new barriers to investment or to trade in goods and services, imposing new export restrictions or implementing World Trade Organization (WTO) inconsistent measures to stimulate exports and commit to rectify such measures as they arise.

We will minimize any negative impact on trade and investment of our domestic policy actions, including fiscal policy and action to support the financial sector.

We will not retreat into financial protectionism, particularly measures that constrain worldwide capital flows, especially to developing countries. We will notify promptly the WTO of any relevant trade measures.<sup>24</sup>

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23 Group of 20, *The Global Plan for Recovery and Reform*, London Declaration, 2 April 2009, paragraph 22.

24 Group of 20, *Leaders' Statement*, The Pittsburgh Summit, 24-25 September 2009, paragraph 48.

2.27 Despite this seemingly uncompromising stand, the WTO, also in September 2009, noted:

... some slippage towards more trade restriction on the part of many G20 members.

This compares unfavourably with the situation prevailing prior to the crisis when the balance of trade policy actions worldwide lay firmly for several years on the side of trade liberalisation.<sup>25</sup>

2.28 APEC has an important role to play in stemming this growing reliance on protectionism. The DFAT submission to this inquiry commented:

In the current environment, APEC is well placed to contribute to supporting, and delivering on, the G20 agenda, which is aimed at achieving strong, sustainable and balanced growth.

APEC can mobilise resources and expertise on both sides of the Pacific to: (i) advance financial market reform and trade liberalisation and (ii) strengthen the resilience of member economies to external shocks through its work on investment liberalisation and structural adjustment.<sup>26</sup>

2.29 Dr Elek noted the difficulties faced in eliminating entrenched protectionist measures in “sensitive products”, and the consequent desirability of preventing the addition of new products to the “sensitive” lists. He commented that even in “so-called” Free Trade Agreements, products were exempted from application of the general terms of the agreement and protected by various measures:

The same sensitive products, which are proving hard to liberalise in the Doha Development Agenda of the WTO, or among APEC economies, are also routinely exempted from “free trade” deals. Any marginal liberalisation of border barriers to these products tends to be negated by product-specific rules of origin and by retaining the right to impose less transparent forms of protection, such as anti-dumping actions.<sup>27</sup>

2.30 He noted also the success of APEC in keeping information technology products free of protectionism:

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25 Department of Foreign Affairs and Trade, Submission 40, p. 6.

26 Department of Foreign Affairs and Trade, Submission 40, p. 9.

27 Dr Andrew Elek, *Immunising Future Trade Against Protectionists: Preventing the Emergence of More Sensitive Sectors*, Asia Pacific Economic Papers, No. 372, 2008, Australia-Japan Research Centre, ANU, Canberra, p 1.

It will take a long time, in any forum, to reduce the number of products that are already sensitive and, hence, heavily protected by border barriers or other less transparent forms of contingent protection... Therefore, it is desirable to prevent the emergence of new sensitive products.

This paper proposes collective action by APEC governments to immunise new products against trade policy distortions. It was possible to do so for information technology (IT) products in the 1990s. Following leadership from APEC governments, there is a WTO-wide agreement that such products should remain freely traded.

That agreement has already helped a growing share of products to remain duty free....It should be possible to build on the IT precedent to cover more, or even all, newly invented products.<sup>28</sup>

## Membership of APEC

- 2.31 An area that needs reassessment is the membership of the APEC group. With the expiry of the embargo on new members this year, there is an opportunity to reassess the exclusion of India – surely a strange omission in a group that seeks to represent the Asia-Pacific region.
- 2.32 The addition of India would provide a convenient forum for the leaders of the US, Japan, China, Russia and India to meet regularly and discuss, face-to-face, issues that arise between them.
- 2.33 This would be a useful way of addressing some of the difficulties that occur between the five nations from time to time. The Leaders' Retreats would provide an opportunity for frank discussions of differences in outlook, away from the eyes of the media. It could also be an important step in getting these huge economies to work together to achieve an acceptable outcome for the Doha Round.
- 2.34 The Sub-Committee asked the Director of the Australian APEC Study Centre, Mr Ken Waller, about likely candidates when the membership embargo expires:

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28 Dr Andrew Elek, *Immunising Future Trade Against Protectionists: Preventing the Emergence of More Sensitive Sectors*, Asia Pacific Economic Papers, No. 372, 2008, Australia-Japan Research Centre, ANU, Canberra, p 1.

When we looked at this at the beginning of Australia's hosting year, 2007, the big issue was whether India should be invited in. That proved to be a difficult point. You need a consensus of view across all the member economies to expand it, and some were not ready to invite India in. When the moratorium on membership ends..., I think that the issue will be not only whether we should invite India in but also: should Columbia come in, or even Brazil? The arguments are finely balanced.

One is that APEC is finding its feet; it takes time for institutions to grow and become really effective. I have argued that to increase its effectiveness it should support unilateral reform within APEC economies. It has taken time, so it is pushing hard to achieve that. When you broaden the membership to some new economies, will they be instantly supportive of doing all of that or will they be a bit reluctant to come along as far as APEC has now come?

My sense is that... Prime Minister Singh will be very keen to continue opening up the Indian economy. I think that is a good sign. My personal view is that it would be good to see India in this relationship.<sup>29</sup>

- 2.35 Mr Waller added that Brazil is also a country that must be seriously considered for admittance:

As for Brazil, we have some very effective members now in APEC in terms of Peru, Mexico and Chile – and of course the United States and Canada.

If that group felt strongly that Brazil would make a very serious impact and a positive one then I would go with that view from Latin America. I think probably it would. But I think we should take advice from those member economies of APEC.<sup>30</sup>

- 2.36 In summary, Mr Waller concluded:

My sense is that the issue for Australia is: where do we see our emerging relationships with India? We could continue on the bilateral front. I think APEC is on the front foot now with some important reform initiatives that are going forward. In many ways, I think India would benefit, if I could put it that way, from being part of that group.

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29 Mr Ken Waller, Australian APEC Study Centre, Committee Hansard, 21 May 2009, p. 5.

30 Mr Ken Waller, Australian APEC Study Centre, Committee Hansard, 21 May 2009, pp. 5-6.

I would judge this on those grounds – would India and Brazil sign up for what we are trying to do? You would take them on their word. Russia came on board. You see changes going on in Russia which are beginning to open up the economy, and they are positive. We have to, I think, expand our horizons a little bit.<sup>31</sup>

- 2.37 The Sub-Committee considers that the addition of India to the membership of APEC would be of substantial benefit to the future progress of that group. It may also be beneficial in encouraging India to work with the rest of the APEC member economies towards a satisfactory outcome to the Doha Round in the WTO. The Sub-Committee encourages the Australian Government to strongly support the admission of India to APEC membership at the first possible opportunity.

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### **Recommendation 1**

**Work towards the admission of India to membership of APEC as soon as possible.**

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### **Recommendation 2**

**That Australia continues to strongly support the work in APEC on the identification and elimination of choke points in regional supply chains and the development of modern and efficient communications networks.**

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### **Recommendation 3**

**That Australia continues to set an example to other APEC member economies by: (i) maintaining its momentum towards trade liberalisation; and (ii) encouraging the APEC membership to push strongly for a positive and forward-looking outcome in the Doha Round.**

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31 Mr Ken Waller, Australian APEC Study Centre, Committee Hansard, 21 May 2009, p. 6.

## Trade Facilitation

- 3.1 The evidence given to this inquiry indicated that trade facilitation activities are of growing importance to APEC member economies. The international financial crisis has, unfortunately, already prompted some sectors to lobby their governments to attack their difficulties by raising protective barriers against imports:
- 3.2 It was disappointing that, despite the G20 stressing the need for continuing progress towards free trade, a number of G20 member governments, including the US and EU, introduced protectionist measures in 2009. There was also an unsuccessful push in Australia to introduce a 20 per cent price advantage for Australian companies in awarding State government contracts.<sup>1</sup>
- 3.3 In this climate, it is more difficult for member governments to maintain the pace of trade liberalisation. Consequently, measures to improve efficiency and remove unnecessary barriers to trade offer an attractive alternative.
- 3.4 The Council of Australian Government's Ministerial Council on International Trade acknowledged the threat of protectionism in its 2009 Meeting Communiqué. The Ministers, taking stock of the impact of the Global Economic Crisis, said:
- Prospects for trade in the Asia-Pacific region remain positive despite the economic crisis. Ministers agreed Australia must expand its integration with the global economy if it is to continue to generate wealth and safeguard jobs into the future.

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1 Hon Simon Crean MP, Minister for Trade, *The Triumph of Trade Liberalisation over Protectionism*, Speech to the Sydney Institute, 5 August 2009, pp.2-3.

They noted the pressure on governments to protect jobs, however they agreed on the need to refrain from introducing protectionist measures and to avoid exposing Australia to retaliation or legal challenge by our trading partners.

They agreed to abide by the pledge taken by the G20 in London in April 2009 to rectify promptly any measures that have raised new barriers to investment or to trade in goods and services.<sup>2</sup>

- 3.5 Trade facilitation has been an important plank in the APEC agenda from the group's inception. As globalisation of the world economy has progressed, the importance of trade facilitation has increased also:

Trade facilitation has taken on added importance since the early 1990s due to the increasing globalisation of the world economy, which has accompanied the reduction of trade barriers.

The dramatic increase of both the volume and complexity in world trade means that it is necessary to keep trading procedures simple, predictable and transparent to allow commerce to flow as freely as possible.

In practical terms, greater certainty over the time taken to move goods in particular through increased transparency and the reduction of procedural steps involved in import/export tends to mean lower costs for traders.<sup>3</sup>

- 3.6 APEC defines trade facilitation as:

...the simplification and rationalisation of customs and other administrative procedures that hinder, delay, or increase the cost of moving goods across international borders.

- 3.7 Alternatively, it describes the process as:

... cutting red tape at the border for importers and exporters so that goods are delivered in the most efficient and cost effective manner.<sup>4</sup>

- 3.8 Trade transaction costs can be conveniently divided into direct and indirect costs:

Direct costs include the cost of preparing documentation, and complying with various customs and other regulations. These may

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2 Council of Australian Governments Ministerial Council on International Trade, Meeting Communiqué, 7 August 2009, pp. 1-2.

3 *APEC's Second Trade Facilitation Action Plan*, APEC Secretariat, Singapore, 2007, p.1.

4 *APEC's Second Trade Facilitation Action Plan*, APEC Secretariat, Singapore, 2007, p.1.



also include the cost of moving goods from factory to port, handling costs at the port, finance and insurance, and international transport costs. Indirect costs include the opportunity costs associated with time and delays in moving the goods from the buyer to the seller. These have been estimated to account for about 80% of total trade transaction costs.<sup>5</sup>

3.9 Estimates have put total transaction costs at between one per cent and 15 per cent of the value of the goods. For developed countries, the estimates are at the lower end of the scale; for developing nations, costs make up a higher proportion of total value.<sup>6</sup>

3.10 The Chairman of the Australian APEC Study Centre, Alan Oxley, stressed the importance of trade liberalisation in building a platform for sustained growth and development:

APEC was founded on the idea that trade liberalization was key to promoting economic growth and integration of APEC economies. There is an inclination for the measure of success in reaching this goal [to be] the extent to which trade barriers are reduced.

It takes more than that. The key is domestic economic policy which fosters the competitiveness which enables industries in open economies to trade on their comparative advantage. The commitment to reduce the trade barriers is testimony to recognition of that principle. But the implementation depends on sound domestic economic policy.

APEC has recognized this indirectly and implicitly – such as through the trade facilitation programs to reduce the transaction costs of trade and to tackle the ‘beyond the border’ impediments to increased growth. APEC has established an economic structural change program and created a forum for Economic Affairs Ministers to advance it.

What is missing is a statement of the primary goal these activities are to achieve. It is not economic integration itself; it is the condition which achieves it. And that, simply put, is to achieve global competitiveness in each APEC economy.<sup>7</sup>

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5 Asian Development Bank and ESCAP, *Designing and Implementing Trade Facilitation in Asia and the Pacific*, Mandaluyong City, The Philippines, November 2009, p. 5.

6 Asian Development Bank and ESCAP, *Designing and Implementing Trade Facilitation in Asia and the Pacific*, Mandaluyong City, The Philippines, November 2009, p. 5.

7 Alan Oxley, Chairman, Australian APEC Study Centre, *Recovery from the Global Recession – Adjusting the APEC Ambition*, Annual Conference of the APEC Study Centre Network, Singapore, 13-15 July 2009, p. 7.

3.11 The Asian Development Bank (ADB) supported these views on the importance of trade facilitation:

Trade facilitation is increasingly recognized as the key to unlocking further gains from international trade. Tariffs are no longer the main obstacle to trade following their substantial reductions over the last 60 years. Since the 1970s, major non-tariff barriers to trade, such as import quotas or voluntary export restraint agreements, have also diminished in significance.

Yet, there remain significant costs to international trade. Trade facilitation covers these remaining trade costs associated with unnecessarily complex customs and at-the-border procedures, or with inefficient transit arrangements.<sup>8</sup>

3.12 In its submission to the inquiry, the South Australian Government commented on the need to extend reform beyond the border to provide a sound basis for trade growth:

More generally, South Australia considers that the Federal Government's approach to trade policy - the 'twin-pillars' approach - whereby trade liberalisation at the border is accompanied by supply-side reforms behind the border is fundamentally sound.

That is, better coordination between trade policies and domestic economic policy makes good sense, and enhances the probability of delivering good export outcomes for the nation and the states.<sup>9</sup>

3.13 The ADB also emphasised the role of trade facilitation in the development of export competitiveness:

A national policy on trade facilitation is a key factor in the development of export competitiveness. Inefficient trade-related procedures and processes can delay the delivery of products to overseas markets. Such inefficiencies can affect the ability of manufacturers and exporters to meet the "just-in-time" needs of their overseas customers, and prevent them from taking part in the growing number of regional and global production networks.<sup>10</sup>

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8 Asian Development Bank and ESCAP, *Designing and Implementing Trade Facilitation in Asia and the Pacific*, Mandaluyong City, The Philippines, November 2009, p. 1.

9 Government of South Australia, Submission 4, p. 1.

10 Asian Development Bank and ESCAP, *Designing and Implementing Trade Facilitation in Asia and the Pacific*, Mandaluyong City, The Philippines, November 2009, p. 7.

- 3.14 In addition to focussing on the movement of goods, APEC has given attention to facilitating “the international movement of business people”.<sup>11</sup> The Chapter on APEC (Chapter 2) discusses the introduction and successful operation of the APEC Business Travel Card.
- 3.15 The APEC group has also given special attention in its operations to the needs of small to medium enterprises, particularly those in developing economies. It acknowledges that their small scale makes them vulnerable to additional costs caused by unnecessary delays or by costly and inefficient government regulation.<sup>12</sup>
- 3.16 Tradegate Australia Limited (Tradegate), in its submission, indicated that the business world sees the issue a little differently:
- These definitions primarily relate to a government view of the world rather than a business view... From a business perspective, trade facilitation involves all of the activities, practices and formalities involved in collecting, presenting, communicating and processing data required for the movement of goods and services across international borders.<sup>13</sup>
- 3.17 Dr Andrew Elek stressed the importance of trade facilitation in APEC when he noted:
- Most traditional border barriers to trade are low, or gone. Residual border protection is costly, but affects a rapidly shrinking share of international commerce. These days, much more relevant impediments are logistics, security concerns and economic regulations which are not efficient and needlessly different from those of others. These policy weaknesses are compounded by uncertainty about how policies and regulations will work in practice.<sup>14</sup>
- 3.18 Dr Elek referred also to a speech by Singapore’s Minister for Trade and Industry, Lim Hng Kiang, in which the Minister spoke of the :
- ...need to complement a world of already low border barriers to trade in most products, with an environment of transparent,

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11 *APEC’s Second Trade Facilitation Action Plan*, APEC Secretariat, Singapore, 2007, p.1.

12 *APEC’s Second Trade Facilitation Action Plan*, APEC Secretariat, Singapore, 2007, p.1.

13 Mr Peter Blanchard, CEO, Tradegate Australia Limited, Submission 31, p.7.

14 Andrew Elek, *APEC turns 20: new opportunities*, accessed 16 November 2009, <http://www.eastasiaforum.org/2009/11/09/apec-turns-20-new-opportunities/>

consistent and efficient economic policies and regulations, along with best practice information networks and logistics.<sup>15</sup>

3.19 APEC has led the way in some aspects of the development of trade facilitation:

Goods, services, people and capital are moving a lot more freely around the region compared to 1989. Obstacles to trade and investment, including border barriers, have been reduced more rapidly than in any other region. ...intra-APEC merchandise trade has grown five-fold. More efficient customs procedures and other practical arrangements to facilitate trade and investment are saving billions of dollars a year.<sup>16</sup>

## APEC Trade Facilitation Action Plans

3.20 The APEC Leaders, at their Shanghai meeting in 2001, called for a five per cent reduction in trade transaction costs between 2002 and 2006. The result was the Trade Facilitation Action Plan, which was based on four priority areas: Customs Procedures; Standards and Conformance; Business Mobility; and Electronic Commerce.<sup>17</sup>

3.21 The Plan was coordinated by the Committee on Trade and Investment and, at its expiry in 2006, had produced over 1,400 proposed actions, of which about 62 per cent had been completed. The APEC Leaders, at the Hanoi meeting in 2006, acknowledged achievement of the five per cent reduction in costs.<sup>18</sup>

3.22 Earlier, however, at the Busan meeting in 2005, the Leaders had called for a further cut of five per cent in trade transaction costs between 2007 and 2010. The result was the development of the Second Trade Facilitation Action Plan (TFAP II).<sup>19</sup>

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15 Andrew Elek, *APEC turns 20: new opportunities*, accessed 16 November 2009, <http://www.eastasiaforum.org/2009/11/09/apec-turns-20-new-opportunities/>

16 Andrew Elek, *APEC turns 20: new opportunities*, accessed 16 November 2009, <http://www.eastasiaforum.org/2009/11/09/apec-turns-20-new-opportunities/>

17 *APEC's Second Trade Facilitation Action Plan*, APEC Secretariat, Singapore, 2007, pp. 2-3.

18 *APEC's Second Trade Facilitation Action Plan*, APEC Secretariat, Singapore, 2007, p.3.

19 *APEC's Second Trade Facilitation Action Plan*, APEC Secretariat, Singapore, 2007, p.4.

- 3.23 TFAP II was based on the same priority areas as the first plan but was updated and revised, to reflect the conditions at the time and to remove actions already completed or no longer appropriate.<sup>20</sup>
- 3.24 The APEC economies recognised the value of cooperative actions by providing for greater use of Collective Actions and Pathfinders:
- Pathfinders allow member economies that are ready to initiate and implement cooperative activities or measures to do so, while those not ready to participate may join at a later date.<sup>21</sup>
- 3.25 The scope of TFAP II was also extended by including other business facilitation activities, such as: domestic regulatory reform; work on business ethics; and secure trade. This extension recognised the concerns of the business sector, which, following the 2005 meeting, were reflected in the Busan Business Agenda. The Agenda included new initiatives in intellectual property rights, anti-corruption, investment and secure trade.<sup>22</sup>
- 3.26 Importantly, TFAP II also included provisions for capacity building and technical cooperation, to assist lesser developed countries to implement the Plan. Where new Collective Actions and Pathfinders are introduced, for each one at least one capacity building need must be identified – and a mechanism to address it must be included:
- Such mechanisms may include assistance from individual APEC economies, cooperative activities in APEC and, on occasion, assistance from international and regional institutions.
- 3.27 There was a stock-take of progress in 2009 and a final review of TFAP II to be carried out in 2010.<sup>23</sup>
- 3.28 In its 2009 Report to Ministers, the Committee on Trade and Investment reported that the stock-take of progress had revealed that, across APEC, trade transaction costs were estimated to have fallen by 3.2 per cent between 2006 and 2008 – this exceeded the pro-rata rate required to achieve the five per cent reduction by 2010.<sup>24</sup>

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20 *APEC's Second Trade Facilitation Action Plan*, APEC Secretariat, Singapore, 2007, p.4.

21 *APEC's Second Trade Facilitation Action Plan*, APEC Secretariat, Singapore, 2007, p.4.

22 *APEC's Second Trade Facilitation Action Plan*, APEC Secretariat, Singapore, 2007, p.5.

23 *APEC's Second Trade Facilitation Action Plan*, APEC Secretariat, Singapore, 2007, p.6.

24 APEC Committee on Trade and Investment, *Annual Report to Ministers 2009*, November 2009, Singapore, Appendix 7, p. 91.

- 3.29 A very important conclusion drawn by the report is that:
- Reducing the time that regulation imposes on transactions reduces the transaction costs more than cutting fees.<sup>25</sup>
- 3.30 The assessment added:
- This indicates the aggregate cost of the time taken is substantially greater than the aggregate costs of fees and charges. Accordingly, measures to facilitate trade should give priority to reducing the time required to comply.<sup>26</sup>
- 3.31 One recommendation arising from the Interim assessment process was that the definition of transaction costs for TFAPII should include costs incurred in ports, terminal handling and inland transport. Later research indicated that 60 per cent of estimated costs occur in these sectors.<sup>27</sup>
- 3.32 Arising from the work outlined above, APEC has established a comprehensive set of Trade Facilitation Principles – set out in Table 1.

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25 APEC Committee on Trade and Investment, *Annual Report to Ministers 2009*, November 2009, Singapore, p. 12.

26 APEC Committee on Trade and Investment, *Annual Report to Ministers 2009*, November 2009, Singapore, Appendix 7, p. 91.

27 APEC Committee on Trade and Investment, *Annual Report to Ministers 2009*, November 2009, Singapore, Appendix 7, p. 92.

**Table 1 APEC's Trade Facilitation Principles**

APEC's Trade Facilitation Principles	
A Comprehensive Framework	
Principles	Business Impact
<b>Transparency, Communications, Consultants and Cooperation</b>	<ul style="list-style-type: none"> <li>• Traders become an integral part of developing streamlined procedures and rules;</li> <li>• Reduces corruption due to enhanced transparency;</li> <li>• Increases trade-related security since trade would be based on a model of trust and partnership rather than a model of enforced compliance.</li> </ul>
<b>Simplification, Practicality, and Efficiency.</b>	<ul style="list-style-type: none"> <li>• A transparent and consultative process of developing rules and procedures would result in a simplified, practical, and efficient system that works in the region;</li> <li>• Simplified transaction requirements ensure sustainability since these would reduce compliance costs for traders;</li> <li>• Simplified and practical rules are especially important in reducing compliance costs for Small and Medium Enterprises (SMEs) which have higher barriers to entry.</li> </ul>
<b>Non-discrimination, Consistency, Predictability and Due Process</b>	<ul style="list-style-type: none"> <li>• Non-discriminatory rules allow businesses to maximize profits since investment and export decision are based on market principles rather than administrative fiat;</li> <li>• Consistency and Predictability have "reputation" impacts for domestic business that benefit from greater foreign investment and enhanced trading opportunities;</li> <li>• Due process ensures stakeholders have access to adequate legal appeal procedures – adding greater certainty to trade transactions.</li> </ul>
<b>Harmonization, Standardization, and Recognition</b>	<ul style="list-style-type: none"> <li>• Reduces product development, marketing, inventory and placement costs of new products since standards across economies are harmonized and recognized;</li> <li>• For products with short shelf lives like IT and food products; harmonization, standardization, and recognition significantly reduces time delays related to multiple products tests in different markets;</li> <li>• Reduces burden on regulatory authorities because need for re-testing and re-certification is reduced.</li> </ul>
<b>Modernization and the Use of New Technology</b>	<ul style="list-style-type: none"> <li>• Shorter clearance time due to paperless trading reduces cost of shipment, time-to-markets, and inventory costs;</li> <li>• Simplified electronic documentation requirements reduces staff time and agents' fees resulting in increased business efficiency;</li> <li>• Ensures greater security for public due to use of high-tech security features like e-signatures, Optical Vehicle Recognition Systems, and vehicle scanning systems.</li> </ul>

Source APEC's Second Trade Facilitation Action Plan, APEC Secretariat, Singapore, 2007, page 3.

3.33 A key point of concentration in efforts to reduce transaction costs has been the development of paperless trading. In a report released in June 2010, the APEC Committee on Trade and Investment concluded that:

1. Most APEC economies place high premium on development of paperless trading and are equipped with effective telecommunications infrastructure and legal systems, which accordingly do not constitute obstacles to development of paperless trading.
2. Most APEC economies have adopted electronic declaration systems for Customs, and some economies have achieved substantial results in integration of customs and logistics.
3. Regional cooperation has become stronger in simplifying trading procedures and paperless trading, and significant progress has been made in regional cooperation in paperless trading, thanks to cultural similarity, trading convenience and geographical intimacy.
4. Some economies have started to try to exchange electronic data for cross-border paperless trading. Inter-governmental data exchange and certification has just newly started.
5. Realization of paperless trading is increasingly based on integration of the global supply chain. All the economies have started to revolve around the global supply chain to plan single-window data integration.
6. Dominance in paperless trading has increasingly shifted from government to market and from public sector to private sector; as a result, private and public partnerships have been formed.
7. Some economies have started to build platforms for paperless trading that highlight their regional advantages to promote single-window development of paperless trading. Regional integration is the future development trend.<sup>28</sup>

3.34 The conclusions set out above and the general recommendation put forward by the Committee, indicate that the benefits of paperless trading could be extended beyond the APEC region and be of benefit in all the economies being examined in this inquiry:

The report suggests that APEC economies deepen their research into benefits that have been brought by paperless trading to

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28 APEC Committee on Trade and Investment, APEC Electronic and Commerce Steering Group, *Assessment and Best Practices on Paperless Trading to Facilitate Cross Border Trade in the APEC Region*, APEC secretariat, Singapore, June 2010, p. 9.



international trade, sum up their experience and lessons, reach consensus, and build capacity in the region for the development of paperless trading.

It is advisable that various economies communicate and share with each other, and learn from each other to bridge the digital divide of paperless trading between developed and developing countries.<sup>29</sup>

3.35 The APEC Committee concluded that the benefits from the introduction of paperless trading would be felt by many businesses. It would, the Committee concluded:

- Minimize the constraints of time and space in import and export procedures
- Reduce the cost of carrying out formalities and improve the efficiency
- Achieve online shipping space booking, online insurance, online payment, etc; a variety of declaration procedures can be conducted online
- Improve the level of supply chain integration for enterprises to gain opportunities for competition
- Obtain transparent and relatively stable services. If paperless, all formalities associated with customs declaration and clearance can be carried out on the internet with a more transparent process... With [an electronic] customs clearance process, many of the rules will become more stabilised and be fixed during a relatively longer period
- Get easier to acquire trade-related financing services. The emergence of electronic bills of lading makes it more convenient for companies' financing. On one hand, electronic bills of lading facilitate supervision; on the other hand, the efficiency of processing documents will also be further enhanced
- Collect real-time information on the location of goods in transit, tariff rates and so on
- Reduce the errors in data entry and re-keying times.<sup>30</sup>

3.36 Although the reduction of tariffs between the member economies of APEC has gained most publicity, many of the group's greatest successes have been in trade facilitation:

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29 APEC Committee on Trade and Investment, APEC Electronic and Commerce Steering Group, *Assessment and Best Practices on Paperless Trading to Facilitate Cross Border Trade in the APEC Region*, APEC secretariat, Singapore, June 2010, p. 9.

30 APEC Committee on Trade and Investment, APEC Electronic and Commerce Steering Group, *Assessment and Best Practices on Paperless Trading to Facilitate Cross Border Trade in the APEC Region*, APEC secretariat, Singapore, June 2010, pp. 63-4.

...member economies have the freedom to implement agreed measures and actions ... most suitable to their own circumstances, with capacity building assistance being a key ingredient to help bridge the gap in a forum made up of members at different stages of economic development.

... Once the menu was agreed, member economies could choose to implement actions and measures either individually or as a group, on a voluntary basis.<sup>31</sup>

3.37 In fact, APEC has proved to be a very effective forum for this type of cooperative exercise:

As a non-rules-based forum founded on the principle of cooperation, APEC is well suited to this work. It provides a non-threatening environment for member economies to consider new and innovative ways to address similar problems. It also recognises the reality that on issues such as trade facilitation, one size does not necessarily fit all. ...<sup>32</sup>

## **APEC Business Advisory Council**

3.38 The APEC Business Advisory Council (ABAC) consists of 63 members, three from each member economy. It is a regular source of advice to APEC Leaders and ministers on the best ways to achieve the APEC goals. It provides a cross-section of opinion from the APEC business sectors.<sup>33</sup>

3.39 Trade Facilitation is one of the most important issues being considered by ABAC. The group's aim is to eliminate impediments to business growth and development. It has a double-pronged approach and seeks to overcome:

- barriers at the border – for example: onerous conditions on foreign investors and limitations on the capacity of foreign investors to compete effectively, and
- barriers behind the border – for example: trade restricting practices or the promotion of monopolies in an economy.<sup>34</sup>

3.40 ABAC also recognises the need for special attention to the needs of small and medium-sized enterprises (SMEs). It has identified a range of

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31 *APEC's Second Trade Facilitation Action Plan*, APEC Secretariat, Singapore, 2007, pp. 2-3.

32 *APEC's Second Trade Facilitation Action Plan*, APEC Secretariat, Singapore, 2007, p. 2.

33 Mr Ken Waller, Director of the Australian APEC Study Centre, Submission 34, p. 3.

34 Mr Ken Waller, Director of the Australian APEC Study Centre, Submission 34, p. 6.

practices that act as impediments to business growth –particularly for SMEs.

- 3.41 The Director of the Australian APEC Study Centre noted that the list of these practices is quite long. He indicated, however, that the most important issues are: excessive regulatory burdens; discriminatory treatment against foreign investors; complexities in establishing a business or in exiting where a business failure occurs; access to finance and information; and access to efficient and inexpensive communications.<sup>35</sup>
- 3.42 In support of ABAC's comments, he concluded that trade facilitation is of vital importance and that:

The APEC agenda ... is about opening markets in the region to access to trade in commodities, manufactures and services and to opening opportunities for the flow of investments in all regional economies.<sup>36</sup>

### Further Support for ABAC's Views

- 3.43 Evidence given by the Chief Executive of Tradegate supported the importance of trade facilitation. Tradegate is an industry-based, not-for-profit organisation working for the international trade and transport community. It represents a variety of organisations, including: shipping lines, stevedores, consolidators, airlines, customs brokers, freight forwarders, depots, container parks, transport companies, importers and exporters. Several leading associations representing these groups are also in its membership.<sup>37</sup>
- 3.44 Tradegate was established in 1989 and, since then, one of its main projects has been "...the use of electronic commerce technologies to streamline supply chain processes in the international trade and transport logistics industry". The result of this activity has been to give Tradegate a clear idea of what is needed in the area of trade facilitation:

As a trading nation, it is in Australia's interests that the export of goods and services be achieved in the most cost effective and timely manner as possible. To achieve this, it is imperative that Australia develop a focused national approach to trade facilitation.

Trade facilitation requires a long term perspective to be successful as changes to trading environments and government decision

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35 Mr Ken Waller, Director of the Australian APEC Study Centre, Submission 34, p. 6.

36 Mr Ken Waller, Director of the Australian APEC Study Centre, Submission 34, p. 6.

37 Mr Peter Blanchard, CEO, Tradegate Australia Limited, Submission 31, p. 3.

making can take several years to implement. While Australia has done much to improve its access regime for trade – reduced tariff barriers, improved processing at the barrier – there is still much to be done.<sup>38</sup>

3.45 In support of these comments, Tradegate noted that, in ratings established by the World Bank, Australia ranks only 34<sup>th</sup> among economies considered to have the easiest trade access. It commented that: “This provides significant opportunities for a whole of government trade facilitation approach to improve importers’ access to international markets”.<sup>39</sup>

3.46 Tradegate’s submission to the inquiry included an example of an area where there is considerable scope for simplification – and where that simplification could make a useful reduction in the costs of international trade. Referring to a study carried out by the Australian Customs Service in 2008, Tradegate noted:

...there are 41 Commonwealth and State government agencies involved in international trade, collecting over 7,640 different pieces of data. A lot of this data is required on paper forms – some 275 of them. Forms do not allow fast and efficient processing as data from a form has to be re-keyed into a computer.

Of these 7,640 data items, when harmonised across all agencies only 637 core data items were needed. That is, less than 10 per cent of the data was unique, a massive 90 per cent of duplication.<sup>40</sup>

3.47 Quoting from an OECD study made in 2003, *Quantitative Assessment of the Benefits of Trade Facilitation*, Tradegate also reported that the study estimated that transaction costs ranged from 1 to 15 per cent of the value of traded goods. The OECD found that each transaction passed, on average, through 27 to 30 parties, such as: brokers, vendors, banks, carriers and freight forwarders. Each transaction required at least 40 documents and over 200 data elements were typically requested. At least 60 to 70 per cent of these were re-keyed at least once and about 15 per cent of them re-typed up to 30 times.<sup>41</sup>

3.48 Tradegate supported ABAC’s concerns about small to medium enterprises (SMEs). It reported:

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38 Mr Peter Blanchard, CEO, Tradegate Australia Limited, Submission 31, p. 3.

39 Mr Peter Blanchard, CEO, Tradegate Australia Limited, Submission 31, p. 3. The 2011 figures by the World Bank place Australia 29<sup>th</sup> on the list.

40 Mr Peter Blanchard, CEO, Tradegate Australia Limited, Submission 31, p. 3.

41 Mr Peter Blanchard, CEO, Tradegate Australia Limited, Submission 31, p. 7.

...a late 1980s study concluded that SMEs, that is firms with fewer than 250 employees in the European Union, incur trade transaction costs 30-45 per cent higher per consignment than those falling on larger firms.

The Department of Foreign Affairs and Trade (DFAT) calculated that savings are "highest for smaller shipments rather than bulk shipments. This is due to the high fixed cost of completing paperwork requirements manually. ...costs ...estimated by traders at between US\$75-US\$125 per transaction, irrespective of the size of the transaction".<sup>42</sup>

3.49 To put these comments in an Australian context, Tradegate added:

Assuming DFAT's numbers to be reasonably accurate then Australian exporters face paper trade transaction costs of well over \$100 million per annum.

Just two agencies of the Federal Government cost importers and exporters in excess of \$300 million per annum. Importers or their agents pay \$50 per import declaration to Australian Customs, a cost of \$165 million per annum, while AQIS currently charges \$33 per import declaration.<sup>43</sup>

## Improving the Logistics Chain

3.50 An area that shows significant promise for trade facilitation is the improvement and greater integration of the transport and logistics networks in the region.

3.51 Australia has made great efforts in the last few years to overcome deficiencies in its transport and logistics network. Billions of dollars have been allocated to the improvement of existing infrastructure, building new infrastructure, and reducing impediments to the rapid and efficient movement of goods.

3.52 APEC has also made the improvement of the supply chain network a priority. In April 2010, APEC commented on a program that had been established to develop an APEC Supply Chain Framework.<sup>44</sup>

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42 Mr Peter Blanchard, CEO, Tradegate Australia Limited, Submission 31, p. 9.

43 Mr Peter Blanchard, CEO, Tradegate Australia Limited, Submission 31, p. 9.

44 APEC at Work, *APEC's Supply Chain Framework: A Boon for Business*, Singapore, 29 April 2010, [http://www.apec.org/apec/news\\_media/apec\\_at\\_work/20100430\\_supply\\_chain.html](http://www.apec.org/apec/news_media/apec_at_work/20100430_supply_chain.html), accessed 13 May 2010.

- 3.53 In its submission to this inquiry, DFAT noted that the APEC program is seeking to:
- identify chokepoints impeding trade logistics in the Asia-Pacific region;
  - assess measures currently in place to ameliorate those chokepoints ;
  - recommend further action to remove impediments to trade logistics.<sup>45</sup>
- 3.54 The APEC announcement said that “efficiency gains in an interconnected network for transport (and trade) would lead to more than just easier movement of goods; overall it would result in higher growth and greater prosperity “.<sup>46</sup>
- 3.55 APEC reported that an increase of one percentage point in the ratio of trade to GDP would produce a two or three per cent increase in income per head. A 10 per cent efficiency gain in the supply chain it estimated would “lift APEC’s real GDP by US\$21 billion per year and generate thousands of jobs”.<sup>47</sup>
- 3.56 The Australian Federation of International Forwarders said, in evidence to the Sub-Committee, that the major problems facing Australia’s importers and exporters are the interfaces at port and airport and the compliance functions for Customs and quarantine clearance.<sup>48</sup>
- 3.57 The Federation claimed that there are serious shortcomings in the transport infrastructure around the ports; this mainly affects Sydney and Melbourne at present, but Brisbane will also have problems as its growth proceeds.<sup>49</sup>
- 3.58 The efficiency of cargo movement through the ports and the distribution of imports to final destinations are under close scrutiny. The Federation gave as an example the present situation in Sydney:

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45 DFAT, Submission 40, p. 9.

46 APEC at Work, *APEC’s Supply Chain Framework: A Boon for Business*, Singapore, 29 April 2010, [http://www.apec.org/apec/news\\_media/apec\\_at\\_work/20100430\\_supply\\_chain.html](http://www.apec.org/apec/news_media/apec_at_work/20100430_supply_chain.html) , accessed 13 May 2010.

47 APEC at Work, *APEC’s Supply Chain Framework: A Boon for Business*, Singapore, 29 April 2010, [http://www.apec.org/apec/news\\_media/apec\\_at\\_work/20100430\\_supply\\_chain.html](http://www.apec.org/apec/news_media/apec_at_work/20100430_supply_chain.html) , accessed 13 May 2010.

48 Australian Federation of International Forwarders Ltd, Committee Hansard, 14 April 2010, p. 16.

49 Australian Federation of International Forwarders Ltd, Committee Hansard, 14 April 2010, p. 16.

...the New South Wales ports minister has become very involved, as did his predecessor, in trying to improve the efficiency. One of the solutions ... brought forward was to impose penalties and fees, because if the ports would not work efficiently by evolution or by organic methods then perhaps they needed to be forced to do so.

Some solutions that were brought forward were penalty rates for picking up containers from the wharf during peak hours. Of course, we are talking about peak hours as daylight business hours that impact upon other users of the roads – consumers, but also business. Therefore, by imposing penalties on the transport operators, could we shift their hours of working to night time and evening and how would we do that?

The penalty proposal was brought forward, which is called peak period pricing, PPP. I would not say that has been shelved, but it is still there in the background as a threat.

In the meantime, the ports minister for New South Wales is trying to encourage Sydney Ports, who operate the ports on his behalf, to bring forward these productivity and efficiency initiatives, some of which relate to internal target setting by the CTOs themselves; in other words, setting their own targets for which if they do not achieve them then maybe they impose on themselves some internal penalties on staff and operations.

I envisage all of that will come to a head within the next six months, because if this does not work and we still have inefficiencies at the ports with long truck queues and congested roads around the port, then something has to be done.<sup>50</sup>

- 3.59 The Federation commented that among the problems adding to the cost of freight transport is the application of storage charges, or demurrage, for cargo that cannot be immediately moved to the port, or from the port to its final destination, and must be staged through a storage depot. There are also similar charges, detention charges, applied to empty containers that are not returned within a specified time (usually ten days) after they have been emptied. A third factor is the cost of repositioning empty containers and the cost of their storage in empty container depots while awaiting cargoes or repositioning.<sup>51</sup>

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50 Australian Federation of International Forwarders Ltd, Committee Hansard, 14 April 2010, pp. 16-17.

51 Australian Federation of International Forwarders Ltd, Committee Hansard, 14 April 2010, pp. 16 and 18.

- 3.60 One of the problems that increases the incidence of these charges is the mismatch between the hours worked by ports and freight forwarders – which can be 24 hours a day and seven days a week – and importers and exporters who have shorter hours and limited to five or six days a week.<sup>52</sup>
- 3.61 One of the suggestion put forward to help reduce road congestion around the ports, is to apply either an incentive or a penalty to encourage transport companies to have their trucks bring an empty container back to the port when collecting cargo – so that single movements are discouraged.<sup>53</sup>
- 3.62 An additional cost that has emerged in recent years is the cost of antiterrorist programs. The security issues that have emerged in recent years has steeply increased the cost of safeguarding cargoes:

If we go back probably 15 years there were no structured air cargo or sea cargo antiterrorist programs. That is quite a recent introduction. Things have moved very quickly and are still moving. I think it is a very large factor in relation to our activities, so I might speak about those briefly.

The security issues relate to compliance costs, compliance for our members in terms of regulation for the development of efficient and effective programs to ensure the integrity of the cargo from the supplier through to the carrier that takes the goods out of the country. To do that there must be training in place, a system in place to monitor the cargo through its movement and there is audit and compliance. With those two items come costs as well.<sup>54</sup>

- 3.63 The Federation explained some of the additional programs and technology, with accompanying costs, that are being introduced to deal with security problems:

Just recently you would be aware that the government announced \$54 million to assist industry to implement and enhance the air cargo security program. ... Part of that money will be developing a regulated shipper program. You talked about our role as freight forwarders. We are getting closer to the shipper because at the moment the shipper is unregulated in air cargo security in that all

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52 Australian Federation of International Forwarders Ltd, Committee Hansard, 14 April 2010, pp. 16 and 18.

53 Australian Federation of International Forwarders Ltd, Committee Hansard, 14 April 2010, p. 20.

54 Australian Federation of International Forwarders Ltd, Committee Hansard, 14 April 2010, p. 22.



they have to do is identify themselves and show that they have a driver's licence or whatever and they can give the cargo to the party in the chain that takes it to the airport. That is not satisfactory.

We need to know more about the individuals working at shippers' premises, as much as we have to regulate our own industry. Part of this money will go towards a new regulated shipper program.

Part of the money will also go to improving the technical examination of cargo. By this I mean cargo x-ray and explosive trace detection technology, which is available in some form already. These technological improvements we will see continuing on forever and at the moment I cannot guarantee that they are foolproof. I can guarantee that they are putting hurdles in the way of would-be terrorists and therefore making the supply chain a lot more secure than it would be without them.

We are looking to work together with the government to develop these new systems to improve cargo security. At the same time it should be noted that the freight forwarder is going to have to pay more to work with this technology, not just in the purchase of equipment but also in the training required to operate the equipment effectively.<sup>55</sup>

## Wider Recognition of the Importance of Trade Facilitation

3.64 The Asian Development Bank (ADB), quoting the Economic Commission for Europe, noted that:

The main objective of trade facilitation is to simplify the process and minimise transaction costs in international trade, while maintaining effective levels of government control.<sup>56</sup>

3.65 The World Trade Organization (WTO) has also recognised the importance of trade facilitation. It was added to the WTO agenda at the 1<sup>st</sup> Ministerial Conference in Singapore in 1996. The Ministerial Declaration that launched the DOHA Round included specific provision for consideration of the needs and priorities of members in this area.<sup>57</sup>

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55 Australian Federation of International Forwarders Ltd, Committee Hansard, 14 April 2010, p. 22.

56 Asian Development Bank and ESCAP, *Designing and Implementing Trade Facilitation in Asia and the Pacific*, Mandaluyong City, The Philippines, November 2009, p. 3.

57 Dr Carolin Eve Bolhöfer, *Trade Facilitation – WTO Law and its Revision to Facilitate Global Trade in Goods*, World Customs Journal, Vol. 2, No.1, April 2008, p.34.

3.66 In part, the Ministerial Declaration said:

Recognizing the case for further expediting the movement, release and clearance of goods, including goods in transit, and the need for enhanced technical assistance and capacity building in this area we agree that negotiations will take place after the Fifth Session of the Ministerial Conference...

In the period until the Fifth Session, the Council for Trade in Goods shall review and, as appropriate, clarify and improve relevant aspects...and identify the trade facilitation needs and priorities of members, in particular developing and least-developed countries. We commit ourselves to ensuring adequate technical assistance and support for capacity building in this area.<sup>58</sup>

3.67 In August 2004, "...Members took note of the trade facilitation work done so far and agreed to start negotiations..." by adopting the so-called 'July Package'. Under this agreement the Members:

Besides committing themselves to clarifying and improving the relevant GATT Articles, ...recognised that the principle of special and differential treatment for developing and least-developed countries should extend beyond granting traditional transition periods for the implementation of commitments and that the extent and timing of entering into commitments should be related to the implementation capacities of such countries.<sup>59</sup>

3.68 Later in 2004 a Negotiating Group on Trade Facilitation was established and commenced negotiations. Discussions were suspended in 2006 because they seemed to be heading for agreement well in advance of the main negotiations.<sup>60</sup>

3.69 The Group now has a wide range of proposals from Members to consider and will have to decide which of them will be included in any agreement. This will involve the delicate task of balancing the different interests of all WTO Members so that a consensus can be reached. However, as the paper quoted above notes:

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58 Dr Carolin Eve Bolhöfer, *Trade Facilitation – WTO Law and its Revision to Facilitate Global Trade in Goods*, World Customs Journal, Vol. 2, No.1, April 2008, p.34.

59 Dr Carolin Eve Bolhöfer, *Trade Facilitation – WTO Law and its Revision to Facilitate Global Trade in Goods*, World Customs Journal, Vol. 2, No.1, April 2008, p.34.

60 Dr Carolin Eve Bolhöfer, *Trade Facilitation – WTO Law and its Revision to Facilitate Global Trade in Goods*, World Customs Journal, Vol. 2, No.1, April 2008, p.34.

It is certain that technical assistance and capacity building for less developed countries are the keys to reform of WTO law. Looking at the potential that trade facilitation presents, especially for the developing world, it is more than desirable that Members manage to agree on an ambitious set of disciplines.<sup>61</sup>

3.70 The ADB, commenting on this aspect of the Doha negotiations, said:

The global trade talks on the Doha Development Agenda include negotiations of a trade facilitation agreement, focusing on freedom of transit, fees and formalities for import and export, as well as publication and administration of trade regulations (transparency). Trade facilitation provisions are also included in a growing number of free trade agreements in Asia and the Pacific.<sup>62</sup>

3.71 Another international organisation with a crucial role to play in the process of improving trade facilitation is the World Customs Organization (WCO). The WCO represents 176 Customs administrations that, collectively, process about 98 per cent of the world's trade. Through this organisation, based in Brussels, Customs authorities from around the world co-operate on issues such as: development of global standards; simplification and harmonisation of Customs procedures; trade supply chain security; facilitation of international trade; enhancement of Customs enforcement and compliance activities; anti-counterfeiting and anti-piracy; public private partnerships; integrity promotion; and sustainable Customs capacity building programs.<sup>63</sup>

3.72 The WCO also maintains the international Harmonized System of goods nomenclature and administers the technical areas of the WTO Agreements on Customs Valuation and Rules of Origin.<sup>64</sup>

3.73 Australia has a very active organisation that is co-operating closely with the WCO in training international Customs officers – the Centre for Customs and Excise Studies at the University of Canberra. This program is regarded as an international centre of excellence; it offers comprehensive courses in customs, excise, revenue management, border management and

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61 Dr Carolin Eve Bolhöfer, *Trade Facilitation – WTO Law and its Revision to Facilitate Global Trade in Goods*, World Customs Journal, Vol. 2, No.1, April 2008, p.38.

62 Asian Development Bank and ESCAP, *Designing and Implementing Trade Facilitation in Asia and the Pacific*, Mandaluyong City, The Philippines, November 2009, Preface, p. iv.

63 World Customs Organization, [http://www.wcoomd.org/home\\_about\\_us.htm](http://www.wcoomd.org/home_about_us.htm), and [http://www.wcoomd.org/home\\_about\\_us\\_our\\_profile.htm](http://www.wcoomd.org/home_about_us_our_profile.htm), accessed 15 April 2010.

64 World Customs Organization, [http://www.wcoomd.org/home\\_about\\_us.htm](http://www.wcoomd.org/home_about_us.htm), accessed 15 April 2010.

related areas. It is also very active in research and has an extensive program of consultancy projects.<sup>65</sup>

3.74 One of the main aims, for both the WCO and the Australian Centre for Customs and Excise studies, is to lower international transaction costs through the streamlining and harmonisation of customs procedures throughout the world.

3.75 The Asian Development Bank commented that although there is wide recognition of the benefits of trade facilitation, some countries are reluctant to commit to the implementation costs:

Some developing countries may view costs associated with implementing trade facilitation measures as prohibitive, but evidence suggests otherwise.

The introduction and implementation of trade facilitation measures do entail start-up costs for government agencies; however, these reforms eventually reduce government expenditures by enhancing transaction efficiency and transparency, eliminating duplicative functions, and allowing a more economical and efficient use of administrative resources. In practice, some of the initial costs are also transferred to traders through charges for services provided.

Overall, savings from implementing trade facilitation measures, such as those being negotiated under the WTO, are expected to far outweigh any setup and operating costs involved in implementing them. ..[T]his is particularly true for some of the more advanced and far-reaching trade facilitation measures such as electronic single window, risk management, and post-clearance audit mechanisms.<sup>66</sup>

3.76 The ADB added that there were several different types of cost involved in trade facilitation measures:

- Institutional costs, such as the restructuring of existing institutions or establishing new ones
- Regulatory and legislative costs, such as amendment of existing regulatory and legal systems
- Equipment and training costs, such as setting up electronic data systems and training the staff members

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65 Centre for Customs and Excise Studies, University of Canberra, <http://www.customscentre.canberra.edu.au/>, accessed 15 April 2010.

66 Asian Development Bank and ESCAP, *Designing and Implementing Trade Facilitation in Asia and the Pacific*, Mandaluyong City, The Philippines, November 2009, p. 8.

- Other costs, such as the potential loss of customs revenue – however, a loss of revenue can be offset, to some extent, by increased trade volumes and by a reduction in the revenue lost through corruption, as procedures become more transparent.<sup>67</sup>

3.77 The Bank commented that it was not necessary for every country to implement radical changes and employ very expensive technology:

...cost concerns should not deter countries from pursuing trade facilitation. Trade facilitation can often be significantly achieved without investing in a fully automated and computerised system.

Merely simplifying rules, procedures, and regulatory processes, and investing in port and border crossing infrastructure and equipment, such as container scanners, can considerably expedite control and clearance of goods at borders. As such, optimising the use of the existing infrastructure, equipment, and human resources can yield early and significant efficiency gains.<sup>68</sup>

## Export Market Development Grants

3.78 The Export Market Development Grants (EMDG) scheme was described in the report of the Mortimer Review of Export Policies and Programs as “the Australian Government’s principal financial assistance program for aspiring and developing exporters”. The report set out the aims of the scheme as:

To encourage businesses to promote their products and services overseas and to become established exporters whose exporting persists as a sustained activity after assistance under the scheme ceases.<sup>69</sup>

3.79 The EMDG scheme has operated since 1974 and the Mortimer Review found that the:

Scheme has been helpful in introducing smaller Australian businesses and new exporters to the global market and can be considered both effective and efficient in supporting the

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67 Asian Development Bank and ESCAP, *Designing and Implementing Trade Facilitation in Asia and the Pacific*, Mandaluyong City, The Philippines, November 2009, pp. 9-10.

68 Asian Development Bank and ESCAP, *Designing and Implementing Trade Facilitation in Asia and the Pacific*, Mandaluyong City, The Philippines, November 2009, p. 9.

69 David Mortimer AO, *Winning in World Markets: Meeting the competitive challenge of the new global economy: Review of the Export Market Development Grants Scheme*, Report to the Minister for Trade, Canberra, 1 September 2008, p. 1.

development of Australia's exports. The scheme should be continued.<sup>70</sup>

- 3.80 The Australian Institute of Export told the Sub-Committee that the scheme is "vital infrastructure for exporters". The Institute pointed out that reviews have shown that EMD Grants increase productivity and they do not increase inflation because most of the funds are spent offshore.<sup>71</sup>
- 3.81 There was considerable distress among exporters when Austrade had insufficient funds in 2007-08 to meet the EMDG claims lodged. Austrade estimated the shortfall at A\$28 million and about 900 firms had their claims substantially reduced for that year. Austrade reduced the initial payout from \$70,000 to \$40,000 and could pay only 24.4 per cent of the second stage entitlements. In effect, this reduced the statutory maximum grant from \$150,000 to \$89,533.<sup>72</sup>
- 3.82 The Government responded by increasing funding for the scheme in 2008-09 by \$50 million and adding another \$50 million in 2009-10, providing a total budget of \$200,400,000 in each year. It also proposed amendments to the scheme in the Export Market Development Grants Amendment Bill 2010, which was introduced in the House of Representatives on 26 May 2010.<sup>73</sup>
- 3.83 The Minister for Foreign Affairs said the amendments were designed to focus the grants "on those SME exporters who can benefit most". The changes proposed: reduction of the maximum number of grants for an individual exporter from eight to seven; retention of the maximum grant of \$150,000; an increase in the minimum level of expenditure required from \$10,000 to \$20,000; and a cap on the maximum amount claimable for intellectual property expenses at \$50,000. It also proposed an extension of the life of the scheme by five years – to 2015-16.<sup>74</sup>
- 3.84 The total budget allocation for each year from 2010-11 to 2013-14 is \$150,400,000. The legislation provides for a further review to be provided

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70 David Mortimer AO, *Winning in World Markets: Meeting the competitive challenge of the new global economy: Review of the Export Market Development Grants Scheme*, Report to the Minister for Trade, Canberra, 1 September 2008, p. 1.

71 Australian Institute of Export, Submission 32, p. 2.

72 Australian Institute of Export, Submission 32, p. 1.

73 House of Representatives, *Export Market Development Grants Amendment Bill 2010*, Second Reading Speech by the Minister for Foreign Affairs, Hansard, 26 May 2010, p. 7.

74 House of Representatives, *Export Market Development Grants Amendment Bill 2010*, Second Reading Speech by the Minister for Foreign Affairs, Hansard, 26 May 2010, p. 8.

to the Minister by 30 June 2015, to determine whether there will be a further extension of the scheme beyond 2015-16.<sup>75</sup>

- 3.85 The Australian Institute of Export strongly advocated the provision of full funding for the scheme on a regular basis. The Institute noted that what exporters need is the ability to be able to calculate the ultimate cost to them of activities such as: trade fairs; provision of free samples; advertising; engagement of marketing assistance; trips to prospective markets and setting up promotional office overseas. The Institute added:

If exporters don't know how much these activities will cost them, they won't undertake these additional activities that would otherwise lead to extra export revenue for Australia.<sup>76</sup>

#### **Recommendation 4**

**That the Australian Government commit itself to a concerted effort to lift Australia into the top 20 countries in the World Bank's list of economies having the easiest trade access.**

#### **Recommendation 5**

**That Australia work towards the complete introduction of paperless trading as soon as possible and that it encourage and, where necessary, assist its trading partners to achieve the same outcome.**

#### **Recommendation 6**

**That Australia should strongly encourage the complete acceptance of the APEC Business Travel Card by the remaining members of APEC; and also explore the possibility of establishing a similar arrangement with other trading partners, e.g. non-APEC economies in Latin America, the EU and India.**

75 Parliamentary Library, Bills Digest No.170 (2009-10), *Export Market Development Grants Amendment Bill 2010*, Michael Priestley, Economics Section, 11 June 2010, pp. 3-4.

76 Australian Institute of Export, Submission 32, p. 3.

**Recommendation 7**

**That Australia should take a leading role in working towards the improvement of supply-chain processes in APEC and in encouraging other trading partners to undertake a similar program.**

**Recommendation 8**

**That, in view of the benefits arising from the Export Market Development Grants Scheme, it should continue indefinitely and be fully funded to provide certainty for exporters seeking to widen their overseas market focus.**



## Latin America

### Introduction

- 4.1 For many years the countries of Latin America were almost “undiscovered territory” to Australian industry and consumers. In recent years, however, the rapid and sustained growth in the major Latin American economies has changed that perception.
- 4.2 The countries of Latin America displayed great interest in the inquiry. They signalled a clear intention to expand trade and investment relations with Australia, and were grateful for the opportunity to discuss ways of achieving this.
- 4.3 Australia shares this vision and last year the Minister for Trade, the Hon. Simon Crean, highlighted the importance placed on economic relations with Latin America. In a speech at the Australian Business Club in Peru he said:
- Latin America is a priority area for the Australian Government because we feel that too little has been done in the past to build solid political and commercial relationships here.<sup>1</sup>
- 4.4 The Australian Minister for Foreign Affairs, in a speech to the United Nations Economic Commission for Latin America and the Caribbean in Chile, said that:

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1 Hon Simon Crean, Minister for Trade, Speech to the Australian Business Club, Lima, Peru, 18 November 2008, p. 2.

Australia's desire to broaden, deepen and strengthen our relationships with Latin America and the Caribbean is the reason I am here tonight. ...

Australia is keen to grasp the opportunity to do more with Latin America at all levels – bilaterally, regionally and multilaterally.

...the Australian Government is looking with fresh eyes and fresh enthusiasm at Latin America and the Caribbean, looking at ways to enhance and deepen our engagement. This desire for deeper engagement is reflected by a number of recent Australian initiatives to work more closely with countries of the region.

Strengthening our relationships with the countries of Latin America and the Caribbean is a high priority for the Australian Government.

The Australian Government now has a new commitment to working much more closely with Latin America and the Caribbean, and the strategy to make that happen into the future.<sup>2</sup>

4.5 While several of the Latin American economies have similar structures to Australia – strong in exports of primary products – there are enough complementarities to encourage the idea that closer trade and investment relations will be beneficial to all.

4.6 DFAT in evidence to the Sub-Committee commented on the rapid growth of Australia's trade with Latin America and the good prospects for continuation of that trend:

As I am sure you appreciate and would have gathered from your discussions with my Austrade colleagues a few days ago, Latin America is an area full of promise for trade in both directions. There are handicaps involving transport links and the like, but nonetheless trade is growing strongly, albeit off a very low base.

In the last financial year our exports grew by over 50 per cent, which is more than twice the rate of growth of exports from Australia to the world, and also the total value of trade held up very well indeed. I qualify that because our exports to Latin America are still very much based on coal and of course coal values played a big part in that, but nonetheless there is no doubt

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2 Hon Stephen Smith, Minister for Foreign Affairs, Speech to the United Nations Economic Commission for Latin America and the Caribbean, Santiago, Chile, 27 August 2009, pp. 1-3 and 5.

that the volume of trade is continuing to grow and I need not expand on what my Austrade colleagues told you.

We see it as being full of promise and it is just a matter of consolidating our start through the Australia-Chile FTA and of course looking at further opportunities to expand our links, not just for economic reasons but for all of the good strategic reasons.<sup>3</sup>

- 4.7 The Austrade submission to the inquiry noted that although trade with Latin America is growing strongly, it remains modest when compared to major trading partners. However, Austrade said the potential is there for considerable expansion of trade – Latin America has a population of more than 500 million and a combined GDP of nearly \$A 4 trillion:

Australian merchandise exports to the whole of Latin America are roughly on par with countries such as Malaysia, South Africa, Canada and Italy, around \$A 2-3 billion in 2007.

Australian services exports to Latin America were estimated at \$A 906 million in 2007.

Reported Australian investment in Latin America (not including the Caribbean) as at 30 July 2008 was \$A 4,255 billion, although a very large amount of investment in the region is confidential and therefore not included in this figure.

Australia's top three trading partners in the region (2007-08 preliminary figures) are Brazil (total trade of \$1.91 billion); Mexico (\$1.78 billion); and Chile (\$764 million). Coal was Australia's stand-out export to each of these countries. Australia imported mostly end-products such as vehicles, computers, engines and telecommunications equipment.

Austrade was credited by Australian businesses with directly assisting \$1.485 billion worth of sales and investment in Latin America during 2007-08.<sup>4</sup>

- 4.8 Austrade also commented that Australian trade is gaining momentum as the countries of Latin America become less dependent on their economic links with the US. So far, the gains have been broadly in five sectors:

- Mining (technology and services); Agribusiness (products, genetics, live animals); Services (education, consulting, franchising and tourism); Food and beverage (specialised, wine and beer); and ICT (communications, software).

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3 Department of Foreign Affairs and Trade, Committee Hansard, 25 November 2009, p. 10.

4 Austrade, Submission 18, p. 5.

- In addition to these five, other major areas of commercial return are continuing to grow, including: renewable energy (hydro - mini, wind); and coal (Mexico, Chile, Brazil).<sup>5</sup>

- 4.9 The difficulties facing Australian exporters stem from the preferences available to their competitors through the existing network of FTAs between the Latin American countries and major trading partners; for example, Mexico's concessions to the USA and Canada through its membership of NAFTA.<sup>6</sup>
- 4.10 This is a particular problem in the agricultural sector. An extreme example occurred when NAFTA came into force. Australia had held 15 per cent of the Mexican beef market, but that share was eliminated when the Australian product faced duties of 20-25 per cent while beef from the USA and Canada received duty free entry.<sup>7</sup>
- 4.11 Other issues affecting Australia's trade prospects include freight costs, shipping schedules and a lack of suitable infrastructure:

The cost of freight, due to distance and unfavourable shipping schedules, affects prices, and the ability of Australian agricultural exports to compete in Latin America. Whilst the shipping schedules are improving, it can be difficult for Australian agricultural exporters to ship in time for "first come, first served" tariff quotas that operate in a number of Latin American countries.

In addition some Latin American countries do not have the infrastructure to efficiently transport and store agricultural products, or ensure that products are able to get to markets quickly. The lack of storage facilities for perishable agricultural products is another barrier to trade in some Latin American countries.

Strong growth in Latin American economies, and the increase in consumption that growth brings, have increased the value of Latin American markets for agricultural products. However, the prices on offer in Latin America for agricultural products have not always been as high as they currently are. Accordingly, Australian agricultural exporters have historically sought to sell in higher value markets such as the United States and Japan.

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5 Austrade, Submission 18, p. 5.

6 Department of Agriculture, Fisheries and Forestry, Submission 19, p. 18.

7 Department of Agriculture, Fisheries and Forestry, Submission 19, p. 18.

Consequently exporters to Latin America have had to concentrate their efforts in niche markets.<sup>8</sup>

- 4.12 However, Australia's heightened interest in the region has already resulted in the signing of a new Free Trade Agreement (FTA) with Chile. Discussions are also underway with Mexico; and Australia and NZ recently agreed to seek a resumption of discussions with MERCOSUR.<sup>9</sup>
- 4.13 MERCOSUR is a Customs Union between Argentina, Brazil, Paraguay and Uruguay. Bolivia, Chile, Colombia, Ecuador and Peru are Associate members; Venezuela is becoming a full member; and Mexico has observer status.<sup>10</sup>
- 4.14 The Brazilian Ambassador said that restarting the talks would be "very valuable". He said that the Brazilian Foreign Minister had twice discussed this subject with Australia's Foreign Affairs Minister, the Hon Stephen Smith. He added:
- ...MERCOSUR is a customs union and we will always negotiate together. Even though Australia and New Zealand are not, I think it is always useful to have the two on the other side of the table, as we have done in the past. Hopefully, this time we will do so with more success than in previous times.<sup>11</sup>
- 4.15 Austrade said that there are good prospects also because of Australia's proximity to the rapidly growing Asian markets:
- We are also witnessing an increased interest in Australia within Latin America as a potential springboard for growing business ties with Asia with good prospects for inward investment and partnering opportunities developing.<sup>12</sup>
- 4.16 Australian investment in the region has grown rapidly – Austrade estimated growth of 300 per cent between 2007 and 2008. It said that in that year investment worth \$A 450 million had been undertaken across the region by 30 Australian companies.<sup>13</sup>
- 4.17 The Government of South Australia, which has a strong trading relationship with Latin America, commented on the need for priority to be

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8 Department of Agriculture, Fisheries and Forestry, Submission 19, p. 18.

9 DFAT has advised that a meeting of senior officials was held at the time of the Cairns Group meeting in Uruguay. In effect, that meeting has restarted the discussions.

10 Department of Agriculture, Fisheries and Forestry, Submission 19, Footnote 11, p. 18.

11 Ambassador for Brazil, Committee Hansard, 17 March 2010, p. 13.

12 Austrade, Submission 18, p. 6.

13 Austrade, Submission 18, p. 6.

given to access for skilled labour – not only from Latin America but more generally:

The availability of skilled labour will be critical in meeting Australia's full economic and export potential. The Federal Government's recent increase in skilled migration quotas is commended and in support of this, further measures should be taken to decrease the processing time for skilled migrant visas and fast track the skilled recognition process.<sup>14</sup>

## Argentina

4.18 Argentina shares Australia's views and objectives in a range of areas affecting the trade and investment relationship; it is, for example, a fellow member of the Cairns group. The submission from Argentina noted that, like Australia, it wishes to see the international trading system strengthened and the benefits more evenly spread.<sup>15</sup>

4.19 The submission listed a number of visits to Australia by Argentine Ministers and senior officials and similar visits to Argentina from Australia. It commented on the importance of such visits for building up the trade and investment relationship:

These high level exchanges are very important for identifying priority areas where relations can be enhanced and should therefore be promoted and take place at more regular intervals.<sup>16</sup>

4.20 The Ambassador, in his evidence to the Sub-Committee, added:

I would like to stress that one of the first areas that should be strengthened in the relationship between Australia and Latin America is political contacts between members of parliament from the executive branch.<sup>17</sup>

4.21 He added that Argentina would be delighted to receive a visit from the Prime Minister.<sup>18</sup>

4.22 The Council on Australia-Latin America Relations (COALAR) plays an important role in improving relations between Australia and the Latin

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14 Government of South Australia, Submission 4, p. 2.

15 Embassy of the Argentine Republic, Submission No. 11, 30 September 2008, p. 1.

16 Embassy of the Argentine Republic, Submission No. 11, 30 September 2008, p. 3.

17 Ambassador of the Argentine Republic, Committee Hansard, 18 March 2009, p. 2.

18 Ambassador of the Argentine Republic, Committee Hansard, 18 March 2009, p. 2.

American region – a role that extends beyond economic issues to also cover areas such as culture, the arts and people to people contacts. Argentina suggested that it would be of great benefit to relations between Australia and the Latin American region as a whole, to expand the activities of the group.<sup>19</sup>

- 4.23 Argentina also noted the important roles played by business associations such as: the Australia-Latin America Business Council and the Argentine-Australia Chamber of Commerce in Australia and the Cámara Australiano-Argentina de Comercio in Argentina. These bodies are able to facilitate the expansion of trade and investment links by: developing programs, meetings and seminars; establishing contacts; and by interaction with the peak industry bodies in the two countries.<sup>20</sup>
- 4.24 Government bodies also play important roles. The Australian Government has Austrade and Invest Australia,<sup>21</sup> and their efforts are supplemented by the State governments. Argentina particularly mentioned that Queensland has an office dedicated to relations with Latin America and suggested that other States follow suit. The submission also noted that seminars on trade and investment, education, scientific and technical cooperation have already been held in major Australian cities and commented favourably on the welcome assistance and cooperation given by State and Territory governments in staging those events.<sup>22</sup>
- 4.25 The Ambassador noted that improving air links between Latin America and Australia, particularly the direct Qantas service between Buenos Aires and Sydney and Aerolíneas Argentina's services via NZ, now make a flight to Argentina from Australia faster than a trip to Europe. In fact, the direct Qantas flight, at approximately 12 hours, is about half the flying time to Europe.<sup>23</sup>
- 4.26 The Ambassador was asked about the role played by FEALAC, the Forum for East Asia-Latin America Cooperation. He replied that it was established in 1999 or 2000 and focuses mainly on trade. Argentina considers it a valuable forum because it brings together Australia, Latin America and all the East Asian nations. He said that what the group needs

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19 Embassy of the Argentine Republic, Submission No. 11, 30 September 2008, p. 3.

20 Embassy of the Argentine Republic, Submission No. 11, 30 September 2008, p. 3.

21 In 2008, Invest Australia became part of Austrade.

22 Embassy of the Argentine Republic, Submission No. 11, 30 September 2008, pp. 3-4.

23 Ambassador of the Argentine Republic, Committee Hansard, 18 March 2009, p. 2.

is participation at a higher level, especially by Australia and New Zealand.<sup>24</sup>

## Trade and Investment

- 4.27 At present Australia's trade with Argentina is small: total two-way trade of \$A 667million in 2008-09. Under the impact of the Global Financial Crisis, that total fell to \$A 569 million in calendar year 2009. Coal is by far Australia's largest export item, making up more than a third of the total. However, 35 per cent of exports are classified as confidential and details are not available.<sup>25</sup>
- 4.28 Imports from Argentina are similarly dominated by animal feed, which is almost exactly one-third of the total. Other large items are: goods vehicles, leather, and fixed soft vegetable oils and fats.<sup>26</sup>
- 4.29 Australia has substantial investments in Argentina, totalling \$A 2,016million in 2008. For the same year Argentina's investments in Australia were estimated at \$A 255million.<sup>27</sup> Australia's main sectors of interest were: mining, agribusiness, entertainment, port management, freight equipment and workers' compensation insurance.<sup>28</sup>
- 4.30 A Parliamentary Delegation visiting Argentina in 2008 noted that there were a number of other sectors showing promise for Australian investment: environmental management, wine, construction and building materials, and high-tech machinery. In the services area there were additional opportunities in: distance education, vocational training, tele-medicine, teaching English as a second language, and post-graduate studies. The Delegation also saw good prospects for tourism.<sup>29</sup>

## Strengthening Trade and Investment

- 4.31 In its submission, Argentina reported that its economy had been growing continuously at a rate of about 8 per cent a year since 2003. Added to this
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24 Ambassador of the Argentine Republic, Committee Hansard, 18 March 2009, p. 11.

25 Department of Foreign Affairs and Trade, Fact Sheet - Argentina, <http://www.dfat.gov.au/geo/fs/arge.pdf>, accessed 3 February 2010 and 8 October 2010.

26 Department of Foreign Affairs and Trade, Fact Sheet - Argentina, <http://www.dfat.gov.au/geo/fs/arge.pdf>, accessed 3 February 2010.

27 Department of Foreign Affairs and Trade, Fact Sheet - Argentina, <http://www.dfat.gov.au/geo/fs/arge.pdf>, accessed 3 February 2010.

28 The Parliament of the Commonwealth of Australia, Report of the Official Parliamentary Delegation to Colombia and Argentina from 9-24 August 2008, June 2009, p. 27.

29 The Parliament of the Commonwealth of Australia, Report of the Official Parliamentary Delegation to Colombia and Argentina from 9-24 August 2008, June 2009, pp. 27-28.



advantage is its skilled and highly qualified labour force, which allows it to produce high quality products at very competitive prices. This labour force is supported by a good education system and the highest rate of school attendance in Latin America, on a par with OECD countries.<sup>30</sup>

- 4.32 The Ambassador told the Sub-Committee that while Argentina had been an industrial country for a long time, with a high rate of technical education, its wage rates are comparatively low. This makes Argentine manufactured products quite competitive. A particular advantage is that the cost of land is still comparatively cheaper than in competing countries.<sup>31</sup>
- 4.33 The Argentine Government is keen to see the development of more joint ventures between Australian and Argentine companies. It mentioned a number of current cooperative ventures that have achieved success in diversifying production, and in serving both their own markets and assisting one another to become established in third markets.<sup>32</sup>
- 4.34 In his evidence, the Ambassador gave the example of two competing companies, Capilano from Australia and Honeymax from Argentina, which transformed from the world's largest competitors to joint venture partners. He said that there is considerable scope for similar arrangements and suggested that in the present drought conditions, investment by Australian farmers in the agricultural sector of Argentina could be an attractive prospect. He commented, however, that when raising capital most farmers in Argentina would be slow to look for a joint venture arrangement. The usual method, he said, was to sell some of their land.<sup>33</sup>
- 4.35 The Ambassador also suggested that there is scope for cooperation between Australia and Argentina in the fields of: genetically modified (GM) crops - combining Australia's research with Argentina's practical experience; and in nuclear energy research.
- 4.36 When asked about the role of nuclear energy in Argentina, the Ambassador commented that nuclear power had been a part of Argentina's energy mix since 1950. He said that there are two reactors at present, a third is being built, and a fourth is planned. All of these were built by Argentina itself; so far there had been no problems and the waste had been managed successfully. In fact, most of the countries using

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30 Embassy of the Argentine Republic, Submission No. 11, 30 September 2008, p. 4.

31 Ambassador of the Argentine Republic, Committee Hansard, 18 March 2009, p. 6.

32 Embassy of the Argentine Republic, Submission No. 11, 30 September 2008, p. 5.

33 Ambassador of the Argentine Republic, Committee Hansard, 18 March 2009, pp. 2-3 and 8.

nuclear energy had not had any serious problems – for example, Germany, Korea and France. The accident at Chernobyl, he said:

...was probably not just due to nuclear energy, but to administrative problems in the structure of the government at the time.<sup>34</sup>

- 4.37 Argentina is also looking for investment in the oil and gas industries and is keen to cooperate with Australia in the development of wind and solar energy technology.<sup>35</sup>
- 4.38 Other areas that are showing promise are in processed foods, such as fish, chocolates, groceries and canned foods, and in mining of copper and gold.<sup>36</sup>
- 4.39 Argentina, along with other Latin American countries, has put a lot of effort into building links with Australian universities. Seminars on Latin America have been presented in all of the major Australian universities. In Argentina's case, its universities are free and of a high standard; consequently most students from Argentina studying in Australia are post-graduates.
- 4.40 The Ambassador commented that:
- Universities in Australia need to be better known abroad. They have to offer a few places, through scholarships or through grants, so that students from our countries will come here and spread by word of mouth the quality that you have in Australia.
- It is quite clear that the big advantage you have is that the universities here are very good. English is the language in which everybody wants to get a postgraduate degree. On the other hand, you compete with universities in the United States and Britain, which are better known because they are older.
- Where quality is concerned, from what I gather, you have no reason to envy them, but you have to become better known. These exchanges would certainly contribute to that.<sup>37</sup>
- 4.41 An issue raised by the Ambassador, and by several other Latin American Ambassadors, concerned the delays and difficulties faced by people seeking to obtain a visa to visit Australia. The Ambassador said that this is

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34 Ambassador of the Argentine Republic, Committee Hansard, 18 March 2009, p. 11.

35 Ambassador of the Argentine Republic, Committee Hansard, 18 March 2009, p. 10.

36 Ambassador of the Argentine Republic, Committee Hansard, 18 March 2009, p. 8.

37 Ambassador of the Argentine Republic, Committee Hansard, 18 March 2009, p. 3.

an obstacle to the development of the tourism industry between our countries. He said that Argentine nationals visiting Europe do not require a visa and the difficulties involved in getting a visa to Australia are a deterrent to potential students and tourists.<sup>38</sup>

- 4.42 He said that Argentina did not expect that visas would be waived but instead sought simpler and less expensive processes to obtain one. For example, the use of electronic visas would make it unnecessary for people to travel long distances simply to find out whether a visa would be granted. He quoted his own case: if resident in his home town of Tucuman in the North-West of Argentina, he would have to travel 1,300 km to Buenos Aires to apply for a visa. Some countries in Latin America do not have an Australian Embassy; consequently their citizens have to travel to Argentina, Chile or Brazil to apply for a visa.<sup>39</sup>

## Brazil

- 4.43 In its submission to the inquiry, the Brazilian Embassy noted that although the Australian and Brazilian Foreign Ministers have visited the other country, so far neither the President of Brazil nor the Prime Minister of Australia had done so.<sup>40</sup>
- 4.44 The submission commented that, during the visit of the Brazilian Foreign Minister to Australia in 2008, agreement had been reached that a plan of Action should be prepared to guide the development of an enhanced partnership between Brazil and Australia. During the Australian Foreign Minister's visit to Brazil in August 2009, the two ministers agreed to place the plan before the President and the Prime Minister as soon as possible.<sup>41</sup>
- 4.45 In his evidence to the Sub-Committee, the Brazilian Ambassador said that the two Prime Ministers had accepted invitations for reciprocal visits and he expected the Plan of Action to be signed during one of those visits.<sup>42</sup>
- 4.46 He added, however, that Brazil was anxious to see other agreements – such as the planned agreement on science and technology – signed as soon

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38 Ambassador of the Argentine Republic, Committee Hansard, 18 March 2009, p. 5.

39 Ambassador of the Argentine Republic, Committee Hansard, 18 March 2009, p. 5.

40 Embassy of Brazil, Submission 41, p. 1.

41 Embassy of Brazil, Submission 41, pp. 1 and 6-7; Department of Foreign Affairs and Trade, Submission 40, p. 17.

42 Ambassador for Brazil, Committee Hansard, 17 March 2010, p. 13.

as possible. The technical aspects of a revised Transport Agreement have been completed and it only awaits political acceptance.<sup>43</sup>

- 4.47 There have also been a number of visits by other ministers, former ministers and senior officials. In addition, a Bilateral Political Consultations Mechanism was established in 1990 to act as a “forum of analysis and exchange of views” on matters of mutual interest. The last meeting of this body was in 2008.<sup>44</sup>
- 4.48 Australia and Brazil have shared interests and cooperate in several forums. They are both members of the Cairns Group of agricultural exporting countries; they participate with NZ, Argentina, Paraguay and Uruguay in the MERCOSUR-CER dialogue; and they are members of the Forum for East Asia-Latin America Cooperation (FEALAC).

## **Trade and Investment**

- 4.49 Trade between Australia and Brazil was accelerating rapidly until the onset of the Global Financial Crisis (GFC). In 2008, two-way trade grew by 70 per cent to \$A 3 billion and Australia’s merchandise exports rose by 82 per cent to reach \$A 1.5 billion. Brazil is Australia’s largest trading partner in Latin America.<sup>45</sup> The GFC, however, took its toll in 2009. Exports from Brazil to Australia fell by 65 per cent in the first three quarters of that year and Australian exports to Brazil fell by 20 per cent.<sup>46</sup>
- 4.50 The pre-GFC growth was achieved despite the basic similarities between the structures of the two economies; it demonstrated a phenomenon that is repeated in trade links with other Latin American countries. Despite the fact that they compete in many areas, such as agricultural exports, Australia and the countries of Latin America are finding enough synergies to reward their cooperation.
- 4.51 Australia’s main export product to Brazil is coal, valued at \$A 1.14 billion in 2008-09. Other large export items are crude petroleum, fertilisers, and measuring and analysing equipment. Imports from Brazil consist mainly of aircraft and spacecraft and their parts, animal feed, equipment and parts for civil engineering, and pig iron.<sup>47</sup>

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43 Ambassador for Brazil, Committee Hansard, 17 March 2010, p. 14.

44 Embassy of Brazil, Submission 41, p. 2.

45 Department of Foreign Affairs and Trade, Submission 40, p. 42.

46 Embassy of Brazil, Submission 41, p. 3.

47 Department of Foreign Affairs and Trade, Submission 40, p. 42.

- 4.52 There are still some restraints on the growth of trade and investment between Australia and Brazil. Neither market is well understood in the other; distance is still a problem, requiring improvement of transport links; and various complex regulatory requirements still cause difficulties.<sup>48</sup>
- 4.53 These problems have slowed, but not stopped, closer engagement between the two economies. Australian investment in Brazil is growing and the Department of Foreign Affairs and Trade (DFAT) submission listed a wide range of sectors where Australian firms are already operating, or where opportunities exist. Among these sectors were: mining and its related services, education, agri-business, information technology, biotechnology, transport and infrastructure, telecommunications, banking and insurance.<sup>49</sup>
- 4.54 There was a lean period in 2006 and 2007, with no direct Brazilian investment in Australia, but some significant indirect investments – Vale acquired AMCI Holdings; and JBS acquired SWIFT, an American company, and this gave it control of Australian Meat Holdings. An important step in the relationship came when Virgin Blue added 20 Brazilian Embraer aircraft to its fleet.<sup>50</sup>
- 4.55 To assist in consolidating these gains, the existing Trade and Investment Agreement needs to be updated, which would be a positive step. However, Brazil's membership of MERCOSUR prevents the negotiation of a bilateral free trade agreement. To overcome that difficulty, Australia and NZ are considering reconvening the CER-MERCOSUR Dialogue, and expanding its agenda to include trade facilitation, investment and behind-the-border issues.<sup>51</sup>
- 4.56 Despite the difficulties, positive action is being taken by the two governments to deal with these problems:

For example, an Australia-Brazil Air Services Agreement is ...ready for signature; negotiations are under way for a science and technology agreement; and negotiations have begun on an Enhanced Partnership Agreement to strengthen *inter alia* bilateral trade and economic links across a range of sectors.<sup>52</sup>

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48 Department of Foreign Affairs and Trade, Submission 40, p. 42.

49 Department of Foreign Affairs and Trade, Submission 40, p. 42.

50 Embassy of Brazil, Submission 41, p. 4.

51 Department of Foreign Affairs and Trade, Submission 40, p. 43.

52 Department of Foreign Affairs and Trade, Submission 40, pp. 42-43.

- 4.57 The Australian business community would like to see a Double Taxation Agreement, but major differences in the two taxation systems have prevented that so far.<sup>53</sup> The Brazilian submission to this inquiry also suggested that such an agreement would be valuable.<sup>54</sup>
- 4.58 An area of strong growth has been the influx of Brazilian students at Australian universities. The Ambassador said the numbers had increased rapidly during his posting to Australia – from 8,000 three and a half years ago to 20,000. He pointed out the potential for tourism in the families of these students visiting them.<sup>55</sup>
- 4.59 The increasing number of students and the potential for tourism can have a positive influence on transport links – there is the incentive of a growing customer base to encourage the introduction of more flight connections between Australia and Brazil.

### **Strengthening Trade and Investment**

- 4.60 Brazil has proposed the establishment of a range of consultations between the two governments. The most important of these, and the core of the proposed Plan of Action, would be regular consultations at ministerial and senior official levels. Brazil has suggested that these should be wide-ranging and include discussions on: trade and investment; climate change and the environment; development cooperation (including discussions with East Timor and Mozambique); agriculture; mining and energy (including bio-fuels); science and technology; education; sports and culture.<sup>56</sup>
- 4.61 The aim is, the Brazilian submission said, “...to establish new patterns for the bilateral relationship and to discuss outstanding items on the international agenda”. The submission also proposed the establishment of a priority list for future actions on: energy and mining; trade and investment (including a bilateral Trade and Investment Monitoring Group); sport; science and technology; education; and tourism.<sup>57</sup>
- 4.62 The proposals included ministerial consultations every two years, alternately in Brazil and Australia, or at any opportunity provided by attendance at international meetings. This would involve the ministers

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53 Department of Foreign Affairs and Trade, Submission 40, p. 43.

54 Embassy of Brazil, Submission 41, p. 11.

55 Ambassador for Brazil, Committee Hansard, 17 March 2010, p. 17.

56 Embassy of Brazil, Submission 41, p. 6.

57 Embassy of Brazil, Submission 41, pp. 6-7.

responsible for foreign affairs and trade. A similar pattern of meetings between senior officials was also suggested.<sup>58</sup>

- 4.63 A further proposal was for an Australia-Brazil Dialogue, with a similar meeting pattern. It would involve the ministers and senior officials responsible for the main agenda items and, where relevant, business representatives, academics and civil representatives.<sup>59</sup>
- 4.64 The Brazilian submission acknowledged the shared interests of Brazil and Australia in trade and investment and suggested also a bilateral Trade and Investment Monitoring Group. It proposed that this group would:
- ...explore possibilities for trade and investment promotion and identify ... opportunities in both countries; it could also explore measures in facilitating trade and investment flows.<sup>60</sup>
- 4.65 The topics initially suggested included: customs cooperation and harmonisation of trade statistics. As an adjunct to the activities of the proposed group, Brazil suggested the formation of an Australia-Brazil Business Council.<sup>61</sup>
- 4.66 Other proposals put forward in the Brazilian submission included:
- Developing a Science and Technology Agreement to foster future co-operation in a wide range of research areas. Brazil also suggested the conclusion of Memorandums of Understanding between relevant scientific research bodies in the two countries;
  - Formation of a Consultative Committee on Agriculture, with the aim of promoting mutual understanding and providing a forum for discussion of agricultural and trade related issues. The submission also proposed a Working Group on Sanitary and Phytosanitary Matters – as a supplement to the Memorandum of Understanding on Sanitary Matters, signed in 1998. An important part of this arrangement would be to work towards mutual recognition of Sanitary and Phytosanitary measures and regulations;
  - Strengthening existing co-operation on mining and energy and deepening the dialogue on renewable energy, particularly bio-energy;
  - Establishment of a dialogue on Climate Change;

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58 Embassy of Brazil, Submission 41, p. 7.

59 Embassy of Brazil, Submission 41, p. 7.

60 Embassy of Brazil, Submission 41, pp. 7-8.

61 Embassy of Brazil, Submission 41, pp. 7-8.

- Identification of further co-operative opportunities under the Memorandum of Understanding on Co-operation in Education and Training. The submission noted that in August 2009, 15,000 Brazilian students were enrolled in Australian education institutions;
- Improving air services. Currently there is no direct flight between Australia and Brazil. The submission noted that Qantas has shown some interest in extending its direct flight to Buenos Aires on to Brazil.<sup>62</sup>

- 4.67 The Ambassador told the Sub-Committee that business people in Brazil consider “a tax treaty and a facilitation of visas” as the two most important issues for them.<sup>63</sup>
- 4.68 For the countries of Latin America, visas pose an important problem. Brazil (unlike Uruguay, for example) requires visas but this is due, in large part, to a strict principle of reciprocity – if a country requires Brazilians to have a visa, then citizens of that country require a visa to enter Brazil.<sup>64</sup>
- 4.69 Although there is an Australian embassy in Brazil that issues visas, the size of the country still imposes costs and delays on people from outlying areas applying for Australian visas. The Ambassador said that there is “interest in improving facilities for visas, but there are barriers on both sides and also there is the question of reciprocity”.<sup>65</sup>
- 4.70 On transport, the Ambassador said:
- If you have more transport then, of course, you have more trade and investment. But the reality is that business people will not do things unless something is already happening.<sup>66</sup>

## Chile

- 4.71 Chile and Australia have built a strong relationship that was enhanced by the completion of a Free Trade Agreement (FTA), which entered into force on 6 March 2009. The two countries have similar economies, strong in

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62 Embassy of Brazil, Submission 41, pp. 8-10.

63 Ambassador for Brazil, Committee Hansard, 17 March 2010, p. 14.

64 Ambassador for Brazil, Committee Hansard, 17 March 2010, p. 15.

65 Ambassador for Brazil, Committee Hansard, 17 March 2010, pp. 15-16.

66 Ambassador for Brazil, Committee Hansard, 17 March 2010, p. 17.



mining and agriculture, and they share common interests in international trade forums.<sup>67</sup>

- 4.72 Both countries are members of the Cairns Group and of APEC, and work together to promote liberalisation of trade and investment in the Asia-Pacific region. They also cooperate in the WTO to keep agricultural trade reform as a priority in the Doha Round. In its submission Chile encouraged Australia to join the P4 Group, now called the Trans-Pacific Partnership, and that has now occurred.<sup>68</sup>
- 4.73 Australia and New Zealand are planning to resume talks with MERCOSUR (the Customs Union between Argentina, Brazil, Paraguay and Uruguay) and Chile is an associate member of that group. Chile is also an associate member of the Andean Group (Colombia, Ecuador, Peru and Bolivia).
- 4.74 Chile's economy has grown strongly in recent years. It had growth rates of 4.3 per cent in 2006, 5.1 in 2007 and 3.4 in 2008. Fuelled by record world copper prices, the Chilean government was able to reduce its external debt from 45.8 per cent of GDP to 35.6 per cent between 2004 and 2008 – CODELCO, the Chilean Copper Company and the largest company in Chile, is state-owned.<sup>69</sup>
- 4.75 The Government of Chile is anxious to develop the relationship, and the Ambassador indicated a number of goods and services of particular interest: coal; LNG; renewable energy; mining technology and services; agro-industry; aquaculture; forestry; wines; animal genetics; irrigation; and tourism. He noted particularly Chile's desire to interest fund managers in opportunities in the financial services area, "...in which there is a lot of potential".<sup>70</sup>

## Trade and Investment

- 4.76 The FTA is expected to have a substantial effect on trade between Australia and Chile. It immediately eliminated tariffs on 97 per cent of merchandise trade, and by 2015 that will be the case for all merchandise

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67 Department of Foreign Affairs and Trade, Chile Country Brief, [http://www.dfat.gov.au/geo/chile/chile\\_brief.html](http://www.dfat.gov.au/geo/chile/chile_brief.html), pp. 1 and 4, accessed 6 July 2010.

68 Department of Foreign Affairs and Trade, Chile Country Brief, [http://www.dfat.gov.au/geo/chile/chile\\_brief.html](http://www.dfat.gov.au/geo/chile/chile_brief.html), p. 1, accessed 6 July 2010 and Embassy of Chile, Submission 26, p. 2.

69 Department of Foreign Affairs and Trade, Chile Country Brief, [http://www.dfat.gov.au/geo/chile/chile\\_brief.html](http://www.dfat.gov.au/geo/chile/chile_brief.html), p. 3, accessed 6 July 2010.

70 Ambassador for Chile, Committee Hansard, 24 June 2009, p. 3.

trade. In addition, the Agreement provides for the liberalisation of services and investment and for access to government procurement markets.<sup>71</sup>

4.77 One Chapter of the FTA opens the way for enhanced cooperation between Australia and Chile in trade related matters. DFAT commented:

Chile was particularly interested in having this Chapter in the FTA because it regards Australia as an economic model for Chile to follow and as a potential partner in innovation and technology, in areas such as mining operations and viticulture.<sup>72</sup>

4.78 Carrying this idea further a Memorandum of Understanding (MOU) on agricultural cooperation was signed in August 2009. A similar MOU on mining and related services has been operating since November 2006.<sup>73</sup>

4.79 The Ambassador for Chile, in his evidence to the Sub-Committee, said that "Chile is the main destination for Australian investment in the region". He added that over 120 companies were involved in business with Chile and 70 of them had bases in Chile; they are "...using Chile as a platform to deal with the rest of the region".

4.80 As an example of Australian investment, the Ambassador referred to an announcement by Pacific Hydro in June 2009, of a new hydro-electric plant to be built south of Santiago. The value of the project was US\$450 million and over two years it will create 4,200 jobs. He noted that the company's investments in Chile and Brazil were valued at over US\$1.5 billion.<sup>74</sup>

4.81 DFAT's submission suggested two broad areas where the FTA should play a very important role in increasing trade and investment:

- energy (coal, LNG, renewable energy), agriculture (dairy, meat, ovine and bovine genetics, production technologies) and food and beverages including wine; and
- mining and energy technology and services, engineering and consulting services, franchising services, education and training, information technology, tourism and infrastructure.<sup>75</sup>

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71 Department of Foreign Affairs and Trade, Chile Country Brief, [http://www.dfat.gov.au/geo/chile/chile\\_brief.html](http://www.dfat.gov.au/geo/chile/chile_brief.html), p. 4, accessed 6 July 2010.

72 Department of Foreign Affairs and Trade, Chile Country Brief, [http://www.dfat.gov.au/geo/chile/chile\\_brief.html](http://www.dfat.gov.au/geo/chile/chile_brief.html), p. 4, accessed 6 July 2010.

73 Department of Foreign Affairs and Trade, Chile Country Brief, [http://www.dfat.gov.au/geo/chile/chile\\_brief.html](http://www.dfat.gov.au/geo/chile/chile_brief.html), p. 1, accessed 6 July 2010.

74 Embassy of Chile, Submission 26, p. 3.

75 Department of Foreign Affairs and Trade, Submission 40, p. 17.

4.82 DFAT, reinforcing what the Ambassador had said about Australian companies operating in Chile, noted that many Australian companies have opted to use Chile as a base for their operations in South America. Chile's "relatively open business environment" has made this a viable option. The department noted that when allied with this situation, the FTA:

...could help in promoting Australia's strategic economic and wider engagement with South America.<sup>76</sup>

### **Strengthening Trade and Investment**

4.83 The submission from Chile indicated that one of the factors restricting the expansion of the trade relationship is a lack of direct shipping services. The Ambassador told the Sub-Committee that only a few years ago there had been three or four companies providing shipping services. He said that he had taken the initiative to seek restoration of suitable shipping links:

We are trying to work out, together with Australia, a new strategy vis-à-vis the shipping companies. I invited my colleagues from Argentina and Brazil to make a joint representation to the shipping companies that are today covering this route in order to re-establish a direct service between Sydney, Melbourne and, for instance, Valparaiso, Buenos Aires and Rio.<sup>77</sup>

4.84 Another issue, raised by several of the Latin American countries, is the slow resolution of quarantine issues. The Chilean Ambassador commented that his first experience of this problem "...was related to the introduction of Chilean table grapes, which took nine years".

4.85 The Ambassador said that the rules as presently applied were affecting Chile's exports to Australia and he suggested closer cooperation between the quarantine authorities in our two countries:

We need to create a mechanism between SAG, which is our national AQIS, and AQIS to speed up the consultation process on sanitary and phytosanitary measures in order to facilitate and promote bilateral trade. This will allow us to gain access for products like avocados, berries, kiwifruit, horses and pork, which are still under consideration. All of these products have very strict

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76 Department of Foreign Affairs and Trade, Submission 40, p. 17.

77 Ambassador for Chile, Committee Hansard, 24 June 2009, p. 8.

quarantine requirements and demand an import risk analysis that takes at least two years to complete.<sup>78</sup>

4.86 The Ambassador added:

But, fortunately, I know that AQIS is making a big effort in order to reduce the time. According to the last meeting we had in my residence with the AQIS people, the idea is not to take decisions beyond three years time – which for us is quite a long time. In Chile, we apply an almost similar procedure, but it is far faster than the ones that you apply in Australia.

The answer that I got from the director of AQIS was that he had a lack of qualified people to deal with every single requirement. This obviously plays against the requirements coming from an important number of countries, including Chile, obviously. I do not know – and this is obviously quite an important question to be discussed internally – if the FTA, this new bilateral tool, could serve us to give a little more speed to AQIS's internal procedure.

The answer that I got from the director was, in principle, quite positive; at least he promised to look into this possibility. Two days ago, as a matter of fact, I received a letter from him telling me that in the case of the avocados he will pass this power from the C list to the B list. You have three lists. This is the situation at the moment, and we are quite confident that, if both parties can get together and define a common way, maybe we can speed the internal process.

Obviously that will have a very positive impact on our products. We have to stress that, in the case of Australia, you are exporting beef and dairy products to Chile without any problem.<sup>79</sup>

4.87 On a similar theme, the Sub-Committee asked the Ambassador about the quarantine situation that forces horses coming to Australia from Latin America to go via North America. The Sub-Committee asked whether there had been discussions on that problem and the Ambassador responded:

Yes, of course. I went through every single problem, including the horses. Our trade office in Sydney started receiving many calls from businesspeople who wanted to import horses from Chile directly, not through the United States.

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78 Ambassador for Chile, Committee Hansard, 24 June 2009, p. 3.

79 Ambassador for Chile, Committee Hansard, 24 June 2009, pp. 6-7.

Again, as I said before, we are clear that the internal procedures that Australia makes vis-à-vis every single product, are extremely similar to the ones that Chile applies. We are as tough in our procedure as Australia. The only problem is the timing. In the case of Chile I do not know the reasons why we work faster, but this is very important for every single country that wants to introduce products into Chile.<sup>80</sup>

- 4.88 The Sub-Committee remarked that the racing industry offers tremendous opportunities for the import and export of horses, particularly stallions and brood mares, and that Chile could be the gateway to Latin America for this trade. The Ambassador said:

We would really appreciate if you could help us to look into ways to speed up this process. Almost every three months we send professionals from our equivalent of AQIS to be involved in some AQIS activities because, from our point of view, the personal link between both our authorities is extremely important. The knowledge of our professionals is the very first step to improving the way that we work.<sup>81</sup>

- 4.89 The Ambassador said that he would like to offer some suggestions on ways that trade and investment between Australia and Latin America could be improved. He commented that, in this, he spoke also on behalf of the other Latin American Ambassadors:

Firstly, we need to intensify the knowledge of both parties among the business, research and student communities, using entities like Austrade and its Latin American counterparts, COALAR, ALABC and the chambers of commerce. This is very, very important because every time we discuss the relations between Latin America and Australia, the first thing we see is the lack of knowledge, on both sides.

Secondly, the FTA with Chile is certainly a solid bridge, with the daily flight connections, as I mentioned before, between Sydney and Santiago and those between Sydney and Buenos Aires.

This strategy should be supported by a major exchange of political authorities, and I am referring to ministers chairing business delegations. We are really missing a major involvement of ministers from the Australian side.

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80 Ambassador for Chile, Committee Hansard, 24 June 2009, p. 7.

81 Ambassador for Chile, Committee Hansard, 24 June 2009, p. 7.

As you probably know, Australia receives, every two or three months, a Latin American minister chairing a business delegation – three weeks ago it was the Chilean Minister for Economy and Innovation, in two weeks time it will be the Peruvian Minister of Trade, and 1½ months ago it was a Colombian minister. So we would really appreciate it if we could count on more Australian ministers going to Chile, especially chairing business delegations.

Parliamentarian diplomacy should also be part of it. You are the key players in the definition of the legal rules that will animate this scenario – this is a fact. And we are placing a high priority on the exchange of parliamentarians. In this respect, we really appreciate that the President of the Senate managed to pay a visit to Chile and Mexico last month.

A very last important remark for you to consider is that Australia is becoming more and more important for our region – a reference country for our region. This is an invaluable asset for Australia, considering we are talking about an environment of 600 million people. So I thought that this very last remark, about the challenges between Australia and Latin America, is there to debate. This is the right momentum – to work together as fast as we can, in order to take advantage, as I mentioned before, of how important Australia is becoming for every single Latin American country.

You can see it, not only from the business point of view but from the number of Latin American students that are moving to this country on a yearly basis. I mentioned the case of Chile but you have an important number of Columbian students, of Brazilian students and of Peruvian students, and the number will increase dramatically in the next year. This is something to be considered when you define policy vis-à-vis Latin America.<sup>82</sup>

## Colombia

- 4.90 Colombia, like its neighbours, is keen to expand its trade and investment relationship with Australia. The Colombian Ambassador spoke to the Sub-Committee about the efforts Colombia is making to overcome the security
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82 Ambassador for Chile, Committee Hansard, 24 June 2009, pp. 9-10.

problems that have plagued the country in recent years. He said that the President of Colombia told an APEC summit meeting that the country is concentrating on building trust and safety in Bogota and the other main cities.<sup>83</sup>

- 4.91 The Ambassador said that his country had extensive coal reserves; Columbia is the fifth largest coal exporter in the world. The Colombian industry is interested in cooperation with Australian companies on the introduction of clean coal technology in Colombia.<sup>84</sup>
- 4.92 Trade and Investment Queensland has been very active in pursuing investment links with Colombia. Former Premier Peter Beattie, as the Queensland Trade Commissioner to America, has supported the idea of greater investment in Colombia, particularly in infrastructure projects.<sup>85</sup>
- 4.93 To assist in developing these technologies, Colombia welcomes overseas investors. Foreign investment in 2007 totalled US\$9billion and the priority areas were infrastructure, education and training.

## Trade and Investment

- 4.94 The Colombian submission noted that its exports to Australia had a peak of US\$21.1 million in 2004 and then declined a little. In the period 2004–7 they ranged between US\$16.3 and 17.2 million. Coffee is one of Colombia's most important exports and other sectors showing promise were: other agriculture; household goods; goods for offices, hotels and hospitals; pharmaceuticals; and metal products. By 2009, according to DFAT figures, that trade had grown to A\$30 million and coffee, at A\$17 million, was over half of that.<sup>86</sup>
- 4.95 Australia's exports to Columbia have also grown substantially in recent years. The Colombian submission recorded levels of US\$24.5 million in 2006 and US\$27.2 million in 2007. In 2009, DFAT indicated that exports had reached A\$57 million, with nickel ores and concentrates making up 38.6 per cent of the total.<sup>87</sup>

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83 Ambassador for Colombia, Committee Hansard, 28 November 2008, p. 13.

84 Ambassador for Colombia, Committee Hansard, 28 November 2008, p. 12.

85 Ambassador for Colombia, Committee Hansard, 28 November 2008, p. 12.

86 Embassy of Colombia, Submission 5, p. 1 and Department of Foreign Affairs and Trade, Colombia Fact Sheet, <http://www.dfat.gov.au/geo/fs/comb.pdf>, accessed 26 July 2010.

87 Embassy of Colombia, Submission 5, p. 1 and Department of Foreign Affairs and Trade, Colombia Fact Sheet, <http://www.dfat.gov.au/geo/fs/comb.pdf>, accessed 26 July 2010.

- 4.96 Despite these improvements there is still plenty of scope for growth. In 2009 Australia ranked as number 55 on Colombia's list of principal export destinations, with only 0.1 per cent of the total. Similarly, Australia was 37<sup>th</sup> on Colombia's list of import sources, with 0.2 per cent of the total.<sup>88</sup>

### **Strengthening Trade and Investment**

- 4.97 In November 2009 Australia and Colombia signed a Memorandum of Understanding on Strengthening Bilateral Trade and Investment. The MOU expressed the intention of the two countries to facilitate and strengthen trade and investment between them, and to coordinate their efforts to reduce barriers to bilateral trade and investment.<sup>89</sup>
- 4.98 The MOU said that the two countries would seek to achieve these aims by strategic cooperation in all suitable sectors. Sectors particularly mentioned were: agribusiness, education services, energy, legal services, resources (including services and equipment), infrastructure, information technology and telecommunications.<sup>90</sup>
- 4.99 Other provisions of the MOU covered the promotion and protection of investment and the importance of maintaining transparency in the laws and regulations on trade and investment. There was also a provision establishing a Committee on Trade and Investment; to meet one year after the signing of the MOU. The Committee is to: promote the aims of the MOU; monitor the development of trade and investment relations and identify and promote opportunities to expand them; and discuss policy issues and trade and investment matters of common interest.<sup>91</sup>
- 4.100 The submission from the Embassy requested that Australia revise and, where possible modify, visa requirements and procedures. Particularly to facilitate travel for investors and businesspeople.<sup>92</sup>
- 4.101 Like other Latin American countries Colombia noted the importance of increasing two-way visits by high ranking government officials and senior businesspeople as a means of improving trade and investment relations.<sup>93</sup>

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88 Embassy of Colombia, Submission 5, p. 1 and Department of Foreign Affairs and Trade, Colombia Fact Sheet, <http://www.dfat.gov.au/geo/fs/comb.pdf>, accessed 26 July 2010.

89 Memorandum of Understanding on Strengthening Bilateral Trade and Investment between Australia and the Republic of Colombia, Geneva, 29 November 2010, pp. 1 and 3.

90 Memorandum of Understanding on Strengthening Bilateral Trade and Investment between Australia and the Republic of Colombia, Geneva, 29 November 2010, p. 1.

91 Memorandum of Understanding on Strengthening Bilateral Trade and Investment between Australia and the Republic of Colombia, Geneva, 29 November 2010, pp. 2-3.

92 Embassy of Colombia, Submission 5, p. 6.

93 Embassy of Colombia, Submission 5, p. 6.



## Mexico

4.102 Mexico stands in a unique position in Latin America; not only closely linked with the other Latin American economies but also a member of NAFTA, the free trade agreement between the USA, Canada and Mexico.

4.103 Australia, as part of its commitment to widening economic relations with Latin America, signed a Memorandum of Understanding in December 2009 to “...formalise political consultations between the Mexican Ministry of Foreign Affairs and the Department of Foreign Affairs and Trade”. In announcing the signing of the MOU, DFAT noted:

The agreement will create a forum for Mexican and Australian officials to discuss freely the bilateral and global issues, including climate change, free trade and nuclear non-proliferation, confronting both nations and to develop solutions to the challenges they pose.

Australia and Mexico are both active members of the G20 and, on climate change, the Copenhagen Commitment Circle. Australia cooperates closely with Mexico in a range of multilateral fora, including the United Nations, the World Trade Organization (WTO), the forum for Asia Pacific Economic Cooperation (APEC), the Organization for Economic Cooperation and Development (OECD) and the Forum for East Asia Latin America Cooperation (FEALAC).

Bilaterally, Mexico continues to be Australia's second largest trading partner in Latin America. Total two-way merchandise trade in 2008-09 was valued at A\$2.2 billion.<sup>94</sup>

4.104 The Mexican Embassy, in its submission to the inquiry, reported that Mexico also had 11 other free trade agreements, with a total of 44 countries. It also noted that Mexico’s geographical position, linking the Pacific and Atlantic Oceans, and connecting also to both North and South America, “makes it an ideal hub for worldwide production and trade”.<sup>95</sup>

4.105 The submission also said that Mexico can offer the advantage of a unique strategic manufacturing base – close to its NAFTA partners, the United

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94 Department of Foreign Affairs and Trade, *Strengthening Political Cooperation with Mexico*, Media Release, 7 December 2009.

95 Embassy of Mexico, Submission 14, p. 3.

States and Canada, and also to the rapidly-growing countries of South America, especially the giant economy of Brazil.<sup>96</sup>

## Trade and Investment

4.106 Bilateral trade between Mexico and Australia has increased substantially in recent years. From a very low base in 1991 trade grew steadily and tripled between 2000 and 2005. That trend continued until the disruptions of the GFC interfered. In 2006, Australia's exports to Mexico totalled A\$891 million, but in 2007 and 2008 the total was A\$735 million for each year. Australia's imports from Mexico, however, defied the effects of the Crisis and continued to grow: A\$1,077 million in 2006, A\$1,161 million in 2007, and A\$1,406 million in 2008.<sup>97</sup>

4.107 DFAT described Australia's trade and investment relationship with Mexico as:

...modest ...given the size of its economy, which is one of the ten or so largest measuring GDP on a purchasing power parity basis.<sup>98</sup>

4.108 In November 2006 the two governments signed a Memorandum of Understanding to establish a Joint Experts Group to "examine the bilateral economic relationship and means of enhancing it". One of the findings in that study was the fact that the scope of the trade relationship is generally understated:

One of the most significant outcomes of the JEG meetings was a clearer understanding of the true state of the bilateral trade relationship. A joint examination of each country's trade statistics revealed that the Australia-Mexico merchandise trade flows are perhaps more than 50 per cent greater than the two countries' export statistics would indicate.

The true state of the trade relationship is obscured by the fact that much of it passes through the US, and hence its true origin or destination is not immediately apparent to Australian and Mexican statisticians. This is especially true in relation to the volume of Mexican exports to Australia, which were revealed to be far higher than the Mexican side believed, indicating that

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96 Embassy of Mexico, Submission 14, p. 3.

97 Embassy of Mexico, Submission 14, p. 8 and Chart 4, p. 9; and Department of Foreign Affairs and Trade, *Australia's Trade with the Americas 2008*, Tables 2 and 3, p. 25.

98 Department of Foreign Affairs and Trade, Submission 40, p. 16.

Australia was a far more important export market for Mexico than it appeared at first glance.<sup>99</sup>

4.109 The two countries do have in place several agreements that offer potential for bilateral cooperation. There is a Trade and Investment Agreement, signed in 1997, which established a Joint Trade and Investment Commission. An Investment Protection and Promotion Agreement was signed in 2007, and other agreements and memorandums cover energy cooperation, education and training.<sup>100</sup>

4.110 When the Joint Experts Group reported to the two governments in July 2009. It proposed:

...revitalising the Joint Trade and Investment Commission and holding an early high level meeting of the Commission as the first step in building the bilateral economic relationship.

4.111 Referring also to the idea of a bilateral Free Trade Agreement, the report said that:

...while negotiation of a comprehensive bilateral FTA had the potential to deliver the most economic benefit, it would be prudent to wait until circumstances developed in both countries to enable the political decisions necessary for negotiating a high quality agreement.<sup>101</sup>

4.112 Mexico's submission indicates that the Mexican Government also sees opportunities for both countries to expand trade relations:

...there are plenty of opportunities for improvement in these trade relations: tariff and non-tariff barriers to certain commodities and other goods and services still exist. It would be in the interest of both Governments to work towards eliminating these barriers ...to positively increase trade relations, which can in the end benefit both countries.<sup>102</sup>

4.113 The report of the Joint Experts Group agreed with that assessment, commenting:

...the Australian-Mexican relationship is in good shape, with trade and investment increasing, but there are potential synergies and

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99 Australia-Mexico Joint Experts Group on Strengthening Bilateral Economic Relations, Joint Report, July 2009, Executive Summary, pp. 5-6.

100 Department of Foreign Affairs and Trade, Submission 40, p. 16.

101 Department of Foreign Affairs and Trade, Submission 40, p. 16.

102 Embassy of Mexico, Submission 14, p. 3.

advantages in closer economic relations that have not yet been fully exploited.

In particular, Australia and Mexico can do more to take advantage of each other's strategic and trade positions – proximity to, and integration with, the US and Latin American markets in the case of Mexico, and to East and South-East Asian markets in the case of Australia. Increased cooperation between the two nations could help to create certainty for traders and investors.

Along with the strong financial frameworks and investment rules already shared by Australia and Mexico, further integration could allow businesses to take advantage of improved economies of scale to target third country markets where in-country links are strongest. Given the size of our two economies and their complementary trade profiles the signs for further significant growth in bilateral trade are very promising indeed.<sup>103</sup>

- 4.114 On the question of a possible FTA with Mexico, however, the Group felt that more time is needed:

...the Australia-Mexico Joint Experts Group report was finalised earlier this year. The report considered a number of alternatives of which an FTA was one.

The conclusion of the group, which comprised members from both the Mexican and Australian sides, was that now was not the right time to progress towards an FTA with Mexico. There just was not the support within the business communities in both countries to pursue one and certain sensitivities would need to be overcome.

Having said that, in the longer term I have no doubt that the commercial relationship with Mexico will expand considerably. We have a very robust trading relationship with Mexico and a burgeoning investment relationship too, I believe.<sup>104</sup>

- 4.115 Although Australian investment in Mexico has grown in recent years, it still represents a minor share of the total. About four-fifths of FDI in Mexico comes from three countries: the USA, Spain and Canada. Mexico is keen to see that situation change, and commented that “there are still

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103 Australia-Mexico Joint Experts Group on Strengthening Bilateral Economic Relations, Joint Report, July 2009, Executive Summary, pp. iii and 5.

104 Department of Foreign Affairs and Trade, Committee Hansard, 25 November 2009, p. 13.

ample opportunities for Australian companies... to invest in Mexico and take advantage of the vast range of benefits that are involved".<sup>105</sup>

4.116 Mexico's economy is growing rapidly and it has benefited from FDI through: an increase in technological capacity; an increase in the skill level of the labour force; and enhanced national productivity and competitiveness. Almost half of new FDI received in 2007 went to the manufacturing sector. In response, Mexico launched a National Infrastructure Plan to guide and encourage infrastructure development.<sup>106</sup>

4.117 An essential part of that plan was "to make it easier to participate and invest in a wide range of projects in Mexico". To achieve this, Mexico has introduced a regulatory framework for foreign investments. It sets out the rights and obligations of foreign investors, and establishes a safe and orderly environment for their investments; with the added incentive of high yields on the funds invested.<sup>107</sup>

4.118 Mexico's submission estimated Australia's FDI in Mexico as US\$135 million in 2007. Between 1999 and 2008 the total was US\$216.8 million; only 0.89 per cent of total FDI in Mexico. However, the submission was very positive about the available opportunities:

...there are still ample opportunities for Australian companies to join in the prevailing tendency of both large multinationals and medium-sized companies to invest in Mexico and take advantage of the vast range of benefits that are involved.<sup>108</sup>

4.119 One example mentioned by the Mexican Ambassador in her evidence was the ongoing reform in the energy sector:

Most of the structural reforms that the President set out to approve at the beginning of his administration have now been passed by congress and set in motion. The most recent one – and an important one for investment – is the reform of the energy sector.

PEMEX, Mexico's national oil company, has not been privatised, but the reforms have begun the process of modernisation and of strengthening the company ...to make it a more competitive and efficient international player, which also promotes renewable sources of energy.

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105 Embassy of Mexico, Submission 14, p. 4.

106 Embassy of Mexico, Submission 14, p. 7.

107 Embassy of Mexico, Submission 14, p. 15.

108 Embassy of Mexico, Submission 14, p. 4.

For this, investments from home and abroad are now welcome, in exploration, extraction and refining of petrol and other energy resources. This could be very attractive, for example, to Australian companies that specialise in services, exploration and the equipment that this field requires.<sup>109</sup>

- 4.120 The Ambassador also suggested that there are opportunities for cooperation and joint venture arrangements in the motor vehicle industry:

...I think this is a source of opportunity for countries like Mexico and Australia because we are producing different kinds of components for the car industry. As for our trade balance, we are exporting engines to Australia and you are exporting all sorts of parts for the car industry to Mexico.

I think there is a great opportunity now to create joint ventures for strategic alliances with these companies to export, not just to our big market, which is the United States, but to all the markets in the world.<sup>110</sup>

- 4.121 When asked by the Sub-Committee about the advantages offered by Mexico as an investment destination, the Ambassador responded:

I think we have a lot of comparative advantages that we can offer to international companies. Mainly we have a stable economic and financial establishment in Mexico. Our macroeconomic financial strength is there. We have an investment grade granted by institutions such as Standard & Poor's and Moody's that shows we are in very good shape. We have been qualified as BBB+ by them.

As I have mentioned, Mexico is one of the most open economies in the world. We have a network of trade and investment agreements... We have a strategic geographical location as well. We are close to major markets. We border the world's largest economy. We have shores on two oceans. We connect well within Latin America, not just with North America.

We have the ability to form clusters around different factories to provide input to the big companies as well. We have a highly qualified and competitive labour force that has been trained since our NAFTA agreement has been in place for 15 years. We have an investment friendly environment and we are politically stable. All

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109 Ambassador for Mexico, Committee Hansard, 11 March 2009, p. 2.

110 Ambassador for Mexico, Committee Hansard, 11 March 2009, p. 3.

these factors give Mexico an advantage compared with other countries in the world.<sup>111</sup>

- 4.122 The Sub-Committee asked about the scope for increasing trade in animal products and live animals and the Ambassador replied:

I think there is a lot of scope to increase both ways. Mainly, we are buying cattle and dairy products from Australia, but we are also selling some dairy products to you as well. So it is a two-way trade now. What we want to increase more is cooperation – technical and scientific cooperation in the field of agribusiness.<sup>112</sup>

- 4.123 The Ambassador referred also to the opportunities that exist for trade in other products, such as processed foods:

I think that processed foods are also very important in our trade balance and there is a lot of scope to advance this relationship. You probably know that Mexico is exporting Corona beer to Australia and it is very popular here. We would like to export more tequila, for example, and processed food – in cans, mainly.

But there are plenty of opportunities in many different areas, for example: in engines, as I mentioned; in telecommunications; in software; in media games and medicaments. All of these areas are part of our trade balance with Australia.

Mexico is one of the largest trading partners of Australia in Latin America, with US\$1.5 billion in trade. I think what we need to do is to create and promote more awareness of each country – what we have and how we can complement each other...<sup>113</sup>

## **Tourism and Airline Services**

- 4.124 Tourism and the availability of flights between Australia and Mexico were also discussed and the Ambassador indicated that she was very interested in the introduction of direct flights between Mexico and Australia:

It would change our lives, really, because we would have more tourism and more business people. We are working hard. We have in place an MOU on air services that established a co-share flight between Qantas and Mexicana that started working in 2006. Now we have almost finished the negotiation of an air transport

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111 Ambassador for Mexico, Committee Hansard, 11 March 2009, p. 4.

112 Ambassador for Mexico, Committee Hansard, 11 March 2009, p. 6.

113 Ambassador for Mexico, Committee Hansard, 11 March 2009, p. 6.

agreement that will allow more exchanges between different airlines from Mexico and from Australia – because now you have Virgin airlines in place.

From Mexico we have a lot of connections to Central and South America and the Caribbean as well, so if they could fly from here to Mexico City or another city in Mexico – Guadalajara, Acapulco or Cancun – they could connect with flights that come from the United States as well. This should be a point of negotiation between the airlines.

There are plenty of opportunities. Do you know that many of the people I talk to want to go to Mexico but they do not want to go through the United States because they need a transit visa to go there? Mexico is now one of the largest tourist destinations in the world. It ranks as the eighth most popular tourist destination in the world. We had 21 million visitors in 2007.

It is a big industry in Mexico but of those tourists only 33,000 were Australians, so we would like to have more. I am sure that some of them are travelling to the United States and crossing the border, but we would like to have more tourism in the wonderful parts of Mexico.<sup>114</sup>

## **Phytosanitary Issues**

4.125 As with several other Latin American countries, Mexico has concerns about the application of Australia's phytosanitary arrangements. Mainly, the concerns are focused on the length of time taken to have agricultural products assessed. When asked about the number of products awaiting risk assessment, the Ambassador said:

This is an issue that we have been dealing with for several years. There are several products. One of them is avocado, which is very important for the bilateral relationship. We requested a risk analysis for avocados ...several years ago and we are still on the waiting list.

We also have other problems. Citrus fruits are very important for our bilateral agenda, and they are pending to be analysed. We have [had] some analysis done for other products – such as grapes, plums, melons, broccoli, et cetera – but they are not being included in the protocols yet.

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114 Ambassador for Mexico, Committee Hansard, 11 March 2009, pp. 6-7.



We have all these different products that could be included in the protocol list and we are wondering why we could not negotiate them as a package. We need to negotiate product by product.

We have been trying to do this for several years, and I think one of the solutions could be to have a phytosanitary agreement in place between Mexico and Australia. We also provide opportunities for products from Australia, such as livestock, meat, dairy products, or wines, which are important sectors in this country.<sup>115</sup>

4.126 When questioned further, the Ambassador added:

We are exporting avocados to the 50 states in the United States, to Japan and to Europe. So, we are certified. We cannot export those to Australia, which is very inconvenient, not just for consumers. You could have avocados here, when you do not produce avocados here, because our seasons are different.

...our entity in Mexico – which is called SENASICA, which is part of our agricultural ministry – has been working, since long ago, with AQIS here. But no results have been in place.<sup>116</sup>

## Paraguay

4.127 The Export and Investment Network in the Ministry of Industry and Commerce in Paraguay (REDIEX) noted that two-way trade between Australia and Paraguay is very low at present. However, as Paraguay is a member of MERCOSUR, it also commented that trade with that group more than doubled between 2003 and 2007:

Australia's imports from MERCOSUR countries increased from US\$440 million to US\$980 million; and exports rose from US\$360 million to US\$890 million.<sup>117</sup>

4.128 By 2009 trade with Paraguay was growing and exports reached A\$1,468,000, an increase of 7.2 per cent over 2008; imports in 2009 totalled A\$920,000, an increase of 41.5 per cent over 2008.<sup>118</sup>

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115 Ambassador for Mexico, Committee Hansard, 11 March 2009, pp. 4-5.

116 Ambassador for Mexico, Committee Hansard, 11 March 2009, p. 5.

117 Export and Investment Network, Ministry of Industry and Commerce, Paraguay, Submission 7, p. 2.

118 Department of Foreign Affairs and Trade, Paraguay Fact Sheet, <http://www.dfat.gov.au/geo/fs/prgy.pdf>, accessed 6 July 2010.

- 4.129 REDIEX said that, while the figures for current trade between our countries are very small, it had identified “plenty of opportunities” in the trade with the MERCOSUR group. Through these avenues it believed that trade and investment with Paraguay could be increased.
- 4.130 One of the advantages held by Paraguay, the submission said, was its central location in South America. Paraguay has borders with Argentina, Bolivia and Brazil and is close to Uruguay, Chile and Peru.
- 4.131 The Government of Paraguay is actively seeking FDI and the submission from REDIEX indicated that the main sectors are: agribusiness, food and beverages, tobacco, chemical industries, communications, commerce, financial institutions, insurance and banking. The submission added that:
- We are actively prospecting for eventual investments oriented to producing and developing biomass for bio-fuel production. We also identify a great investment potential for Australian companies to diversify production and outsourcing in sectors like cattle ..., the dairy industry, the mining sector, agrochemicals, electro-intensive industries and infrastructure.<sup>119</sup>

## Peru

- 4.132 Diplomatic ties between Australia and Peru were established in 1963. Since then the relationship has been firmly established on a range of shared interests and goals. Trade liberalisation, encouraging investment and regional cooperation are high priorities. The two countries have worked together in both multilateral and regional forums, particularly in APEC.<sup>120</sup>
- 4.133 Australia and Peru both place considerable importance on the outcome of the Doha Round. Reform of agricultural protection regimes is foremost among their goals and both are members of the Cairns Group, which Peru joined in 2007.<sup>121</sup>
- 4.134 Peru has FTAs with MERCOSUR, the United States, Canada, Singapore and Chile, and an agreement with Thailand. It is also seeking to negotiate FTAs with Mexico, the EFTA countries,<sup>122</sup> China and a partnership
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119 Export and Investment Network, Ministry of Industry and Commerce, Paraguay, Submission 7, p. 4.

120 Embassy of Peru, Submission 16, Covering Letter, p. 1.

121 Embassy of Peru, Submission 16, Covering Letter, p. 2.

122 EFTA includes Switzerland, Norway, Iceland and Liechtenstein.

agreement with the European Union. Peru also has negotiations in view with Central America and Korea, and has joined the Pacific Partnership negotiations. Peru has indicated to Australia that it would welcome negotiations for an FTA with this country.<sup>123</sup>

- 4.135 When asked what type of agreement Peru would be seeking, the Ambassador said that, like Australia, Peru was interested in WTO-plus agreements – i.e. an agreement that goes beyond WTO commitments. Peru wants:

...comprehensive, high-quality agreements. They will not be ... limited to the trade liberalisation of goods but, on the contrary, go further into financial services particularly investments. Investment and trade are very much related. We would like to see flows of trade and investments, which in the future could stimulate new investment and trade opportunities.<sup>124</sup>

- 4.136 The Ambassador said that Australia and Peru have cooperated closely in APEC, especially since Peru hosted the APEC meetings in Lima in 2008 following Australia's turn as host. He also commented that the two countries share a strong commitment to trade liberalisation at all levels and have worked well together in efforts to see a suitable outcome from the Doha Round.<sup>125</sup>
- 4.137 The Ambassador recalled that at the end of the Lima summit the President of Peru strongly advocated free trade as the best way of overcoming the GFC. Peru recognises the value of free trade and improved market access in the fight against poverty. The Ambassador noted that despite its rapid growth in recent years, Peru still had 39 per cent of its population living below the poverty line. He said, however, that they had managed to reduce that figure by five per cent in the last two years and nearly nine per cent since 2005.<sup>126</sup>

## Trade and Investment

- 4.138 In its submission the Peruvian Embassy showed that trade growth between Australia and Peru was very strong in the five years between 2002 and 2007. Australia's imports from Peru rose from US\$35 million in 2002 to US\$98 million in 2007; exports to Peru also grew strongly in that

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123 Embassy of Peru, Submission 16, Covering Letter, p. 2 and Committee Hansard, 28 November 2008, pp. 3-4.

124 Ambassador for Peru, Committee Hansard, 28 November 2008, p. 8.

125 Ambassador for Peru, Committee Hansard, 28 November 2008, p. 3.

126 Ambassador for Peru, Committee Hansard, 28 November 2008, p. 4.

period, from US\$25 million to US\$67 million. The overall growth in total trade between 2002 and 2007 was 176 per cent.<sup>127</sup>

- 4.139 The figures for 2009, even though expressed in A\$ instead of US\$ and despite the effects of the GFC, indicate that the growth trend has continued. In 2009, merchandise trade with Peru totalled A\$248 million; imports from Peru were A\$139 million and exports to Peru A\$109 million. Australia's main imports from Peru were zinc ores and concentrates and animal feed. Our main exports to Peru were powdered milk and cream and specialised machinery and parts.<sup>128</sup>
- 4.140 Prior to the GFC Peru's economy had been growing strongly. GDP growth was 7.6 per cent in 2006, 8.9 per cent in 2007 and 9.2 per cent in 2008. Despite a drastic slowdown to almost zero growth during the crisis, the forecast for 2009-10 is for growth at around 7 per cent.<sup>129</sup>
- 4.141 The submission from Peru indicated that government revenues are solidly positive, inflation has been contained at a low level and the exchange rate has been stable. The economic overview produced by DFAT commented:
- President Garcia's economic policies have been characterised by fiscal discipline, inflation targeting, a managed float of the currency and investment in infrastructure and social programs.<sup>130</sup>
- 4.142 The Ambassador for Peru, in evidence to the Sub-Committee, noted that the government's fiscal position is sound and in surplus (about 3 per cent was expected for 2008).
- 4.143 Peru offers attractive conditions for investors. Its legal framework is based on equality, freedom and non-discrimination. National treatment is offered to foreign investors. It also has 32 agreements on investment that provide stability for the investors. The World Economic Forum ranked Peru as the most receptive Latin American country for foreign investment and the World Bank ranked it second in Latin America for protection of investment.<sup>131</sup>
- 4.144 Independent providers of credit rankings have assessed Peru at Investment Grade. This assessment has come from: Standard and Poor's,
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127 Embassy of Peru, Submission 16, p. 1.

128 Department of Foreign Affairs and Trade, Peru Fact Sheet, <http://www.dfat.gov.au/geo/fs/peru.pdf>, accessed 6 July 2010.

129 Embassy of Peru, Submission 20, pp. 2-3.

130 Embassy of Peru, Submission 20, pp. 6-7; Department of Foreign Affairs and Trade, Peru Country Fact Sheet, Economic Overview, p. 1, [http://www.dfat.gov.au/geo/peru/peru\\_brief.html](http://www.dfat.gov.au/geo/peru/peru_brief.html), accessed 6 July 2010.

131 Embassy of Peru, Submission 20, p. 2.

Fitch and DBRS.<sup>132</sup> The Ambassador for Peru, in evidence to the Sub-Committee, noted that in 2008, Peru joined the OECD Investment Committee. He also commented that foreign companies have the right to:

...invest in all economic activities, with free transfer of investment capital, freedom to purchase stock and so on. On top of that, foreign companies are entitled to sign a 10-year stability agreement with the government.<sup>133</sup>

4.145 Peru has the aim of becoming the leading export nation in Latin America and has multiplied the value of its exports by four times in the last five years, boosting employment. The Ambassador said that import duties were reduced to give Peru's industries "more access to new capital, goods, equipment and technology, creating a virtual circle by encouraging more exports".<sup>134</sup>

4.146 He noted that Australia is already supplying machinery and technology to the Peruvian mining industry and added:

Our economies are very much complementary, but there are other areas [where] Australia can expand trade and investments in Peru, as in agribusiness, infrastructure, water, financial services and energy, just to cite some examples.<sup>135</sup>

4.147 The Ambassador said that more political dialogue and reciprocal diplomatic representation would be very helpful in attaining these aims. He added that the Government of Peru and the business community have praised the announcement by Australia that its embassy in Peru would be reopened in 2010. The additional transport links enabled by the conclusion of talks on a bilateral air services agreement would be of additional assistance.<sup>136</sup>

4.148 The Sub-Committee commented that the air services agreement is a crucial part of our relationship. The Ambassador responded that tourism is becoming very important, and that about 23,000 Australians visited Peru in 2007; that figure, he said, is growing at 10 per cent a year. Another rapidly growing area in the relationship is education services. The Ambassador said that from less than 300 students studying in Australia three years ago, the total has now grown to over 1,200. That growth, he said, will be assisted by better air services, particularly if a direct service

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132 Embassy of Peru, Submission 20, pp. 2 and 8.

133 Ambassador for Peru, Committee Hansard, 28 November 2008, p. 3.

134 Ambassador for Peru, Committee Hansard, 28 November 2008, p. 4.

135 Ambassador for Peru, Committee Hansard, 28 November 2008, p. 4.

136 Ambassador for Peru, Committee Hansard, 28 November 2008, p. 4.

can be established. At present there are no direct flights and the most direct services are via New Zealand or the direct flight to Buenos Aires.<sup>137</sup>

4.149 The Peruvian students are mostly privately funded and are concentrated mainly in Sydney, Melbourne and Brisbane; though spread over a wide range of institutions. Many of them work up to 20 hours per week to finance their studies and other expenses. The Sub-Committee noted the need for an agreement on mutual recognition of qualifications.<sup>138</sup>

4.150 The Ambassador told the Sub-Committee that the universities in Australia and Peru were working on closer ties:

There is also an ongoing collaboration between Australian and Peruvian universities, which is to be highlighted. We are working on developing more institutional links, cooperation links, between the universities themselves and working closely in promoting the location opportunities from both sides as well; we would also like to see some Australians going to Peru.<sup>139</sup>

4.151 The Ambassador commented that tourism would be assisted if an agreement could be reached on a “working holiday” scheme. He said that similar schemes were already in place between Australia and several other countries and seemed to work well.<sup>140</sup>

## Uruguay

4.152 Economic relations between Australia and Uruguay have been slow to develop, mainly because of distance and the geopolitical circumstances they face. Uruguay has had an embassy in Canberra since the 1960s and currently also has a Consulate General in Sydney. The Ambassador for Uruguay observed, however, that Australia has never had an embassy in Montevideo.<sup>141</sup>

4.153 In his submission to the inquiry, the Ambassador noted that these problems have limited high level visits, and he commented:

...our region rarely appears on Australia’s international agenda and this is even more apparent regarding the Atlantic coast

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137 Ambassador for Peru, Committee Hansard, 28 November 2008, pp. 5-6.

138 Ambassador for Peru, Committee Hansard, 28 November 2008, p. 7.

139 Ambassador for Peru, Committee Hansard, 28 November 2008, p. 7.

140 Ambassador for Peru, Committee Hansard, 28 November 2008, pp. 7-8.

141 Embassy of Uruguay, Submission 42, p. 5.

countries of MERCOSUR, which have not benefited from Australia's increased focus on Asia-Pacific integration.<sup>142</sup>

4.154 Uruguay, like several other Latin American countries, has expressed satisfaction that the Australian Government has indicated its intention to widen its economic relations in the region.

4.155 In giving evidence to the Sub-Committee, Ambassador Fajardo commented that while it was good that Australian Ministers took advantage of multilateral meetings, such as the Cairns Group, to visit Latin America, it would be even better if they could make focused visits:

...I think it is also good when ministers say "Okay, I'm just going to spend one week or a week and a half in South America and we are going to visit three or four countries". Then the Prime Minister says, "I'm going to have a Prime Ministerial visit to two, three or four countries".

These things would be very important and, in the framework of some kind of strategy where we are going to keep on focusing on South America, I think that this would be very useful.<sup>143</sup>

4.156 The submission from Uruguay noted that in 2004 the country began an "extraordinary phase of growth". Inflows of foreign capital reached unprecedented levels and economic growth was sustained at an average of 6.7 per cent between 2004 and 2008. Although that rate dropped to 2 per cent in 2009, during the GFC, Uruguay was able to avoid a recession. Indications are that growth will improve to 4-5 per cent this year.<sup>144</sup>

4.157 Uruguay was one of the founding members of MERCOSUR and the Secretariat and Parliament of the group are both located in Montevideo. Through its membership of MERCOSUR Uruguay enjoys free trade agreements with Paraguay, Brazil, Argentina, Chile, Bolivia, Peru, Ecuador, Colombia and Venezuela. Uruguay also has an FTA with Mexico, under a waiver arrangement with MERCOSUR.<sup>145</sup>

4.158 To these advantages, Uruguay adds a strategic geographic position close to the most affluent areas in South America. The immediate area around Uruguay generates approximately 73 per cent of Brazil's GDP, 71 per cent of Argentina's and 60 per cent of Chile's.<sup>146</sup>

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142 Embassy of Uruguay, Submission 42, p. 5.

143 Embassy of Uruguay, Submission 42, p. 10.

144 Embassy of Uruguay, Submission 42, p. 2.

145 Embassy of Uruguay, Submission 42, p. 3.

146 Embassy of Uruguay, Submission 42, p. 3.

4.159 Uruguay has established a very attractive regime for foreign investors:

Domestic and foreign capital are treated equally and both...can receive the same incentives. There are no limits for foreign capital in companies. Foreign investors may carry out any type of activity under the same conditions as local investors. In certain industry sectors, foreign investors can perform activities under public concession agreements.

There are no limits on capital repatriation or profit transfer and no permits are required. The currency exchange market is free and has no limits on foreign currency trading. Investments can be made in any currency.

The tax system is neutral with respect to foreign investment. No prior authorisations are required to make investments, except for environmentally-related permits.<sup>147</sup>

4.160 The submission from Uruguay also commented that, according to the World Economic Forum's Global Competitiveness Report for 2008-09, Uruguay has the best intellectual property (IP) protection in South America. Uruguay uses international IP standards, and copyrights, brand names and patents are protected by law.<sup>148</sup>

## Trade and Investment

4.161 Trade between Australia and Uruguay has been small so far and investment levels are also limited. Australian exports grew from A\$18.1 million in 2006 to A\$21.78 million. The GFC, however, produced a decline to A\$10.1 million in 2009. The main products were leather, wool and raw hides and skins.<sup>149</sup>

4.162 The story with imports from Uruguay was similar, except that the decline showed itself earlier, in the figures for 2008. In 2006, Australian imports from Uruguay totalled A\$15.5 million, in 2007 A\$25.4 million, but in 2008 only A\$15.8 million. In 2009, the total started to rise again and reached A\$18.2 million. The main imports were preparations for making non-alcoholic beverages, articles of iron and tanning substances.<sup>150</sup>

4.163 Both economies are strong in the production and export of agricultural products. Despite this they have regularly co-operated in the Cairns

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147 Embassy of Uruguay, Submission 42, p. 3.

148 Embassy of Uruguay, Submission 42, pp. 3-4.

149 Embassy of Uruguay, Submission 42, p. 6.

150 Embassy of Uruguay, Submission 42, p. 6.



Group and in the Doha negotiations. The Uruguayan submission commented, however, that there are factors operating against greater market penetration:

- Australia's very strict AQIS and bio-security regulations; and
- the distance that separates the two countries.

Added to these is a scarcity of transport linkages; a problem that affects much of Australia's trade with Latin America.<sup>151</sup>

- 4.164 Transport is affected both by the distance involved and the lack of direct shipping. Air links have improved in recent years and LAN Chile, Aerolíneas Argentinas and Qantas all fly direct to Sydney from Buenos Aires – from Montevideo to Buenos Aires is only half an hour. Air New Zealand may also have flights to South America soon.<sup>152</sup>

### **Strengthening Trade and Investment**

- 4.165 The Government of Uruguay is keen to attract new investments from Australian companies. Uruguay's submission draws attention to the opportunities that exist for joint ventures, particularly in the agribusiness sector. Australia can offer cutting edge technology and considerable knowledge and experience to such ventures. An additional attraction of joint ventures in Uruguay is that the products produced would also have access to the markets of the other MERCOSUR partners.<sup>153</sup>
- 4.166 The mining sector in Uruguay also offers opportunities in both exploration and development. The traditional base of extraction of non-metallic minerals has now expanded to take in exploration for gold, diamonds and iron ore. Australia has much to offer in the skills and technology applicable to these products.<sup>154</sup>
- 4.167 In 2009, Uruguay launched a licensing round, entitled "Uruguay Round 2009", for offshore gas and oil development. Although BHP Billiton was engaged in the early negotiations, it did not sign an exploration contract.<sup>155</sup>
- 4.168 Uruguay has a particular interest in co-operation with Australia on research and development in the agricultural sector. The National Agricultural Research Institute of Uruguay (INIA) "has already concluded

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151 Embassy of Uruguay, Submission 42, p. 6.

152 Embassy of Uruguay, Submission 42, p. 12.

153 Embassy of Uruguay, Submission 42, p. 6.

154 Embassy of Uruguay, Submission 42, p. 7.

155 Embassy of Uruguay, Submission 42, pp. 7-8.

several agreements with Australian institutions: the Victorian Department of Primary Industries; the company Phytogene; the University of Western Australia; and the University of New England/the Agricultural Business Research Institute.<sup>156</sup>

4.169 For example, Uruguay has been working with the Victorian Department of Primary Industries on projects seeking to develop stronger and more drought resistant pastures.<sup>157</sup>

4.170 The Ambassador also mentioned the opportunities that exist for Australian investment in livestock, dairy and crop production in Uruguay. He reminded the Sub-Committee that Uruguay has had years of co-operation with both Australia and New Zealand in the wool industry. He commented that another growth area is plantations of eucalypts.<sup>158</sup>

4.171 Uruguay's submission proposes that:

Both countries should actively explore the possibilities for joint research and development activities, making use of best practices in this field and encourage, facilitate and support the development of direct contacts and co-operation between government agencies and organisations, universities, science and research centres, private sector firms, etc.<sup>159</sup>

4.172 In common with several other Latin American countries, Uruguay is concerned about the difficulties involved in obtaining a visa to visit Australia. Uruguay does not require Australians to have either a tourist or a business visa. Uruguayans, however, "...need visas to travel to Australia or even to transfer through an Australian airport".<sup>160</sup>

4.173 The Uruguayan submission noted that to visit Australia, whether for business or on holiday, any Uruguayan citizen must send their passport, application form and payment of a non-refundable fee of \$105, by courier to Buenos Aires. This is a time-consuming and expensive exercise and the submission added that it had discouraged many Uruguayans from applying.<sup>161</sup>

4.174 The consequence has been a loss to the tourism industry, another limiting factor on the development of business contacts, and a source of

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156 Embassy of Uruguay, Submission 42, p. 8.

157 Ambassador for Uruguay, Committee Hansard, 17 March 2010, p. 11.

158 Ambassador for Uruguay, Committee Hansard, 17 March 2010, p. 11.

159 Embassy of Uruguay, Submission 42, pp. 8-9.

160 Embassy of Uruguay, Submission 42, p. 9.

161 Embassy of Uruguay, Submission 42, p. 9.

aggravation for Australians of Uruguayan families. The latter is a factor of some importance, because more than 10,000 Australian citizens were born in Uruguay and it affects them and their extended families directly.<sup>162</sup>

4.175 When asked how serious a problem this is for Uruguayan visitors, the Ambassador said:

I could spend my hour here talking about that issue. I am pretty sure that most, if not all of my Latin American colleagues would agree, because they all face most of these restrictions. ...If you want to really move relations, at all levels, to another level, I think that considering fundamental reform of the visa relationship with Latin American countries would be fundamental.

By that, I do not mean getting rid of visas. You have visas with everyone. The difference is that with certain countries you have electronic visas. It is one thing to do the application in the comfort of your chair on your computer and another thing to do the procedure which you mentioned.

That affects both business and tourism. And tourism, of course, is a service. It is dollars that come into here.<sup>163</sup>

4.176 The Ambassador also raised another visa problem that he found difficult to understand:

An example of what I would consider to be the absurdity of one area of the visa requirements is what I mentioned in Queensland. ... 'We could have a comfortable flight to New Zealand, then fly out to Brisbane and take the flight to Singapore' But then you would say, 'On the other hand, we need a visa.' Why? For transit!

But you don't exit the transit lounge. ... You do not go through Customs. You do not enter the country.

There are not going to be loads of Uruguayans coming in transit, but that is just an example. ... The Argentines do not need a transit visa. They are right across the river.

But much more important than that example, is that we cannot get electronic visas for students. ... Given that you try to export educational services, you should make it a little easier.<sup>164</sup>

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162 Embassy of Uruguay, Submission 42, p. 9.

163 Ambassador for Uruguay, Committee Hansard, 17 March 2010, p. 4.

164 Ambassador for Uruguay, Committee Hansard, 17 March 2010, pp. 4-5.

4.177 The Ambassador also spoke about arrangements for working holidays. He said that Uruguay has an arrangement with NZ that allows Uruguayans to visit and work for six months. They do not need visas to enter NZ either as tourists or on business. The Ambassador referred to a recent Australian study:

...about the consequences for the economy, beneficial or not, of the program Australia does have, and it came out that people leave more money here ... than the money that you might lose ... in having this program.<sup>165</sup>

4.178 Ambassador Fajardo was referring to a report by the National Institute of Labour Studies at Flinders University. The report, *Evaluation of Australia's Working Holiday Maker (WHM) Program*, referring to working holiday makers, found that:

They contribute more to total expenditure than they do to earnings, and thus on balance make a small contribution to increasing the demand for Australian workers. In this sense, the WHM is more a tourism export program than a labour supply program.<sup>166</sup>

4.179 The other main issue raised by Uruguay concerned reciprocal visits by Ministers and senior officials. The Ambassador said that such visits, and those by parliamentary delegations could help to raise the profile of the Latin American nations in Australia – he indicated that a visit by the Prime Minister would be most welcome. He said:

These official visits send signals both in South America and in Australia to people, to the economic agents. Latin America is not always on the radar in Australia. ...<sup>167</sup>

4.180 The Ambassador indicated that there is considerable scope for expanding trade and investment relations and referred to the close interaction between NZ and Uruguay:

I used the example of New Zealand because it is a reality that a small country has hundreds of millions of dollars of investment ...that it and we are getting benefit from. If New Zealand can do it, there could be opportunities in a lot of areas here, not only in the

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165 Ambassador for Uruguay, Committee Hansard, 17 March 2010, p. 5.

166 National Institute of Labour Studies, *Evaluation of Australia's Working Holiday Maker (WHM) Program*, Flinders University, Adelaide, 27 February 2009, Executive Summary, p. 1.

167 Ambassador for Uruguay, Committee Hansard, 17 March 2010, p. 6.

mining sector, which is the natural sector to consider, but also in the agribusiness sector.

The South Island of New Zealand is full of Uruguayans – agriculture students and people who have just graduated – who go for the experience, for the English and to gain some practical experience.<sup>168</sup>

- 4.181 While referring to Uruguay's relationship with NZ, Ambassador Fajardo said that he felt that restarting talks between CER and MERCOSUR "would be very important". He said that he had been "trying to move it along" and added:

I am also the ambassador in Wellington so I have been busy trying to send ideas there and back home and trying to move it along, because I think it is very important.

Obviously we are not going to rush forward and sign an FTA with CER any time soon, but there is a lot more that can be done in that framework and I think it also sends an important message.

As I said ... the countries on the Atlantic coast of South America sometimes feel a little left behind and left out of the Australian world focus – although not the New Zealand focus.<sup>169</sup>

- 4.182 Ambassador Fajardo continued:

I have tried to encourage both in DFAT and in MFAT some kind of ministerial declaration. Initially the reaction was, 'No, that is too much.' I said that we need something that will relaunch the dialogue.

If I sit there and relaunch the dialogue, no-one is really going to pay that much attention. But if ministers say they are going to relaunch the dialogue and focus on trade facilitation and so on, I think more people will notice. We want people to notice. We want economic agents to notice it.

We want people to say, 'Okay, Australia is now focusing more on South America, focusing more on the Atlantic coast countries and focusing on Mercosur.' I think it would be useful...

Ministers have said that we have got to do this. I hope it takes place. I do not know if it is going to be ministerial. There has not been too much interest in having it at ministerial level because it

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168 Ambassador for Uruguay, Committee Hansard, 17 March 2010, p. 6.

169 Ambassador for Uruguay, Committee Hansard, 17 March 2010, p. 3.

creates obligations. I think we should encourage that kind of obligation.<sup>170</sup>

- 4.183 The Ambassador said he had proposed an MOU between Uruguay's trade promotion agency and Austrade, but had been told that it was not necessary. He added that Uruguay had also suggested a bilateral trade and investment framework agreement:

It is trade and investment. We are not going to be negotiating tariffs. This is not a free trade agreement or any other kind of trade agreement in that sense. It is a framework agreement, which establishes that we are going to get together and talk about things that could improve trade and investment without touching tariffs, because there are a lot of non-tariff barriers which make a big difference: bio-security, labelling, fumigation... There are a lot of things that could increase trade.

Plus there is transparency: what are the regulations, how can we improve investment, what are the requirements? And it creates a certain obligation to meet once a year, and that is going to encourage the visits, the delegations, that you were talking about.

Ambassador Fajardo added that in response to the request for a framework agreement, Australia has proposed an MOU on trade and investment instead.<sup>171</sup>

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## Recommendation 9

**The Sub-Committee considers that the introduction of electronic visa applications would be an excellent, and inexpensive, way to assist in improving trade and investment relations with the countries of Latin America. It would have valuable spin-off benefits for the tourism industry and would also facilitate business travel to Australia.**

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170 Ambassador for Uruguay, Committee Hansard, 17 March 2010, pp. 3-4.

171 Ambassador for Uruguay, Committee Hansard, 17 March 2010, pp. 7-8.

**Recommendation 10**

The Sub-Committee recommends that the Government review the processing of applications by skilled migrants and, where appropriate, seek ways to fast track the recognition of their skills.

**Recommendation 11**

The Sub-Committee also recommends that urgent attention be given to achieving mutual recognition of university qualification between Australia and the countries of Latin America. This would assist the efforts of Australia's universities to attract post-graduate students, who might otherwise go to American or British universities. It would also assist tourism through attracting the relatives and friends of such students to visit Australia.

**Recommendation 12**

Allied to the previous recommendation, the Sub-Committee recommends the adoption of a "working holiday" scheme for visitors from Latin America. At present, visitors from 27 countries can access such arrangements, but of the Latin American countries only Chile is included in that list.<sup>172</sup>

**Recommendation 13**

All of the Latin American Ambassadors indicated how much they appreciated visits by Ministers, particularly at the head of business delegations, and by Parliamentary representatives. The Sub-Committee recommends that increased priority be assigned to visits such as these to the countries of Latin America - in line with the Government's declared intention to engage more closely with Latin America and the Caribbean.

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172 National Institute of Labour Studies, *Evaluation of Australia's Working Holiday Maker (WHM) Program*, Flinders University, Adelaide, 27 February 2009, Short Summary, p. 1 and Department of Immigration and Citizenship, <http://www.immi.gov.au/visitors/working-holiday/visa-options.htm>, accessed 7 October 2010.

**Recommendation 14**

**That COAG make improved cooperation between the Commonwealth and the States, and between the States themselves, a high priority - to achieve higher levels of efficiency in the transport and logistics supply chains, provision of infrastructure, and trade facilitation.**



## The Pacific

### CER

- 5.1 The Closer Economic Relations agreement between Australia and New Zealand (CER) has been described by the Chair of the WTO Trade Policy Review Body as:

...one of the world's most comprehensive trading arrangements.<sup>1</sup>

- 5.2 The Ministerial Communiqué at the end of the CER Ministerial meeting in 2004 noted that:

The CER, which commenced in 1983, is undoubtedly the world's best example of a comprehensive free trade agreement and a model for both countries in their negotiation of newer free trade agreements.<sup>2</sup>

- 5.3 In his evidence to the Sub-Committee, the NZ Deputy High Commissioner commented that the comprehensive coverage of CER is gradually being reflected in other agreements negotiated by Australia and NZ:

The other point I would make is that there has been something of a negative metaphor around so-called low quality, spaghetti bowl creating agreements. If you look at the most recent free trade

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1 WTO, Trade Policy Reviews: Second Press Release and Chair's Conclusions, *New Zealand: October 1996*, [http://www.wto.org/english/tratop\\_e/tpr\\_/tp44\\_e.htm](http://www.wto.org/english/tratop_e/tpr_/tp44_e.htm), accessed 5 August 2010.

2 Australia and New Zealand Closer Economic Relations Joint Ministerial Communiqué, 11 December 2004, p. 1, [http://www.dfat.gov.au/geo/new\\_zealand/anz\\_cer/cer\\_communique\\_2004.html](http://www.dfat.gov.au/geo/new_zealand/anz_cer/cer_communique_2004.html), accessed 26 February 2010.

agreements that both Australia and New Zealand have concluded, that suggests to you that those agreements are comprehensive, they are what trade negotiators call 'very clean', and they are providing the basis for engagement around some of the broader free trade zones that we are all interested in our region.<sup>3</sup>

5.4 In March 2009 the Australian and NZ Prime Ministers reiterated the importance of continuing to strengthen and deepen the relationship – with the long-term aim of a single economic market. They agreed to pursue a variety of measures, including: accelerate the harmonisation and alignment of regulations; finalise an Investment Protocol; complete a new Tax Treaty; review the CER Rules of Origin; further reduce border barriers for both goods and travellers; strengthen cooperation in achieving open markets and trade; and expand joint trade promotion activities. The Prime Ministers called for substantial progress on these and several other issues and requested a progress report after the July 2010 CER Ministerial meeting.<sup>4</sup>

5.5 The New Zealand Deputy High Commissioner, in giving evidence to the Sub-Committee, commented that for NZ CER is the most important free trade agreement and Australia is the largest trading partner. He added that Australia takes about 25 per cent of New Zealand's products, with a value of \$10 billion and growing fast.<sup>5</sup>

5.6 He noted that there had been substantial growth in services trade between Australia and NZ, an increase of 67 per cent in recent years, to reach about \$6 billion. He said also that the forthcoming CER investment protocol will help to further stabilise and facilitate investment flows.<sup>6</sup>

5.7 The Deputy High Commissioner said that most Australian companies in the export field actually got their start by exporting to NZ:

In fact, more Australian companies export to New Zealand than to any other market and the figures are quite striking. In 2007-08 nearly 18,000 Australian companies exported to New Zealand. That compares with less than 10,000 that exported to your next most important market, which is the United States.

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3 New Zealand Deputy High Commissioner, Committee Hansard, 10 March 2010, p. 4.

4 Key and Rudd – Joint Statement on Strengthened Trans-Tasman Cooperation, 2 March 2009, p. 1, <http://www.beehive.govt.nz/release/joint+statement+strengthened+ns-tasman+cooperation>, accessed 22 September 2010.

5 New Zealand Deputy High Commissioner, Committee Hansard, 10 March 2010, p. 3.

6 New Zealand Deputy High Commissioner, Committee Hansard, 10 March 2010, p. 3.

If you drill further into the data what is very interesting about these figures is that the high-end manufacturing niche industries, where the highest value added is returned to the exporters, are the companies that are trading into New Zealand. The IT companies and the high-value, high niche-end manufacturing industries are doing best in New Zealand. They are the ones who are experiencing the greatest growth.

So, in terms of CER, this has very much been a two-way exercise for both of us in developing our own export capacity, in ... leveraging out.<sup>7</sup>

- 5.8 He noted that there was still much to be done under CER, even though tariffs and service barriers have been dealt with:

There is of course our shared agenda for the Single Economic Market. That often tends to be forgotten because it is not as headline grabbing as some of the other stuff that we do. It includes things like the ability for both countries to offer securities, to simplify cross-border insolvency proceedings, to make trans-Tasman company registration easier and to better align our competition law between us.

As I said, none of those are headline grabbing issues, but they are exactly the kinds of things that reduce the friction to our companies doing business with one another. I think it is a critical part of our process. I like to think of them as the quiet achievers. They do not make a big fuss, but they are the ones who will deliver the big gains to our companies over time. That is a very important part of the agenda.<sup>8</sup>

- 5.9 The 2010 CER Ministerial Forum confirmed the importance of pushing ahead with closer integration of the two economies:

The trans-Tasman relationship is the closest and most comprehensive there is for both countries. Work to develop the relationship further was given added energy by the agenda set by the two Prime Ministers in their March and August 2009 meetings. This agenda reflects the resolve of both governments to take the relationship to a new level, including deeper economic integration.

CER Ministers welcomed the progress achieved over the past year in strengthening the economic and trade relationship, taking

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7 New Zealand Deputy High Commissioner, Committee Hansard, 10 March 2010, p. 3.

8 New Zealand Deputy High Commissioner, Committee Hansard, 10 March 2010, p. 4.

Australia and New Zealand further along the path towards a single economic market. ...

The importance of the economic relationship is reflected in trade and investment levels. Two-way trade between Australia and New Zealand was A\$20.6 billion (NZ\$25 billion) in 2009, including goods and services, only slightly lower than the previous year despite the economic downturn. The countries are close investment partners, with total accumulated investment between them standing at over A\$90 billion (NZ\$ 110 billion).

The stronger economic links parallel increasing people-to-people contact. Visits in each direction exceeded one million in 2009, and there are around half a million New Zealand citizens in Australia and about 65,000 Australians in New Zealand.

Reflecting the deepening integration of the two economies, Mr Groser<sup>9</sup> will join the Ministerial Council on International Trade, which brings together the Australian Commonwealth, State and Territory Governments for consultations on issues concerning trade and international competitiveness. Mr Groser will attend his first MCIT meeting in Sydney on 30 June.

New Zealand's participation in the MCIT will provide increased opportunities for close and effective consultation on important areas of mutual trade interest.<sup>10</sup>

## Trans-Pacific Partnership

- 5.10 The idea of the Trans-Pacific Partnership (TPP) had its beginning in the so-called P4 group (Trans-Pacific Economic Partnership Agreement). It was formed between Chile, New Zealand and Singapore in 2005 and joined by Brunei in 2006.<sup>11</sup>
- 5.11 Australia, Peru and Vietnam all indicated their interest in joining the group and negotiating an agreement – to be called the Trans-Pacific Partnership Agreement. The decision by the US Government to also take
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9 The New Zealand Minister for Trade.

10 Department of Foreign Affairs and Trade, *2010 CER Ministerial Forum: Joint Statement*, Canberra, 23 June 2010, [http://www.dfat.gov.au/fta/anzcerta/cer\\_communique\\_2010.html](http://www.dfat.gov.au/fta/anzcerta/cer_communique_2010.html), accessed 14 October 2010.

11 Andinas Media Release, *Peru, Australia and the US want to join P4 group*, AND 205033, 20 November 2008, <http://www.andina.com.pe/Ingles/Noticia.aspx?id=BgPWDumZBL8=>, accessed 16 March 2010.

part in the negotiations has given the group the critical mass it needed to progress the discussions.<sup>12</sup>

- 5.12 The NZ Deputy High Commissioner noted the potential of the agreement and said that it had always been planned as a benchmark for an expanding regional trade architecture:

And we are, of course, rather pleased with that agreement because it has its origins in the Pacific Four Partnership that we struck with Singapore, Chile and Brunei in 2005.

We had always had it in mind back then that this would be a pathfinder agreement, that the P4 agreement would form the basis for an evolving regional architecture in the region, and we are really pleased that Australia has applied to join that agreement, along with the United States, Peru and Vietnam.

It is a very exciting development for a whole range of reasons...<sup>13</sup>

- 5.13 The first round of negotiations began in Melbourne on 15 March 2010. Australia's Trade Minister, Hon Simon Crean MP, called the discussions "a major milestone". He said that:

The Trans-Pacific Partnership represents a pathway toward achieving APEC's long-term goal of a Free Trade Area of the Asia-Pacific. ...The TPP will be an ambitious, 21<sup>st</sup> century agreement that will strengthen economic integration in the region

The Australian Government will be seeking a high standard, comprehensive agreement that complements the WTO Doha Round.<sup>14</sup>

- 5.14 The Minister commented that:

The participation of the US is an important signal of the Obama Administration's commitment to the region, and an encouraging sign of a broader US engagement on trade policy issues.

He said that the:

...negotiators will explore new approaches to the obstacles facing businesses in the region, particularly in emerging sectors and

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12 The Hon Simon Crean, Minister for Trade, *The Trans-Pacific Partnership – Moving Forward*, Media Release, 14 November 2009.

13 New Zealand Deputy High Commissioner, Committee Hansard, 10 March 2010, p. 5.

14 The Hon Simon Crean, Minister for Trade, *Pushing forward with the Korean FTA and the Trans-Pacific Partnership*, Media Release, 15 March 2010.

growing areas in international trade, including services, e-commerce and green technology.<sup>15</sup>

- 5.15 In evidence given to the Sub-Committee DFAT set out the purpose of the agreement and its long-term aims:

The aim of this agreement is to put in place a comprehensive high-quality agreement that we hope will form a building block for greater regional economic liberalisation and integration. It is one possible pathway towards a free trade area of the Asia Pacific but by no means the only one. It is an agreement by a group of countries who are interested in taking a high-quality approach to these agreements and exploring ways in which we can be responsive to business needs in the 21st century.<sup>16</sup>

- 5.16 Some commentators in the US are more sceptical of the possibilities. An article by the Cato Institute's Sallie James commented:

Four of the seven TPP partners, for example, already have a free trade agreement with the United States. The other three are relatively small markets – and are already attracting criticism from domestic lobby groups concerned about competition from imports.<sup>17</sup>

- 5.17 The author went on to say:

Free trade in dairy products from New Zealand, for example, could bring significant benefits to U.S. consumers paying through the nose for dairy products. Alas, though, the dairy farmers and their sponsors in Congress have already stepped up the fight to protect their turf. Similarly, the textile lobby has warned that textile and apparel from Vietnam would not be welcome.<sup>18</sup>

- 5.18 Australian commentators were more hopeful; for example, Kristen Bondiotti at ITS Global commented:

The decision of the Obama Administration to participate indicates a clear intention to engage on trade in the Asia-Pacific region. It

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15 The Hon Simon Crean, Minister for Trade, *Pushing forward with the Korean FTA and the Trans-Pacific Partnership*, Media Release, 15 March 2010.

16 Department of Foreign Affairs and Trade, Committee Hansard, 25 November 2009, p. 6.

17 Sallie James, *Keep Trade on the Back Burner, Please*, CATO Institute, 17 March 2010, p. 1, [http://www.cato.org/pub\\_display.php?pub\\_id=11578](http://www.cato.org/pub_display.php?pub_id=11578), accessed 19 March 2020.

18 Sallie James, *Keep Trade on the Back Burner, Please*, CATO Institute, 17 March 2010, p. 1, [http://www.cato.org/pub\\_display.php?pub\\_id=11578](http://www.cato.org/pub_display.php?pub_id=11578), accessed 19 March 2020.

will give new weight to the negotiations and provide impetus for progress by 2011, when the US will host APEC.

It should encourage over time, broader membership from important economies in the region, including China, Korea, Japan, Malaysia and other ASEAN countries.

The TPP has been touted as a possible platform for an FTA involving all APEC members. It will build on the Trans Pacific Strategic Economic Partnership Agreement (P4) among Chile, New Zealand, Singapore and Brunei to include Australia and Peru, as well as the US and possibly Vietnam. The P4 ... is generally regarded as a comprehensive and high quality free trade agreement. Indeed, one of the objectives in negotiating it was to create an FTA that could be seen as a model within the Asia-Pacific region and could potentially attract new members.<sup>19</sup>

- 5.19 The Sub-Committee considers that this agreement has the potential to close some of the gaps in Pacific relationships and, in time, to integrate closely with the aims and activities of APEC.

## **PACER Plus**

- 5.20 For the last two years the Australian and New Zealand Governments have been consulting with Pacific Island leaders about a proposed new trade and economic integration agreement for the Pacific region.
- 5.21 Australia and NZ have offered tariff concessions and marketing assistance to the nations of the Pacific Islands Forum for many years; under SPARTECA.<sup>20</sup> The intention is, however, that the proposed agreement will go much further, by seeking to address issues that are of particular importance to the island nations but are not covered by SPARTECA.
- 5.22 In announcing the decision to commence negotiations, the then Minister for Trade, the Hon Simon Crean, said that the aim of the agreement would be to promote economic sustainability in the region. He noted that

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19 Kristen Bondietti, Principal Consultant, ITS Global, *The Trans Pacific Partnership FTA – Setting Standards for Economic Integration*, APEC Currents, The Australian APEC Study Centre, RMIT University, Melbourne, Issue 1, March 2010, p. 1.

20 The South Pacific Regional Trade and Economic Co-operation Agreement.

eighteen months of consultations had been undertaken to ensure that the matters of concern to the islands were dealt with.<sup>21</sup>

5.23 The Minister gave several examples of major difficulties faced by the Forum Islands in trading with the Australian and NZ markets. He noted that:

- compliance with strict quarantine requirements is an issue for several nations;
- development of a consistent set of rules of origin would be of benefit to the entire region;
- improvement of aviation links would be of great assistance to tourism;
- liberalisation of the telecommunications industry is a priority area, particularly for business;
- region-wide labour mobility has been a very high priority for some years now; and
- the development of technical skills is essential if the island nations are to gain full benefit from the large infrastructure projects now being established in the region.<sup>22</sup>

5.24 During the inquiry, the Sub-Committee heard evidence from the Pacific Islands Trade Commissioner, who represents the Pacific Islands in Sydney and seeks to encourage trade and investment links with Australia:

The Pacific Islands Trade and Investment Commission, or PITIC, as it is commonly referred to, is one of four trade offices of the Pacific Islands Forum Secretariat. The forum is based in Fiji and is the region's premier political and economic policy organisation, representing the 14 Pacific Island nations as well as Australia and New Zealand.

PITIC Sydney is tasked with the promotion of trade and investment between Australia and the Pacific. We encourage trade from the Pacific to Australia and promote investment from Australia back to the Pacific. ... PITIC is the leading agency that focuses on delivering export and investment facilitation services across key industry sectors, which include agriculture, fisheries, general goods and limited services.

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21 The Hon Simon Crean MP, Minister for Trade, Commencement of PACER Plus Negotiations, Transcript of Ministerial Statement, 18 August 2009, p. 2.

22 The Hon Simon Crean MP, Minister for Trade, Commencement of PACER Plus Negotiations, Transcript of Ministerial Statement, 18 August 2009, p. 2.



We work in tourism promotion, and this year we have also begun to do a bit of export facilitation in the creative arts, which is important to the region. We also work in the complex area of investment promotion and facilitation.<sup>23</sup>

## Capacity Building

- 5.25 In a Ministerial Statement to the Parliament, the Minister said that, rather than being a commercial agreement, the main emphasis of the new agreement will be on capacity building in the Pacific:

Quite frankly, from the point of view of trade, Australia is not primarily pursuing the PACER Plus agreement from the perspective of commercial benefit. Australia's primary objective with PACER Plus is a more sustainable and prosperous Pacific – an aspiration that I am sure we all share.

To not address these aspects of capacity building could easily result in not only underperformance or stagnation but failed states. This objective is born out of all of the evidence that demonstrates that prosperity can be secured by countries engaging effectively with trade.<sup>24</sup>

- 5.26 The New Zealand Deputy High Commissioner offered similar comments to the Sub-Committee:

We should not forget the fact that Pacific island countries already have duty-free and quota-free access to New Zealand and Australia. This agreement is no longer about a traditional free trade agreement; it is no longer about a knockdown, drag-you-down fight around tariff removal, because we are tariff-free to them.

What it is actually about – and your Prime Minister and your Minister for Trade have talked in some detail about what this might comprise – is putting economic sustainability at the core of this negotiation. It is about us thinking very hard and creatively about the trade and development nexus that we need to confront with the Pacific. If you like, this is about a hand up, not a handout in the agreement.<sup>25</sup>

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23 Trade Commissioner, South Pacific Trade and Investment Commission, Committee Hansard, 28 October 2009, p. 2.

24 The Hon Simon Crean MP, Minister for Trade, Commencement of PACER Plus Negotiations, Transcript of Ministerial Statement, 18 August 2009, p. 3.

25 New Zealand Deputy High Commissioner, Committee Hansard, 10 March 2010, pp. 3-4.

- 5.27 He added that some examples of ways in which Australia and New Zealand might assist the Pacific economies, not only in trade with our two countries but also in creating new opportunities within their own economies:

What ministers have been talking about that I think is of the greatest interest is the capacity building process, in other words development assistance. It is not going to be just development assistance in its traditional form. This is going to be development assistance that is designed to build capacity to take advantage of the trade agreement.

To give you a couple of practical examples, in the case of New Zealand some time ago we established a particular section in the Ministry of Agriculture that would process requests from Pacific island countries on quarantine questions as a priority. That was one way to try to assist them and to help them directly. You could see a process whereby you would have a New Zealand quarantine or MAF official working directly with the Pacific island counterparts on tropical fruit access to the New Zealand market, to try to help them establish the kind of mechanisms they need. Remember that these are going to be very small, not even medium sized, enterprises that are going to do this.

The other interesting question is going to be building capacity around servicing the local economy as well. You could see, for example, scope for local tropical fruit producers to increase the quality of production domestically to provide for the hotel services trade. I think you will be as surprised as I was to learn that many hotels in the region simply do not have a secure supply of products, so they rely on getting products from outside of the direct region. You can see that there is a little niche capacity there to build up.

Around tourism services, for example, we could look to provide targeted specific assistance to help them maximise the benefit of tour groups that come through. I could see a way in which our two countries, our trade promotion agencies, are thinking about how they might work together to bring, for example for the Rugby World Cup, when you have visitors coming to New Zealand as to how is the Australian trade promotion authority looking to talk to us about how they might bring them over to Australia as well. We have had a long-running tradition of trying to get people that come to visit Australia to nip across the ditch to come and see us

in New Zealand. We could envisage a way of extending that by adding one or other of the Pacific islands on to that process as well.

I think there is a real, keen interest on the part of Pacific island countries to look at what that capacity building is going to look like, but that kind of dialogue cannot be just a one-way conversation. It has got to be one where they also are clear about the kind of things that they need and where they would most benefit, but we would be very clear that this kind of capacity building is designed to help them leverage the benefits of economic integration and this kind of free trade agreement.<sup>26</sup>

- 5.28 The Pacific Islands Trade Commissioner commented in his evidence to the Sub-Committee that the proposals for PACER Plus go well beyond what is offered under SPARTECA:

SPARTECA is clearly just a free trade agreement between the Pacific Islands and Australia to import tax-free goods. The exporters we work with take advantage of SPARTECA. PACER Plus is more of a creative regional cooperation agreement which will encompass a lot of other factors rather than looking solely at the trade elements. If you read between the lines, it will incorporate the labour issue. It will incorporate the delivery of aid. It will touch on capacity building as well, and a whole lot of other issues that need to meet WTO guidelines will come together. It is a regional agreement but it obviously has a free trade agreement style to it.

Many of the countries do not have the expertise and experience to negotiate their position. The Office of the Chief Trade Negotiator, which hopefully will be in place by the end of the year, will have many challenges in bringing the 14 forum island countries to an informed position.<sup>27</sup>

- 5.29 One of the important aspects of capacity building highlighted by the Minister is the capacity of the islands to effectively negotiate their position in discussions about the agreement. This will be addressed in two ways:
- by providing appropriate technical capacity building and support to enable the Forum Islands to fully participate in the negotiations; and

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26 New Zealand Deputy High Commissioner, Committee Hansard, 14 April 2010, pp. 10-11.

27 Trade Commissioner, South Pacific Trade and Investment Commission, Committee Hansard, 28 October 2009, p. 13.

- Australia and NZ will provide \$500,000 a year each for three years to fund the Office of the Chief Trade Adviser (OCTA).<sup>28</sup>

5.30 The OCTA will be based in Vanuatu and will “... provide independent support and advice to Forum Island countries over the course of the negotiations”. The Minister said that OCTA’s independence was guaranteed and that it was also encouraged to seek additional funding from other sources.<sup>29</sup>

5.31 The South Pacific Trade Commissioner, however, indicated that a lack of information on the anticipated benefits to the Islands is posing real problems:

I think that there is still a real lack of information out there about what the potential benefits of this agreement would be, or of free trade agreements in general. But, as I said previously, PACER Plus is being positioned as a regional agreement encompassing many other things now. As alluded to, I am not sure whether the public sector has had the opportunity to fully inform the private sector in a lot of the Pacific Island countries as well, and so more time is needed. It is very challenging.

In terms of trading, a lot of these countries do not have the capacity to take advantage of the agreement, as they have not taken full advantage of SPARTECA. I think that we have to look historically and look at what is happening with the EPA negotiations and with the other negotiations. I think that it all gets back to the capacity to take advantage of these agreements.<sup>30</sup>

5.32 When asked if some of the problems were based on the likely loss of Customs revenue, he said:

That is right. I think that is where most of the fear is. It is a real fear. A lot of these countries rely heavily on that revenue. As I pointed out, I do not think the world is going to change and suddenly start creating trade surpluses with Australia and other countries, so that imbalance will always exist. But that comes at a

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28 The Hon Simon Crean MP, Minister for Trade, Commencement of PACER Plus Negotiations, Transcript of Ministerial Statement, 18 August 2009, p. 3.

29 The Hon Simon Crean MP, Minister for Trade, Commencement of PACER Plus Negotiations, Transcript of Ministerial Statement, 18 August 2009, p. 3.

30 Trade Commissioner, South Pacific Trade and Investment Commission, Committee Hansard, 28 October 2009, p. 14.

later stage in the negotiations, when the countries get down to the nitty-gritty and talk about the harmonised tariff codes.<sup>31</sup>

## Rules of Origin

- 5.33 The NZ Deputy High Commissioner also referred to a problem faced by the Pacific Islands in taking advantage of the duty-free access offered to their products:

There is one thing that I think we forget about that is very important to Pacific island countries, and that is the rules of origin. Many Pacific island countries have complained that it has all been fine to have duty free and quota free access to the New Zealand and Australian markets, however ... their production processes and facilities are simply unable to take advantage of this duty free access that they have to the New Zealand market or to the Australian market because the rules of origin are so out of date.

If you compare, for example, the rules of origin that we have agreed with ASEAN countries, which includes some least developed countries – Laos, which is not even in the WTO, Cambodia and Burma – those countries have better rules of origin applying to them entering the Australian and the New Zealand market than the Pacific island countries currently do. That is obviously something that Pacific island countries could legitimately expect us to fix for them.

We would need to make more facilitating rules of origin for them. We would update the way in which SPARTECA handled rules of origin. In effect, it has not. What we would look to do is make those more liberal and that would allow Pacific island countries to actually get the benefit that we have given them for such a long time that they have not been able to take advantage of. Rules of Origin is a really important element of that negotiation.<sup>32</sup>

- 5.34 The Sub-Committee sought further clarification on the question of Rules of Origin and the Deputy High Commissioner added:

Essentially, a rule of origin would apply whereby you would produce a certain amount of a product in a Pacific island country and you would qualify for the duty free access.

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31 Trade Commissioner, South Pacific Trade and Investment Commission, Committee Hansard, 28 October 2009, p. 14.

32 New Zealand Deputy High Commissioner, Committee Hansard, 14 April 2010, p. 10.

At the moment you could have a situation where a product comes from outside the region, say China or Japan, a certain amount of value is added in the Pacific, but it is unable to qualify for the current rules of origin for the duty free access, so it has to go under the WTO rate. For example, in textile, clothing and footwear, in the case of New Zealand – and I know you are in a very similar situation – you are talking about tariffs in excess of 10 per cent. Even if they can add a little bit of value in the Pacific they are not able to benefit from the lower duty.

The idea of the rules of origin would be to try to facilitate that so that you get that kind of access. We can ask ourselves a question about whether or not textile, clothing and footwear is really where the comparative advantage of Pacific island countries lies or whether it is somewhere else. Regardless of what we think, it is the rules of origin that determine whether a product qualifies for that lower duty or whether it has to come in under the WTO standard rate that applies for China, India and any other country that comes through.<sup>33</sup>

## Labour Mobility

5.35 Another problem that has worried the islands for many years is the question of labour mobility:

[Another] area that I know is a sensitive one is, of course, regional mobility, labour mobility. New Zealand has a longstanding set of arrangements with a number of Pacific island countries. I know you have something similar, perhaps of a slightly different type. It will be those kinds of things that Pacific island countries will be looking to because of the value of remittances, because of the way in which you can upskill your labour force, how you bring them back and how that capacity building can help.

Those would be my three things that I would identify: the rules of origin in a really practical way, the trade and development angle with this building capacity question, and then of course regional mobility has to be at the heart of this negotiation from the perspective of the Pacific island countries.<sup>34</sup>

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33 New Zealand Deputy High Commissioner, Committee Hansard, 14 April 2010, pp. 11-12.

34 New Zealand Deputy High Commissioner, Committee Hansard, 14 April 2010, p. 11.

## Submission on Women's Issues

- 5.36 A submission by the International Women's Development Agency (IWDA) commented that an important aspect of the PACER Plus negotiations will be the willingness of governments to:

...systematically integrate gender into trade analyses and approaches to negotiation. Regional economic policy needs to be aligned with regional and national gender equality commitments to contribute to equitable development.<sup>35</sup>

- 5.37 Failure to do this, the IWDA said:

...may result in women being disproportionately excluded from economic opportunities created by trade liberalisation. At the same time women will carry an unequal burden of trade adjustment costs, exacerbating prevailing gender inequalities.<sup>36</sup>

Special steps to promote women's participation in consultation processes are necessary given their marginalisation in the private sector and poor representation at government levels.

Given the isolation and geographic dispersion of populations in Pacific island countries and the marginalised position of women in society, genuine consultation will require the creation of a safe space for women to be able to speak out and adequate time for hosting meetings in rural areas and then collating and analysing data. Negotiation time frames should be developed with this in mind, and governments should be encouraged.<sup>37</sup>

- 5.38 In giving evidence to the Sub-Committee the Executive Director of the Agency said that while her comments were particularly relevant to the proposed PACER Plus Agreement the comments have a more general application:

What I say here, though, can be applied equally to the development of FTAs with other developing countries. There is a real chance for Australia to step up and create a best-practice model.<sup>38</sup>

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35 International Women's Development Agency, Submission 45, p. 5.

36 International Women's Development Agency, Submission 45, p. 6.

37 International Women's Development Agency, Committee Hansard, 2 June 2010, p. 4.

38 International Women's Development Agency, Committee Hansard, 2 June 2010, p. 1.

- 5.39 The Executive Director commented that unless proper steps are taken to ensure that women can participate in programs arising from trade agreements, they may, in fact, finish worse off than before the agreement:

Trade relations can promote new business development and job opportunities and can favourably impact on the price of goods due to increased competition.

However, if women are not equally placed to access economic opportunities or share in the benefits of these opportunities – so if they have limited mobility, training and skills and if imported goods impact on women’s limited livelihood opportunities without providing alternative options and if it cuts into tariff revenues that affect health and social spending with disproportionate impacts on women and children – not only will women bear the burden of adjustment costs but also they could be further marginalised in social, economic and political life with implications for their and their children’s health, status and life experience and, consequently, for the development of their country.<sup>39</sup>

- 5.40 The IWDA noted that the countries involved are signatories of the Convention on the Elimination of All Forms of Discrimination Against Women:

This convention recognizes the rights of women to economic equality and commits signatory governments to take steps to address inequalities through social and economic policy. These nations have also made commitments to achieving the Millennium Development Goals, which call for gender equality and the empowerment of women: a goal widely regarded as a necessary prerequisite to achieving the remaining seven goals.<sup>40</sup>

- 5.41 The Agency said that failure to address gender issues, particularly in the Pacific, could undermine the advantages created by an agreement:

In the Pacific, gender inequality affects women’s engagement in formal and informal economies. Significant wage gaps exist between women and men. Work opportunities are often segmented by sex, and women face discriminatory government policies and social norms when trying to access business finance, licences and networks.

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39 International Women’s Development Agency, Committee Hansard, 2 June 2010, p. 2.

40 International Women’s Development Agency, Submission 45, p. 5.



With limited decision-making rights and limited mobility and time due to responsibilities for household and caregiving work and subsistence food production, women's opportunities to engage in paid work are often limited to flexible yet insecure informal sector work. Also, much of what is important to poor people, and especially to poor women, is invisible to conventional analysis and data collection.<sup>41</sup>

5.42 The IWDA said that "DFAT is in a unique position to be able to drive an innovative process that links economic development objectives to gender equality in the Pacific". It concluded by recommending some initial steps toward achieving gender equality:

- Support the gender analysis of trade policy options at a national level through direct funding provision to national governments, regional NGOs or bodies such as the Pacific Islands Forum Secretariat.
- Support an inclusive approach to the region's future development that involves the input of diverse voices in civil society, faith groups, unions and government. Given the isolation and geographic dispersion of populations in Pacific Island countries, and the marginalised position of women in society, genuine consultation will require the creation of a safe space for women to be able to speak and adequate time to host meetings in rural areas and then collate and analyse data.
- Work with AusAID to support the strengthening of women's machineries and each National Council for Women (or other appropriate agencies) to engage in discussions with trade departments on trade analysis.
- Integrate gender analysis into all Aid for Trade activities including research initiatives, fellowship programs and any future activities.
- Ensure that gender is integrated into the negotiation agenda and processes.<sup>42</sup>

5.43 The Executive Director summarised her arguments by saying:

... in order ultimately to address ...gender inequality and reduce or mitigate negative impacts of trade and maximise opportunities for women to engage in economies, we need to look at women's substantive role in economies – both monetised and otherwise – and how trade will impact on their roles, responsibilities and

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41 International Women's Development Agency, Committee Hansard, 2 June 2010, p. 2.

42 International Women's Development Agency, Submission 45, p. 6.

opportunities. This requires that we take a gendered approach from the outset.

Integrating gender into trade policy development and negotiation processes not only serves as an essential step in promoting efficient and effective economic policy but also ensures policy coherence between trade and aid objectives and provides the opportunity for the Australian government to model best practice in the sector. The recommendations identified have relevance across the Australian government's entire trade program.

Attention to gender in trade is a rights issue as well as an efficiency issue. Policies which improve women's access to and control over economic and financial resources have direct implications for both women's economic empowerment and broader processes of development. Locating those policies within a framework of rights ensures that women's access to resources is made part of their entitlements as citizens rather than left to the largesse of the state, the discretion of male providers or the vagaries of the market.<sup>43</sup>

5.44 The Sub-Committee discussed the IWDA comments with a representative of AusAID, who indicated that in quite a few of the areas mentioned, AusAID is already incorporating the ideas outlined by the IWDA and giving due recognition to gender issues. For example, AusAID has funded research on PACER Plus and its potential effects on each Forum Island country.<sup>44</sup>

5.45 That said, however, Australia can only suggest that gender issues be included:

The terms of reference for those studies are determined by each country. ...clearly for reasons of confidentiality we do not dictate directly what issues that research covers but we can certainly be suggesting that gender issues could be included. We also do not see the final product unless countries are keen to give that to us.<sup>45</sup>

5.46 AusAID continued by outlining some of the areas where gender issues are being kept to the forefront:

There has been agreement among forum trade ministers that there will be an annual consultation process with regional non-state

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43 International Women's Development Agency, Committee Hansard, 2 June 2010, p. 4.

44 Committee Hansard, 3 June 2011, p.12.

45 Committee Hansard, 3 June 2011, p.12.

actors, which effectively means non-government organisations and the private sector. There was one of those meetings in Honiara ...AusAID was represented also. There is an intention to hold another such consultation at the next PACER Plus negotiating meeting, which is tentatively set for November this year.

At the one in the Solomon Islands a number of non-government organisations, including women's groups, were represented. So at that regional level there is an opportunity for women's groups to be involved. At the national level we are certainly very consistently supporting the intent of governments to conduct national consultation. ...we are consistently emphasising to countries that this is an important ongoing process and that there need to be widespread consultations including all elements of society – which would include, of course, women's interests as well.

We are also doing quite a lot of work on leadership programs. The impacts of trade or PACER Plus in particular on outcomes for women really depends to a large extent on the broader way in which women's and men's roles are there in each Pacific country. That varies across countries, of course. But we are working on a number of broader programs including on leadership issues. I believe the statistics in terms of women's participation in political leadership are quite stark. For instance ... Several countries have no female representation at the political level at all. So a number of leadership programs are under way that address those sorts of issues.

On the broader economic empowerment and private sector development side, we are also involved both through having done detailed studies and in partnership with the International Finance Corporation, which is quite active in private sector development in the region. They have done studies on our behalf of the constraints to women's involvement in economic activity in the Pacific.<sup>46</sup>

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46 Committee Hansard, 3 June 2011, p.12.

## Recommendation 15

**The Sub-Committee expressed its satisfaction that AusAID has given some emphasis to gender issues in negotiations with the Pacific Islands Forum countries. It proposes that these issues should continue to be advanced by DFAT and AusAID as a priority.**

5.47 AusAID's representative appearing before the Sub-Committee was asked for some comments on the issues raised by the IWDA. In general, the comments indicated that AusAID agreed with the proposals and, in fact, was already applying a number of them:

We note that that submission made a number of recommendations focusing in particular on the potential gender implications of the PACER Plus negotiations. For example they recommended provision of funding to national governments, regional NGOs or the Pacific Islands Forum secretariat for independent research studies.

They recommended wide consultation on trade issues, particularly in relation to PACER Plus, strengthening national bodies such as councils for women to engage in trade discussions; ensuring that gender is taken into account in all trade related aid activities, including research and fellowships; and integrating gender into the negotiation agenda and processes.

I guess in a nutshell AusAID's response to the IWDA submission is that we agree on the importance of gender issues in relation to trade issues specifically and economic empowerment issues more broadly and we are already undertaking the types of activities that the IWDA recommends. Certainly in terms of our approach to gender in development more broadly the Australian government is committed to implementation of the Millennium Development Goals. As you would be aware, of course, gender equality is central to achieving those goals.

Trade policy is one of many factors that impact on the ability of men and women to participate in and benefit from economic opportunities, both in the formal and the informal sectors. Australia and other donors are increasing understanding of these factors in the Pacific through a number of programs. Key gender priorities for Australia's international development assistance overall, including in the Pacific, are improved and equitable health and education outcomes for women, men, girls and boys; women's

participation in decision making and women's political empowerment; improved status of women; and reducing violence against women – which of course, along with the fear of violence, can limit women's social, political and economic participation in many communities.<sup>47</sup>

5.48 AusAID also gave some details of programs that incorporated issues of involving women's issues:

For example in relation to PACER Plus – in terms of gender analysis of trade policy options, we have provided funding for research on PACER Plus and the potential impacts of PACER Plus for each forum island country. That would include social and gender issues if those forum island countries were so to decide.

The terms of reference for those studies are determined by each country. As noted in the submission, clearly for reasons of confidentiality we do not dictate directly what issues that research covers – but we can certainly be suggesting that gender issues could be included. We also do not see the final product unless countries are keen to give that to us.

We are also providing funding to the Office of the Chief Trade Adviser, which has been set up specifically to provide confidential and independent advice to forum island countries. Again at the request of forum island countries, that office could commission or undertake research into issues associated with the PACER Plus negotiations, including possible gender issues.

That is one specific area where the submission recommended that research be carried out, and certainly there is a mechanism there to undertake research. The submission also recommended consultations. There has been agreement among forum trade ministers that there will be an annual consultation process with regional non-state actors, which effectively means non-government organisations and the private sector.<sup>48</sup>

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47 Department of Foreign Affairs and Trade – AusAID Representative, Committee Transcript, 3 June 2011, pp.11-12.

48 Department of Foreign Affairs and Trade – AusAID Representative, Committee Transcript, 3 June 2011, p.12.



## Other Free Trade Agreements

### **ASEAN-Australia-New Zealand Free Trade Agreement**

- 6.1 The Agreement establishing the ASEAN-Australia-New Zealand Free Trade Agreement (AANZFTA) was signed on 27 February 2009 and came into effect on 1 January 2010.
- 6.2 For Australia it is a unique agreement – the largest plurilateral agreement that Australia has signed outside the GATT/WTO. It is also our largest agreement overall. It is the first time Australia and NZ have jointly negotiated an agreement with other countries.<sup>1</sup> Australia, NZ and the ten countries of ASEAN<sup>2</sup> have a total population of around 600 million and an estimated GDP of \$3.1 trillion.<sup>3</sup>
- 6.3 The Department of Foreign Affairs and Trade (DFAT) noted in its submission, that the Agreement covers 20 per cent of Australia's total trade in goods and services (A\$112 billion in 2008). For ASEAN it is the most comprehensive agreement that the group has negotiated.<sup>4</sup>
- 6.4 DFAT explained that the Agreement offers:

...significant tariff reduction and elimination over time from the more developed ASEAN member countries and Vietnam,

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1 Kristen Bondietti, Australian APEC Study Centre, *ASEAN, Australia and New Zealand FTA: Setting New Standards in the Region*, APEC Currents, Issue 1, October 2009, p. 1.

2 ASEAN members are: Burma, Brunei Darussalam, Cambodia, Indonesia, Laos, Malaysia, the Philippines, Singapore, Thailand and Vietnam.

3 Department of Foreign Affairs and Trade, Submission 40, p. 38.

4 Department of Foreign Affairs and Trade, Submission 40, p. 38.

including tariff elimination on between 90 and 100 per cent of tariff lines in each country covering 96 per cent of current Australian exports to the region.<sup>5</sup>

- 6.5 The NZ Deputy High Commissioner agreed with these assessments of the importance of the AANZFTA. He also expressed satisfaction about the way Australia and NZ were able to work together to achieve a significant outcome:

...there is no doubt that perhaps the most important agreement that we have done, and indeed we have done together, is the ASEAN Australian New Zealand free trade agreement with the tongue twisting acronym of AANZFTA.

It is a very significant agreement: 600 million people, which basically makes it the third largest grouping of populations in the world after China and India. It has a combined GDP of more than \$1.9 trillion and accounts for more than \$1.7 trillion of global trade. Two-way trade for us makes ASEAN our second most important market internationally.

It is a critical partner of ours, and most importantly perhaps it is our fastest growing – not only is it No. 2, but it is our fastest growing. It exceeds \$12 billion per annum in annual two-way trade and has more than 121 per cent growth, so it is very significant for us.

That is serious money, that is a serious opportunity, and what is very encouraging is the way in which Australia and New Zealand are working together. Not only did we work together in the negotiations to finish the agreement, but we are also working together to leverage those benefits from the agreement back into our economies. So Austrade and New Zealand Trade and Enterprise, those two bodies around trade promotion, have an active strategy to try to leverage these benefits back for us.<sup>6</sup>

- 6.6 The effect of the AANZFTA is to immediately bind the 2005 applied tariff rates “for all but a few lines”. This is significant because the WTO bound rates for ASEAN countries are generally much higher than the applied rate. The result is continuity and certainty of access for Australian exporters and, as the rates are phased down and eliminated, greater opportunities in the future.<sup>7</sup>

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5 Department of Foreign Affairs and Trade, Submission 40, p. 38.

6 New Zealand Deputy High Commissioner, Committee Hansard, 10 March 2010, p. 4.

7 Department of Foreign Affairs and Trade, Submission 40, p. 38.



- 6.7 An overview paper prepared by DFAT comments that:
- AANZFTA is most substantial in the goods area, reflecting the fact that ASEAN has done more internal integration on goods than in the non-goods areas.<sup>8</sup>
- 6.8 A review of the Agreement by Minter Ellison comments that the main market effects will be on trade with Malaysia (total two-way trade A\$14 billion in 2007-08), Indonesia (A\$ 10.8 billion) and Vietnam (A\$8 billion). The framework for trade with NZ will be unaffected; Australia already has FTAs with Thailand and Singapore; and trade with Brunei Darussalam, Cambodia, Burma, Laos and the Philippines, is small by comparison with the other ASEAN countries.<sup>9</sup>
- 6.9 DFAT considered that the outcome on services was good, based on the inclusion of “WTO Plus” services commitments for sectors such as: professional services, education, financial services, and telecommunications. The Agreement makes provision for temporary business entry to include not only suppliers of services but sales representatives and investors. It also includes better rules for intra-corporate transferees in some ASEAN markets.<sup>10</sup>
- 6.10 Minter Ellison’s overall assessment of the services and investment provisions was more subdued. The company rated market access for services as “modest, but nevertheless important”. It notes that, in general, the agreement achieves “standstill” on services, preserving existing protection levels; there is little “rollback” of those levels.<sup>11</sup>
- 6.11 On a more positive note, Minter Ellison notes that the Agreement provides certainty by binding protection levels against increases and establishes a framework for continued negotiations for reduction and removal of services trade barriers. Its assessment also comments that the commitment

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8 Department of Foreign Affairs and Trade, *The ASEAN-Australia-New Zealand Free Trade Agreement: Overview and Key Outcomes*, [http://www.dfat.gov.au/trade/fta/asean/aanzfta/aanzfta\\_overview\\_and\\_outcomes.html](http://www.dfat.gov.au/trade/fta/asean/aanzfta/aanzfta_overview_and_outcomes.html), accessed 5 March 2010, p. 3.

9 Minter Ellison, *The ASEAN Australia New Zealand Free Trade Agreement: An Overview and Assessment*, Special Report, April 2009, p. 4.

10 Department of Foreign Affairs and Trade, Submission 40, p. 38; Minter Ellison, *The ASEAN Australia New Zealand Free Trade Agreement: An Overview and Assessment*, Special Report, April 2009, p. 8.

11 Minter Ellison, *The ASEAN Australia New Zealand Free Trade Agreement: An Overview and Assessment*, Special Report, April 2009, p. 8.

to “standstill” is more than ASEAN has agreed to in the WTO negotiations.<sup>12</sup>

- 6.12 Other provisions for the services sector allow Australia to request consultations if an ASEAN country offers better deals on services to another AANZFTA country – with the aim of having those conditions extended to Australia also. Minter Ellison comments that:

The practical effect of this probably will be negligible – Australia could ask its ASEAN partners to do that in any event – but the symbolic effect of including a MFN clause in the trade agreement is significant. It highlights that liberalising services on a non-discriminatory basis is a positive objective.<sup>13</sup>

- 6.13 Inclusion of an emergency safeguard provision is more worrying. It only allows an ASEAN country to request consultations; but the aim of those consultations would be to allow that country to escape from a commitment made in the Agreement.<sup>14</sup>

- 6.14 DFAT’s assessment of the investment provisions indicates that the Agreement provides greater transparency and certainty for Australian investors. It also establishes an investor-state dispute resolution mechanism.<sup>15</sup>

- 6.15 The transparency provisions cover measures such as minimum standards of procedural transparency; rights of review of administrative decisions; and rights to make prior comments before new measures are adopted. The Agreement provides for the establishment, within five years, of a work program to develop market access schedules; covering pre-establishment issues such as foreign equity limits, subject to the agreement of the parties.<sup>16</sup>

- 6.16 The Australian APEC Study Centre’s analysis noted that:

In a first for ASEAN, provisions to liberalise investment form an integral part of the agreement alongside those for goods and services. Parties agreed not to discriminate among ... investors and investments and to prohibit performance requirements for them.

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12 Minter Ellison, *The ASEAN Australia New Zealand Free Trade Agreement: An Overview and Assessment*, Special Report, April 2009, p. 8.

13 Minter Ellison, *The ASEAN Australia New Zealand Free Trade Agreement: An Overview and Assessment*, Special Report, April 2009, p. 8.

14 Minter Ellison, *The ASEAN Australia New Zealand Free Trade Agreement: An Overview and Assessment*, Special Report, April 2009, p. 8.

15 Department of Foreign Affairs and Trade, Submission 40, p. 38.

16 Department of Foreign Affairs and Trade, Submission 40, p. 38.

Annexes set out the sectors and activities which are exempted from these obligations.<sup>17</sup>

6.17 Minter Ellison comments that, unlike the AUSFTA, the AANZFTA does not impact on Australia's Foreign Investment Review Board's thresholds. It also adds that Australia and NZ have excluded the investment and dispute settlement rules for matters between themselves.<sup>18</sup>

6.18 The New Zealand Deputy High Commissioner said that he expects that the agreement will signal increases in services trade in investment:

There was one additional comment that I wanted to add on the shifting pattern of trade, and that was to mention where I would expect there to be an increase in trade is around the services and investment flows because, through the ASEAN-Australia and New Zealand FTA, there is now an investment chapter which provides real security of investment for Australian and New Zealand investors. That is better than anything that New Zealand had in place before the agreement was signed, so there is some real certainty now for a New Zealand investor putting an investment into those countries.

I think that is important in a facilitating way and I expect that part of the trade to change. I also expect services trade to change. For example, for New Zealand education services, environmental and engineering services are real priorities. Some of the benefits that we got out of the ASEAN FTA and also out of the Malaysia FTA would give our two countries some competitive advantages compared to other services suppliers. Again, I would expect a modest, but important, shift into that part of the trade.<sup>19</sup>

6.19 Other features of the Agreement are:

- Provisions on Intellectual property. It mainly reinforces the obligations under the WTO agreement on Trade-related Aspects of Intellectual Property Rights (TRIPS Agreement), but also:
  - ⇒ extends the TRIPS requirements on copyright infringement, to include "cases where a person wilfully commits a significant infringement of copyright that is not committed for commercial

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17 Kristen Bondietti, Australian APEC Study Centre, *ASEAN, Australia and New Zealand FTA: Setting New Standards in the Region*, APEC Currents, Issue 1, October 2009, p. 1.

18 Minter Ellison, *The ASEAN Australia New Zealand Free Trade Agreement: An Overview and Assessment*, Special Report, April 2009, p. 8.

19 New Zealand Deputy High Commissioner, Committee Hansard, 14 April 2010, p. 13.

advantage or financial gain, but which has ‘a substantial prejudicial impact’ on the owner of the copyright”

⇒ adds a commitment that central government agencies will use only legitimate computer software and will encourage other regional and local government to do the same

⇒ requires the implementation of several measures to enhance the transparency and management of intellectual property rights.<sup>20</sup>

- Economic Cooperation. The Agreement provides for economic cooperation in the form of technical assistance and capacity building to assist developing ASEAN countries in implementing the FTA

⇒ Australia has committed up to \$20 million for these projects over a five year period.<sup>21</sup>

6.20 In anticipation of the completion of this agreement, Austrade restructured its representation in the ASEAN area into regional industry teams. Each Senior Trade Commissioner and Trade Commissioner now leads one of these teams, which complement Austrade’s industry coverage in Australia. Austrade estimates that:

Based on the results from the Singapore-Australia FTA (SAFTA) and the Thailand-Australia FTA (TAFTA) where export figures practically doubled after implementation, it is anticipated that AANZFTA will deliver similarly substantial export growth.<sup>22</sup>

6.21 Austrade also indicated that a commercial strategy was being prepared to:

...identify by industry sector which countries offer key opportunities to ensure Australian companies are informed and are able to make the most of the window of opportunity offered by AANZFTA<sup>23</sup>

6.22 The analysis by the Australian APEC Study Centre concluded:

The agreement also adopts a more simplified structure than many of ASEAN’s other FTAs, to the benefit of traders, investors and governments. It minimises some of the complexity associated with multiple “tracks” for liberalisation for different categories of products which have been adopted in FTAs with other trading

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20 Minter Ellison, *The ASEAN Australia New Zealand Free Trade Agreement: An Overview and Assessment*, Special Report, April 2009, p. 4.

21 Department of Foreign Affairs and Trade, Submission 40, p. 38.

22 Austrade, Submission 18, pp. 3 and 10.

23 Austrade, Submission 18, p. 10.

partners. AANZFTA limits commitments for all parties to two “tracks:” sensitive products are differentiated from “normal products” but are generally not excluded from tariff reductions. The need for differential commitments among parties at varying levels of development is recognised through lengthier time periods for tariff reductions. Transparency is achieved through specification of agreed reductions and timing for their implementation in schedules annexed to the agreement.<sup>24</sup>

6.23 The Sub-Committee asked the NZ Deputy High Commissioner whether he expected major changes in trade patterns under the influence of the new agreement. He commented;

Let me put it from the perspective of New Zealand. ASEAN is our second largest trading partner as a block. Australia is our most important trading partner. I do not expect that to change.

Where I do expect something of a change is perhaps a little bit of a move to distribute some of that trade across a broader set of the ASEAN countries. At the moment, for both of us, our focus has been particularly around Indonesia, Malaysia, Thailand and Singapore.

The interesting thing is going to be the extent to which this ASEAN-Australia and New Zealand FTA helps us get into new markets in a bigger way. We already have for instance a fast growing trade with Vietnam. I would expect Vietnam to be at the core of that. I would expect a modest, but growing, trade with countries like Cambodia and Laos and I would expect the trade with Malaysia to continue to expand fairly quickly too, especially as that economy grows.

With Indonesia there are some very particular benefits to the agreement. In terms of shifting the pattern of trade, I am not sure about that, for the simple reason that from New Zealand’s perspective – which is a little bit different to Australia – more than half the products that we ship to Indonesia are agricultural products. They are beef and dairy.

There is a limit to the amount we could produce so that even if tomorrow we got duty free access to Indonesia, we would not be flooding that market with dairy products or with beef because there are a whole set of other markets that we need to service and

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24 Kristen Bondiotti, Australian APEC Study Centre, *ASEAN, Australia and New Zealand FTA: Setting New Standards in the Region*, APEC Currents, Issue 1, October 2009, p. 1.

we would not have the kind of supply to really put into that market anyway, so I would not expect that to happen.

I remember with the China negotiations there was a concern on the part of the Chinese that this would shift the pattern of trade forever and that if they removed the 20 per cent tariff on skim milk powder that they would be flooded with New Zealand product.

I think the point we made to them was that, even if you geared up every single farm in New Zealand just to produce for China you would be producing less than 20 to 30 per cent of all of China's demand anyway. In the meantime we would not be servicing anywhere else in the world where we have some very high value markets to protect, not least against Australian competition.<sup>25</sup>

- 6.24 The Deputy High Commissioner said that the relationship with ASEAN could be central to our future ties to the Asia-Pacific region:

... whenever you think about the Asia-Pacific region, it is an inescapable fact that you have got ASEAN at its centre. Those 10 member countries have been very deft about the way in which they have ensured that they are the centre of gravity in the region.

They have been very clever in the way that they have negotiated with China, Japan, Korea, Australia and New Zealand; where in each case they have made sure that they are the centre of gravity. They are the magnet around which everyone else is building processes. TPP comes at them from another angle, pulling out some of their members, and clearly others are actively thinking about how they might engage in that.<sup>26</sup>

## Other FTAs Under Negotiation

### China

- 6.25 In 2003 Australia and China signed the Australia-China Trade and Economic Framework. As part of that agreement the two countries agreed

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25 New Zealand Deputy High Commissioner, Committee Hansard, 14 April 2010, p. 12.

26 New Zealand Deputy High Commissioner, Committee Hansard, 14 April 2010, p. 5.

to carry out a joint feasibility study to determine whether to begin negotiations for a bilateral Free Trade Agreement.<sup>27</sup>

6.26 The final report of the study, in March 2005, concluded that:

...an Australia-China FTA is feasible and, on balance, would substantially benefit both countries. Should both governments decide to enter into FTA negotiations covering goods, services, investment and bilateral cooperation as outlined in the study, it is recommended that the negotiations should begin as soon as possible.<sup>28</sup>

6.27 The first round of negotiations on the FTA was held in May 2005 and there have now been fifteen meetings. The most recent was held in June 2010. The DFAT update report on the latter meeting indicated that there were still a number of difficult and sensitive issues to be settled.<sup>29</sup>

6.28 The report said that:

On market access for goods there was a detailed discussion on both Australia and China's requests in agriculture and industrial products. ...There was also a further exchange of views on how to deal with China's sensitive sectors, in particular agriculture.

Further progress was made in the goods chapters with broad and productive discussions of trade in goods, rules of origin, sanitary and phytosanitary (SPS) issues, technical barriers to trade (TBT) and customs procedures.

Australia and China discussed possible elements to include in the text of the services and investment chapters. On services and investment market access, the two sides had a constructive and detailed exchange of views on ...investment, financial services and movement of natural persons...

Discussions were held on the institutional and framework, intellectual property and electronic commerce chapters ...

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27 Department of Foreign Affairs and Trade and China's Ministry of Commerce, Australia-China Free Trade Agreement Joint Feasibility Study, Final Report, Canberra, March 2005, p. 3.

28 Department of Foreign Affairs and Trade and China's Ministry of Commerce, Australia-China Free Trade Agreement Joint Feasibility Study, Final Report, Canberra, March 2005, p. 134.

29 Department of Foreign Affairs and Trade, Australia-China FTA Negotiations, Subscriber update: Fifteenth round of negotiations, July 2010, [http://www.dfat.gov.au/geo/china/fta/100706\\_subscriber\\_update.html](http://www.dfat.gov.au/geo/china/fta/100706_subscriber_update.html) accessed 1 September 2010.

Australia reiterated its interest in including provisions on government procurement and competition policy in the FTA.<sup>30</sup>

## Republic of Korea

- 6.29 In his evidence to the Sub-Committee, the NZ Deputy High Commissioner commented on the value of NZ's agreement with China and the significant impact it has had on their two-way trade:

Obviously, the New Zealand-China Free Trade Agreement that we signed has been a very significant agreement for us. To give you a sense of the figures that we are talking about, we have had an increase of \$1.1 billion worth of trade with China, and that has happened during a global recession. To put that in context for you, that is the equivalent for New Zealand of adding a market the size of Korea to our export profile. So in the space of one year since the FTA came into force we have added a market the size of Korea to our trading experience.

Supplementing that agreement, we concluded the FTA with Hong Kong late last year. That is the only FTA that Hong Kong has signed beyond the one that it has with China. It complements very nicely the agreement we have with China and recognises the fact that a lot of New Zealand companies operate out of Hong Kong, looking to get access to the Chinese market.<sup>31</sup>

- 6.30 In April 2008 a joint non-government study by ITS Global from Australia and the Korean Institute for International Economic Policy found that:

A free trade agreement between Australia and the Republic of Korea offers significant opportunities to further strengthen our highly complementary and growing bilateral trade and investment relationship, and deliver gains to both countries through closer economic integration.<sup>32</sup>

- 6.31 The then Minister for Trade said that the Government was committed to pushing ahead with the FTA and commented that:
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30 Department of Foreign Affairs and Trade, Australia-China FTA Negotiations, Subscriber update: Fifteenth round of negotiations, July 2010, [http://www.dfat.gov.au/geo/china/fta/100706\\_subscriber\\_update.html](http://www.dfat.gov.au/geo/china/fta/100706_subscriber_update.html) accessed 1 September 2010.

31 Committee Hansard, 10 March 2010, p.5.

32 Australia-Republic of Korea Free Trade Agreement Feasibility Study, Joint Study by ITS Global and the Korean Institute for International Economic Policy, 17 April 2008, Executive Summary, p. 5.



The study clearly shows there is scope for a high-quality Australia-Korea free trade agreement that comprehensively liberalises two-way trade in goods and services as well as investment.<sup>33</sup>

- 6.32 In a Statement to the Parliament on 10 March 2009, the Minister announced that agreement had been reached to commence negotiations for a Free Trade Agreement:

Following the completion of two rounds of officials-level preparatory talks in December last year, last week on 5 March 2009, the Prime Minister and President Lee announced that the two countries had agreed to launch FTA negotiations.

On the same day, I met my Korean counterpart, Kim Jong-hoon, and we have agreed to hold the first formal round of negotiations in May.<sup>34</sup>

- 6.33 The most recent comments by the Department of Foreign Affairs and Trade indicate that in the first five rounds of negotiations considerable progress has been made:

The fifth round of FTA negotiations between Australia and Korea was held in Canberra from 25 to 28 May 2010.

Real progress was again made at this round - both sides are clearly keen to see this negotiation through to conclusion as quickly as we can, and this has underpinned the constructive attitude both sides continue to demonstrate. Nevertheless, significant challenges remain in achieving improvements in Korea's goods market access offer, particularly on agriculture.

Overall, the majority of chapter texts have been effectively concluded, including on topics such as Technical Barriers to Trade (TBT), Sanitary and Phytosanitary Standards (SPS), Dispute Settlement, Customs Procedures and Trade Facilitation, and E-Commerce, although all chapter negotiations remain subject to the legal scrub process and the conclusion of the agreement as a whole.

In the lead-up to the fifth round, the two sides exchanged further clarifications regarding each side's respective goods market access interests. At the round, Australia continued to highlight the

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33 The Hon Simon Crean MP, Minister for Trade, Media Release, *Study Reveals Gains to Australia from FTA with Korea*, 22 April 2008, p. 1.

34 Minister for Trade, Hon Simon Crean MP, Ministerial Statement, *Australia-Korea Free Trade Agreement*, [http://www.trademinister.gov.au/speeches/2009/090310\\_korea\\_fta.html](http://www.trademinister.gov.au/speeches/2009/090310_korea_fta.html), accessed 12 October 2010.

improvements we need in Korea's goods offer, particularly for priority agricultural products. Korea similarly highlighted its interest in the elimination of Australia's tariffs on its priority industrial products.

The two sides continued with constructive exchanges on goods-related chapters. In addition to those chapter texts mentioned above, these include chapters on Trade in Goods, Trade Remedies and Rules of Origin. Despite the effective conclusion of some goods-related chapters, further discussion will be required in certain areas. The two sides also continued to discuss each side's proposals for enhanced cooperation in the agricultural, energy and mineral resources sectors.

We also had substantial discussions on various services and investment topics. Text negotiations in the five relevant chapters (Cross-Border Trade in Services, Investment, Financial Services, Telecommunications and Movement of Natural Persons) have moved close to conclusion in most areas. Before the round, the two sides exchanged revised services and investment market access requests, and the fifth round provided an opportunity to further discuss each side's priorities and sensitivities. Australia's requests have focused on sectors including financial services, telecommunications, professional services and education.

Negotiations on other chapters, including Intellectual Property Rights and Government Procurement, made further good progress. Both sides also exchanged and discussed initial government procurement market access offers, and this discussion will continue at future meetings.<sup>35</sup>

## Japan

6.34 In 2006 a joint study on ways of enhancing economic relations between Japan and Australia included an examination of the feasibility of a Free Trade Agreement. The Final Report from that study concluded:

... that a comprehensive and WTO-consistent EPA<sup>36</sup>/FTA would bring about significant benefits to Australia and Japan.<sup>37</sup>

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35 Department of Foreign Affairs and Trade, *Australia-Republic of Korea FTA: Overview of developments at the fifth round of negotiations*, 4 June 2010, [http://www.dfat.gov.au/geo/rok/fta/newsletter\\_100604.html](http://www.dfat.gov.au/geo/rok/fta/newsletter_100604.html), accessed 12 October 2010.

36 Economic Partnership Agreement.

- 6.35 This study followed the release in 2005 of a joint study of the costs and benefits of trade and investment liberalisation between the two countries, which found:

Overall, GDP and trade would increase in both countries as a result of liberalisation. The estimated magnitude of the macroeconomic gains varied between the studies, ranging from 0.66 per cent to 1.79 per cent for Australia's GDP in 2020, and between 0.03 per cent and 0.13 per cent for Japan's GDP in 2020.

In sectoral terms, it was found that the liberalisation would result in an increase of exports, production and labour in the majority of sectors on both sides. Output from Japan's manufacturing (both durable and non-durable), services, energy and mining sectors would all increase as a result of liberalisation, as would output from Australia's agriculture, manufacturing (both durable and non-durable), services and energy sectors.

On the other hand, a significant decrease in some of Japan's agricultural sectors would be observed. The most noticeable change (decline) in employment occurs in Japan's Agriculture and food sector, but it grows in other sectors of the economy.

In Australia, liberalisation was estimated to cause employment to grow in the non-durable manufacturing sector. Bilateral trade was estimated to increase considerably as a result of liberalisation. As may be the case with FTAs, the studies found that some of this increase in bilateral trade would be due to trade diversionary effects, which would have adverse impacts on third countries, such as US, EU, China and ASEAN.

- 6.36 Since then, 11 rounds of negotiations have been held on the Australia-Japan Free Trade Agreement. The most recent round was held in Canberra from 19-23 April 2010. The DFAT Newsletter reporting on the discussions, said that more than 50 sessions were held over the five days and that "steady progress was made".<sup>38</sup>

- 6.37 Speaking at a Japan-Australia Business Cooperation Committee FTA Symposium in June 2010, the former Minister for Trade said:

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37 Joint Consultative Committee, Joint study for Enhancing Economic relations between Japan and Australia, including the Feasibility or Pros and Cons of a Free Trade Agreement, Final Report, December 2006, p.18, [http://www.dfat.gov.au/fta/japan/study\\_group\\_report.pdf](http://www.dfat.gov.au/fta/japan/study_group_report.pdf), accessed 19 October 2010.

38 Department of Foreign Affairs and Trade, Australia-Japan Free Trade Agreement, Newsletter Update 11, [http://dfta.gov.au/fta/japan/newsletter\\_update\\_11.html](http://dfta.gov.au/fta/japan/newsletter_update_11.html), accessed 19 October 2010.

Australia and Japan can be proud of the growth we've achieved in our trade and investment relationship. It's therefore surprising that after 40 years we don't have an FTA (or Economic Partnership Agreement)

So we cannot afford to become complacent. While our economies are already highly integrated, there is more work to do. This is why Australia and Japan are pursuing a comprehensive Free Trade Agreement or Economic Partnership Agreement.

It will raise the bar. It will bring both economies to a new level of integration. And it will set the modern framework for our trade and economic relationship.

Steady progress has been made since negotiations began in 2007. Australia has agreed to include specific chapters of interest to Japan on food supply and energy and mineral resources. But we cannot shy away from the challenges that remain.

Australia appreciates the sensitivities and complexities of the Japanese agriculture system. Nonetheless, to be meaningful, an FTA must include agriculture. The ANZFTA agreement clearly demonstrated that we have the ability to address sensitivities. So we should not just focus on the difficulties.

The opportunities on offer through an FTA are huge, particularly in services and investment. And both countries can win from high-quality commitments on agriculture in the FTA. Implementing the FTA would be a powerful vehicle for change and it would deliver major benefits to the Japanese economy.

For our part, Australia has worked hard to reform its economy. Reform of some sectors has taken time and involved political pain. But the reforms have been worth the pain.

As a result of our reforms, Australia has continued to grow, both through the Asia Financial Crisis of the 1990s and, more recently, through the Global Financial Crisis. Australia understands that reform takes time. We stand ready to work with Japan to craft a commercially meaningful FTA that takes account of this dynamic.

My key message today is that we cannot let difficulties and sensitivities deter our efforts to forge a comprehensive agreement that expands opportunity. The liberalisation of trade and investment is not just about the two way flow of goods and services.

It would also serve to further encourage Australian and Japanese companies to work together in third country markets across the region – particularly through global supply chains and the use of public private finance to progress infrastructure development.

We are optimistic that Australia and Japan can deal with our respective sensitivities to conclude a high quality, comprehensive FTA which delivers enhanced opportunities for both countries. Timing is important. Australia considers a Japan-Australia FTA to be a critical pillar of our region's modern architecture.<sup>39</sup>

## Malaysia

6.38 In July 2004, Australia and Malaysia agreed to conduct parallel scoping studies on a possible Free Trade Agreement. In 2005, the Department of Foreign Affairs and Trade release the Australian study, which found:

An FTA would provide a basis for much stronger cooperation and further liberalisation on a wide range of issues. It would tend to encourage closer inter-agency cooperation between the two Governments. Possible areas of greater cooperation and/or further liberalisation include customs procedures, industrial technical barriers to trade, investment, the movement of natural persons, electronic commerce, competition policy, intellectual property, and government procurement. Cooperation in these areas would substantially increase the gains from an FTA for both countries.

A free trade agreement is consistent with the broader policies being pursued by both countries. For Australia, an FTA would deepen its integration with the ASEAN economies, building on agreements negotiated with Singapore and Thailand. It would help to promote Australia's commercial interests in Malaysia as it liberalises trade on a preferential basis with other economies, including in the region. It would serve to complement and reinforce liberalisation efforts in the regional and multilateral arena. More generally, an FTA with Malaysia would strengthen the broader bilateral relationship.

For its part, Malaysia would benefit from a closer relationship with the fourth largest economy in the region, and one of the most strongly performing developed economies over the last decade.

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39 Minister for Trade, The Hon Simon Crean MP, *Australia and Japan – Seizing Opportunities*, Japan-Australia Business Cooperation Committee FTA Symposium, Tokyo, 7 June 2010, pp. 4-5.

Malaysia's attractiveness as an investment destination would increase, particularly if it were to liberalise further its investment regime and make it more attractive to business.

The study concludes that the case for a free trade agreement with Malaysia is very strong. Accordingly, it recommends that Australia seek to enter into negotiations with Malaysia to establish a comprehensive and WTO-consistent free trade agreement.

On goods, any FTA should cover all tariff and non-tariff measures. It should address comprehensively impediments in services sectors, including education, professional services, telecommunications and financial services. There would also be significant benefits from steps to strengthen cooperation and/or promote liberalisation in such areas as customs procedures, industrial technical barriers to trade, investment, the movement of natural persons (particularly business persons), electronic commerce, intellectual property, and government procurement. Any FTA should include provision for review, so that it becomes a basis for developing further cooperation over time.<sup>40</sup>

6.39 On 7 April 2005, Australia and Malaysia agreed to launch negotiations on a bilateral Free Trade Agreement (FTA). Negotiations were paused in early 2007 to allow both sides to focus on finalising the ASEAN-Australia-New Zealand FTA, which was concluded in August 2008 and entered into force on 1 January 2010. The then Minister for Trade, Mr Crean, and his Malaysian counterpart, the Malaysian Minister for International Trade and Industry, Mr Muhyiddin, announced the resumption of bilateral FTA negotiations in October 2008.<sup>41</sup>

6.40 In April 2010 the 7<sup>th</sup> round of negotiations was held in Kuala Lumpur. The DFAT update announced that: "Good progress was made across the negotiations to further narrow areas of difference". Taking into account the newly activated AANZFTA the update commented:

The round sharpened the understanding on both sides of what would constitute 'AANZFTA-plus' outcomes, and a process for

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40 Department of Foreign Affairs and Trade, *An Australia-Malaysia Free Trade Agreement: Australian Scoping Study*, February 2005, pp. viii and x.

41 Department of Foreign Affairs and Trade, *Australia-Malaysia Free Trade Agreement Negotiations, Overview*, <http://www.dfat.gov.au/fta/mafta/index.html>, accessed 19 October 2010.

exchanging market access offers ahead of the next round was discussed.<sup>42</sup>

- 6.41 The 8<sup>th</sup> round was held in Canberra from 18-22 October 2010 and further progress was made with market access negotiations. Australia provided Malaysia with a paper outlining its offer on tariffs and the commitments it would ask in return. Initial access offers on services and investment were exchanged.
- 6.42 Discussions were held on draft chapters covering: goods; rules of origin; customs procedures; safeguards; sanitary and phytosanitary measures; and on standards, technical regulations and conformity assessment procedures. Progress was also made on issues such as: electronic commerce, competition policy and intellectual property.

## Under Consideration

### India

- 6.43 Recent years have seen remarkable growth in the trading relationship between India and Australia, fuelled by the many complementarities between the two economies. Over the past five years, bilateral trade in goods and services has increased by 24 per cent annually to US\$16 billion in 2008–09. Two-way investment is also significant, estimated at over US\$1.5 billion including portfolio investment in 2008.<sup>43</sup>
- 6.44 Against this backdrop, Australia and India agreed in April 2008 to undertake a feasibility study for a possible bilateral free trade agreement (FTA) to explore the scope for building an even stronger economic and trade relationship. The feasibility study shows that significant barriers to goods and services trade remain in both countries.
- 6.45 An FTA between India and Australia would be expected to address tariff and non-tariff barriers. It would go beyond each country's commitments in the World Trade Organization (WTO) and cover substantially all trade

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42 Department of Foreign Affairs and Trade, Australia-Malaysia Free Trade Agreement Negotiations, April 2010 update, [http://www.dfat.gov.au/fta/mafta/updates/1004\\_update.html](http://www.dfat.gov.au/fta/mafta/updates/1004_update.html), accessed 19 October 2010.

43 The information in the following paragraphs is summarised from: Department of Foreign Affairs and Trade, Australia-India Joint Free Trade Agreement Feasibility Study, May 2010, Executive Summary, <http://www.dfat.gov.au/fta/india/Australia-India-Joint-FTA-Feasibility-Study.html#summary>, accessed 20 October 2010.

in goods. Services liberalisation would seek to remove barriers that impose additional costs on exporters and erode competitiveness. A possible FTA would be expected to have substantial services sector coverage.

- 6.46 Australia-India investment flows are modest relative to bilateral trade, reflecting both regulatory and other impediments and, to some extent, a lack of awareness of business opportunities in the other country. A possible FTA may address this imbalance by removing – or reducing – existing restrictions in both foreign investment regimes. It could also focus on enhancing transparency and strengthening investment protection mechanisms.
- 6.47 A comprehensive FTA offers scope to take the relationship to the next level to the mutual advantage of both economies. It could foster even stronger growth, including through more diverse trade and investment flows. Cooperation, capacity building and exchange of information on other issues such as the protection of intellectual property rights (covering all issues including TRIPS & CBD, and GIs inclusive of non-food GIs), SPS & TBT matters, competition policy and government procurement could also be considered during possible FTA negotiations.
- 6.48 To make an assessment of the possible trade gains from the proposed FTA, independent economic modelling was commissioned in both the countries for the study. The results provide insights into how an FTA might impact on bilateral trade and investment flows as well as economic welfare. ...The results indicate that the welfare of the two countries would increase with the conclusion of an FTA. The welfare gains for both the countries could be in the range of 0.15 and 1.14 per cent of Gross Domestic Product (GDP) for India and 0.23 and 1.17 per cent of GDP for Australia. An Australia-India FTA could result in a modest positive impact on total global economic output.
- 6.49 The Joint Study Group concluded that a bilateral FTA is feasible and recommended that both governments consider the negotiation of a comprehensive India-Australia FTA.
- 6.50 The then Minister for Trade and his counterpart the Indian Minister of Commerce and Industry “endorsed the feasibility study recommendation noting that both sides would need to undertake further internal processes before negotiations could be launched”.<sup>44</sup>

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44 Former Minister for Trade, Mr Simon Crean MP, *Major step towards a Free Trade Agreement between Australia and India*, Media Release, 4 May 2010.



6.51 The Minister added:

The joint study finds that an Australia- India FTA is feasible. It makes a strong economic case that both Australia and India would gain significant economic benefits from a comprehensive FTA. An FTA would open up trade, investment and job opportunities in both countries.

An FTA with India will continue the momentum of Australia's economic integration with Asia – the fastest growing region in the world.<sup>45</sup>

6.52 The Minister also noted the rapidly growing trade relationship, allied with India's fast-growing economy, large population and the largely complementary nature of the two economies:

India is Australia's fastest-growing major two-way trading partner, reflecting the largely complementary nature of the two economies. Two-way trade grew 55 per cent to nearly \$22 billion in 2008-09.

India is the world's largest democracy and is a market of 1.2 billion people. Its youthful population, diversified economy, and growth trajectory present significant opportunity for Australian business, especially in the agriculture, energy, manufacturing, mining and services sectors.

Australia's exports to India have increased by an annual average of over 25 per cent over the past five years, making India our fastest-growing major export market. It is our fourth-biggest export market, up from 13th a decade ago.

Industry consultations in Australia and India revealed broad support for an FTA with India; and Australia engaged stakeholders through requests for public submissions and nationwide consultations.<sup>46</sup>

## Indonesia

6.53 In August 2007 Australia and Indonesia commenced a joint feasibility study on a possible bilateral Free Trade Agreement. The study examined the potential impact on the two countries of an FTA and included

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45 Former Minister for Trade, Mr Simon Crean MP, *Major step towards a Free Trade Agreement between Australia and India*, Media Release, 4 May 2010.

46 Former Minister for Trade, Mr Simon Crean MP, *Major step towards a Free Trade Agreement between Australia and India*, Media Release, 4 May 2010.

examination of the implications for economic growth, trade, investment, commercial linkages and competitiveness.<sup>47</sup>

6.54 In summary, the findings of the study were positive and indicated that completion of an agreement would be worthwhile for both countries:

The feasibility study finds that a bilateral FTA between Australia and Indonesia would provide worthwhile benefits for Australia. It finds that the gains for Indonesia would also be worthwhile, and would, consistent with expectations, be of a greater magnitude.

More broadly, however, the feasibility study confirms that while a range of impediments to bilateral trade will be eliminated by each country as part of the recently concluded ASEAN-Australia-New Zealand FTA (AANZFTA), significant barriers to trade and investment flows between Australia and Indonesia will remain after AANZFTA enters into force.

The study shows that the greatest gains would be achieved under an FTA that would eliminate tariffs and non-tariff barriers to all trade between the two countries. At a minimum, a bilateral FTA should go beyond each country's commitments in the World Trade Organization (WTO) and under AANZFTA. In negotiating an FTA, the study recognises that each party to negotiations would take into account its potential domestic adjustment costs for each sector.

The feasibility study also demonstrates that the objective of an FTA negotiation ought to be the removal of all barriers to bilateral services trade. Such barriers impose additional costs on exporters and consumers, and retard economic competitiveness. A bilateral FTA would be expected to cover all services sectors of importance to each country.

In the investment sphere, the study shows that Indonesia-Australia investment levels, though not insubstantial, underperform relative to growing bilateral trade and Australian investment in some other ASEAN economies.

A comprehensive FTA that eliminates the widest possible range of direct and indirect barriers to Australian investment in Indonesia would enhance the bilateral relationship in a number of important respects. First, Indonesia would be better placed to attract

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47 Department of Foreign Affairs and Trade, *Australia-Indonesia FTA Joint Feasibility Study*, <http://www.dfat.gov.au/fta/indonesia/index.html>, accessed 20 October 2010.

Australian investment, especially in key mining and resources sectors. Second, Indonesian investors may become more familiar with, and more confident about their ability to exploit the investment opportunities available to them in Australia.<sup>48</sup>

- 6.55 Having received the completed study the two governments have agreed to consider its recommendations with a view to possible commencement of negotiations toward an FTA.<sup>49</sup>

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48 Department of Foreign Affairs and Trade, Australia-Indonesia Free Trade Agreement Joint Feasibility Study, pp. 2-3, [http://www.dfat.gov.au/fta/indonesia/aus-indon\\_fta\\_jfs.pdf](http://www.dfat.gov.au/fta/indonesia/aus-indon_fta_jfs.pdf), accessed 20 October 2010.

49 <http://www.dfat.gov.au/fta/indonesia/index.html>, accessed 20 October 2010.



## Pakistan and the Philippines

### Pakistan

- 7.1 The High Commissioner for Pakistan in giving evidence to the Sub-Committee noted that the government and people of Pakistan were grateful for the assistance that Australia has offered in helping to overcome its economic problems. He referred particularly to assistance in coping with the recent world financial crisis and in dealing with the effects of the October 2005 earthquake.<sup>1</sup>

### Trade and Investment

- 7.2 The submission from the Pakistan High Commission commented that: “Despite a 1990 Bilateral Trade Agreement between Pakistan and Australia, the level of trade between the two countries remains low”. In evidence the High Commissioner estimated that total trade was about US\$700 million and that the ratio was 80 per cent to Australia and 20 per cent to Pakistan.<sup>2</sup>
- 7.3 The High Commissioner said that Australia’s exports to Pakistan had increased from US\$ 226 million in 2001 to US\$ 523 million in 2007-08. In the same period, Pakistan’s exports to Australia increased from US\$ 113 million to US\$ 138 million.<sup>3</sup>

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1 High Commissioner of Pakistan, Committee Hansard, 28 November 2008, pp. 21 and 27.

2 High Commissioner of Pakistan, Committee Hansard, 28 November 2008, p. 22.

3 High Commissioner of Pakistan, Committee Hansard, 28 November 2008, p. 22; and Department of Foreign Affairs and Trade, Pakistan Country Brief, p. 4, [http://www.dfat.gov.au/geo/pakistan/pakistan\\_brief.html](http://www.dfat.gov.au/geo/pakistan/pakistan_brief.html), accessed 3 September 2010.

7.4 He said that Pakistan is Australia's 28<sup>th</sup> largest market for merchandise exports. The main products are: wheat, animal oils and fats, cotton, coal, iron ore, fertiliser, machinery and parts, chemicals and chemical products. For Pakistan, the main exports to Australia are: clothing, carpets and rugs, textiles and made up textile products, petroleum, rice, sports goods, furniture, medical and surgical instruments, hosiery, and spices.<sup>4</sup>

7.5 Statistics from the Department of Foreign Affairs and Trade showed that two-way trade had increased to A\$ 691 million by 2009; up from A\$ 578 million in 2007. Australian exports to Pakistan totalled A\$ 528 million and imports A\$ 163 million. The product mix was substantially the same as in 2007-08.<sup>5</sup>

7.6 The High Commissioner for Pakistan emphasised the potential for progress and cooperation between Australia and Pakistan

Pakistan has immense potential for multiple corridors of interaction and cooperation involving energy, trade, communication and tourism. Due to the strategic location of Pakistan, it is also becoming the trade, energy and transport corridor for countries of the region.

We are a nation of 165 million people, with a growing middle class. As we speak today our per capita income is US\$1,085. There are 20 million to 30 million Pakistanis who constitute the middle class, earning something between \$10,000 to \$15,000 ..., and they constitute a large and solid market for the purchase of goods and services. Apart from the strategic location of Pakistan, it has a trained a workforce of English speaking manpower. We have a large pool of doctors, engineers, accountants, managers and IT professionals.

For the last five consecutive years, despite all the problems that we face on account of terrorism and the deteriorating security situation in Afghanistan, we were able to achieve a growth rate of 7.5 per cent.<sup>6</sup>

7.7 The High Commissioner also noted that many Australian companies were already active in Pakistan, with an encouraging amount of investment in place and extensive interaction in education services:

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4 High Commissioner of Pakistan, Committee Hansard, 28 November 2008, p. 22.

5 Department of Foreign Affairs and Trade, Pakistan Fact Sheet, <http://www.dfat.gov.au/geo/fs/paki.pdf>, accessed 3 September 2010.

6 High Commissioner of Pakistan, Committee Hansard, 28 November 2008, p. 22.

More than a dozen Australian companies are based in Pakistan. The major one is BHP. ANZ Lend Lease has one of the largest banking operations in Pakistan. BHP operates the second largest gas fields in Pakistan. It has also discovered oil in areas that has been allocated to it in the last couple of years.

Tethyan is another Australian company that is involved in gold and copper mining in the province of Baluchistan. They are in partnership with a Chilean firm and also a consortium of Chilean, Australian and Canadian firms who are working on that mine in Pakistan.

In addition to the major Australian companies which are actually based in Pakistan, 127 other Australian business entities are regularly doing business with Pakistan ... importing or exporting various items. These 127 businesses include the universities in Australia, because they are also luring a large number of very bright students from Pakistan to study in Australian universities.<sup>7</sup>

## **Strengthening Trade and Investment**

### **Requests by Pakistan**

7.8 The High Commissioner made a number of requests to the Sub-committee seeking assistance in overcoming the difficulties his country has been facing in recent years. He emphasised that Pakistan's wish is to overcome its difficulties "with trade, not aid":

... I would like to make some recommendations that I would submit before you for your consideration, with the request that these ... be included in the final report that your committee comes up with. Again, I would like to reiterate that we would like to overcome and meet our economic problems. We want to meet our challenges through trade, not with aid. That is the first point.

As I mentioned earlier, the balance of trade has always remained in Australia's favour. We need some help in that area. In order to help Pakistan economically we need to expand our exports. More exports will attract more investment in industry and will provide more jobs for the people, including in the tribal areas of Pakistan. We request market access to Australia, which we feel is of paramount importance for the growth of exports from Pakistan.

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7 High Commissioner of Pakistan, Committee Hansard, 28 November 2008, p. 22.

The textile and garment sectors constitute about 50 per cent of Pakistan's global exports. This is a labour intensive sector and can create more jobs with every dollar invested. Presently no tariff concession is available to Pakistan under Australia's GSP scheme. Due to the specific conditions in Pakistan, the economic losses that we are suffering on account of terrorism and the deteriorating security situation in Afghanistan, we urge you to allow us tariff concessions and a generalised system of preferences which are available to LDCs.

You may argue that Pakistan is not an LDC country. I would agree with you, but then there are countries, apart from LDCs, which receive concessions due to special circumstances. At the moment we are facing those special circumstances. The European Union has such a clause and we really do not see why this same clause cannot be inserted in your regulations.

Secondly, our request would be that Australia could agree to our proposals mooted during the Cairns group meeting in 2006. During that meeting Australia and Pakistan had agreed to establish a joint study group on trade. In that joint study group we made certain proposals, including the extension of the GSP concessions to Pakistan and also a proposal to initiate FTA negotiations with Pakistan.

We were told to give specific proposals in this regard. We also submitted these specific proposals to the Department of Foreign Affairs and Trade. A push forward from your side will certainly help us in getting those proposals to materialise earlier. We are a part of the Cairns group and we have played a significantly important role in the proceedings of the group.

... I mentioned the FTA negotiations. ... The honourable members of this committee would know better than anyone that FTA does help both ways; all the countries benefit. We have signed an FTA with China and most of the Asia-Pacific countries, including Malaysia and Singapore. Negotiations are at an advanced stage with Indonesia. We have initiated negotiations with Korea. It is of paramount importance, given the importance that the people of Pakistan attach to Australia. We also need to begin those negotiations at an early stage.



An MOU between the investment promotion entities of Australia and Pakistan is also of great importance. We need to have this kind of MOU ... to promote investments in the two countries.<sup>8</sup>

7.9 The High commissioner also sought an increase in the funding for the Agricultural Linkages Program:

We are grateful to Australia for the establishment of the Agriculture Linkages Program, which was established two years ago with an allocation of about A\$6.5 million and has achieved great results. It has certainly helped our agriculturalists learn the best practices from Australia. It has increased productivity. It has done some wonderful things.

This program is likely to come to an end by June next year. Our request would be that the Agriculture Linkages Program should continue with more allocation towards this program. Rather than \$6.5 million which was earlier allocated to this program, the amount could be increased to \$10 million for the simple reason that we have recently learnt that the Pakistan development assistance from Australia is going to be increased from the current level of \$35 million to \$50 million. That should justify the increase in the Agriculture Linkages Program that we are talking about.<sup>9</sup>

7.10 As with a number of the countries giving evidence to the inquiry, Pakistan has concerns over the length of time it takes to get quarantine clearance for agricultural products:

We could also establish cooperation on phytosanitary standards. That is something that is an area that we would be interested in.

For the last two years negotiations have been going on between the trade officials of the two countries for the import of mangoes and citrus from Pakistan. I can assure you that we produce the best mangoes anywhere in the world.

We have 150 varieties of mangoes. We export mangoes to everywhere in the world except Australia because of the very tough standards that are applied to the import of mangoes and citrus. Again, we claim that we produce the best citrus fruit. It has the best aroma and taste, and it sells at a premium in the European, American and Japanese markets.

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8 High Commissioner of Pakistan, Committee Hansard, 28 November 2008, pp. 24-26.

9 High Commissioner of Pakistan, Committee Hansard, 28 November 2008, p. 25.

Negotiations are going on. There were certain requirements that the Australian government wanted us to fulfil before the import of mangoes and citrus was allowed into Australia. Many of those steps have already been taken regarding quarantine requirement, the quality of the fruit and the other standards that they asked us to meet. We would request that process should also be fast tracked.<sup>10</sup>

7.11 Another issue raised by several countries during the inquiry concerned the delays and difficulties involved in obtaining visas:

One very serious problem that our businessmen face is getting visas. I receive queries from our business delegations desiring to come to Australia because the visa process takes quite a while. This is affecting us in many ways.

Every year before every education term I receive telephone calls from concerned parents and students who cannot get visas to start the semester because the visa clearance is something that takes ages. This problem is also being faced by members of the business community.

To give you one example, last year the delegation of the Federation of Pakistan Chambers of Commerce and Industry visited Australia. They arrived and I was not informed about it. When I spoke to them I said, 'You could have told me and I could have made some better arrangements for your meetings.' They said, 'At the last minute we didn't know whether we would be able to visit Australia or not.' They were coming here on the invitation of the Australian chambers because of the Asia-Pacific countries chambers meeting that were taking place in Perth and they were to attend that meeting. They said that it took them at least four weeks to get clearance, after making regular calls to the High Commissioner, Ms Zorica McCarthy. Ms McCarthy is a wonderful person and extremely popular High Commission representative of Australia in Pakistan doing wonderful things to expand the relations between the two countries, but even she was helpless because every case has to come here for clearance and the high commission perhaps does not enjoy the flexibility to issue visas on its own.<sup>11</sup>

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10 High Commissioner of Pakistan, Committee Hansard, 28 November 2008, p. 25.

11 High Commissioner of Pakistan, Committee Hansard, 28 November 2008, p. 26.

7.12 The High Commissioner raised a number of other issues that, he said, would be of great assistance to Pakistan:

We also need to sign an agreement on the avoidance of double taxation. This is something of paramount importance for the business communities of the two countries. It would certainly send positive signals to the business communities of the two countries.

Establishment of an Australia-Pakistan business council is extremely important. Given the size of our trade and Australia's investments in Pakistan, the establishment of an Australia-Pakistan business council would be a step in the right direction.

Exchange of business delegations is another issue. While I am cognisant of the fact that it is the business community itself which has to take the initiative in visiting each other in order to establish contacts and that government can only act as a facilitator, but we can certainly do some things. We can encourage the chambers, the business community, Austrade and Australian investment to establish these linkages which are of great importance.<sup>12</sup>

7.13 Finally, the High Commissioner highlighted the opportunities for Australian companies in investments in Pakistan:

We have a bilateral agreement on promotion and protection of investments. We feel that there are tremendous opportunities for Australian companies to invest in Pakistan in the oil and gas, mining, coal, manganite, marble, gold, copper, uranium and power generation. We have the largest coal reserves. We can become a good competitor in the world.

We need hydrothermal coal, solar, wind and biogas energy in Pakistan. Australian companies can invest in Pakistan. Agriculture, dairy development, IT and telecom, shipping, fisheries and the auto sector are some of the sectors that are open.

We have a liberal investment policy whereby we treat foreign investors and local investors on a par. All economic sectors are open to foreign direct investment. Foreign equity up to 100 per cent is allowed. There is no government permission required.

We have a network of export processing zones and industrial zones with repatriation of 100 per cent capital. We have an attractive incentive package with zero to five per cent duty on imported machinery and no sales tax or withholding tax on

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12 High Commissioner of Pakistan, Committee Hansard, 28 November 2008, pp. 25-26.

imported machinery. We have also introduced a number of reforms and because of these reforms the World Bank has termed Pakistan as a model country which has introduced some of the best economic reforms in the financial, trade and taxation sectors.<sup>13</sup>

## The Philippines

7.14 The main change in trade relations between the Philippines and Australia in recent times has been the signing of the ASEAN-Australia-New Zealand Trade Agreement – discussed at length in Chapter 6.

## Trade and Investment

7.15 In evidence to the Sub-Committee, the Ambassador for the Philippines noted the leading role played by mining in the trade and investment relations between the two countries. He said that mining activities accounted for 65 per cent of all Australian investment in the Philippines.<sup>14</sup>

7.16 The Ambassador said that there is scope for these activities to grow and commented on the success of two firms in particular, CGA and Indophil. He added, however, that he had hopes also for strong growth in other areas, for example: in supply linkages with the automotive, transport and electronic sectors. The best prospects he said were in the services industries, particularly: IT services, education, financial services, health care and tourism.<sup>15</sup>

7.17 Total bilateral merchandise trade reached US\$1.372 billion in 2008; an increase of 10 per cent over 2007. The Ambassador indicated that the Philippines regards that as only a starting point and he said:

We are certainly keen to work with the Australian Government in any initiative to enhance economic relations between our two countries, which clearly have much room for growth.<sup>16</sup>

7.18 Bilateral relations are assisted by the operation of the Philippines-Australia Ministerial Meeting (PAMM), which first met in 2005 and met again in October 2008. The Ambassador commented that:

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13 High Commissioner of Pakistan, Committee Hansard, 28 November 2008, pp. 26-27.

14 Embassy of the Philippines, Committee Hansard, 24 June 2009, p. 14.

15 Embassy of the Philippines, Committee Hansard, 24 June 2009, p. 12.

16 Embassy of the Philippines, Committee Hansard, 24 June 2009, p. 11.

The PAMM has become more than just an opportunity to dialogue. It has become an important venue to identify and work on specific courses of action that will encourage greater trade, investment and economic cooperation between the Philippines and Australia.<sup>17</sup>

- 7.19 The Ambassador made similar comments about the ASEAN-Australia-New Zealand Free Trade Agreement (AANZFTA). He said the Agreement:

...provides a new avenue by which to approach our economic relationship with Australia. Being a comprehensive single-undertaking agreement, the AANZFTA provides a good framework for complementation and collaboration in specific industries, which have traditionally been of mutual importance to our respective economies, such as mining, agribusiness and food processing.

These initiatives give us much to look forward to in our efforts to expand our trade and investment relations.<sup>18</sup>

### **Strengthening Trade and Investment**

- 7.20 Like a number of the other countries giving evidence, the Philippines is placing a high priority on quarantine issues. However, in the case of the Philippines there is very active cooperation between AQIS and the authorities and exporters in the Philippines with the aim of "bringing our agricultural output up to international standards". This was happening, the Ambassador said with specific funding from Australia.<sup>19</sup>

- 7.21 However, one issue is still far from resolution. The Special Trade Representative for the Philippines said:

The only sticky issue right now is with Philippines bananas. We have been wanting Australians to try Philippines bananas for 20 years. You may be aware that the IRA was issued in November and the final policy determination was issued on 3 March, so I guess Australia is now waiting for the Philippines to respond to that.

The operation is to start working on a work program. Our Department of Agriculture is consulting the stakeholders. There

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17 Embassy of the Philippines, Committee Hansard, 24 June 2009, p. 12.

18 Embassy of the Philippines, Committee Hansard, 24 June 2009, p. 12.

19 Embassy of the Philippines, Committee Hansard, 24 June 2009, pp. 12-13.

have been some areas of the IRA that the Philippines is not entirely in agreement with.<sup>20</sup>

- 7.22 Other quarantine issues for the Philippines have involved problems arising from past outbreaks of foot and mouth disease:

We have also been having difficulty with our ice cream products, anything related to meat products and dairy also. We have been trying to export ice cream to Australia and the problem there is with the lifting of the foot and mouth disease classification of the Philippines, which has to be done with the OIE in Paris.

That is something we are working on now. Hopefully we will get off the list this year, which would solve some of our dairy and meat related problems also.<sup>21</sup>

- 7.23 The Philippines is very interested in expanding services trade with Australia. It has particular interest in supplying Australia with trained nurses and other healthcare professionals, tradespeople and other skilled workers. The Special Trade Representative noted that these ideas had been discussed in the context of the AANZFTA negotiations.<sup>22</sup>

- 7.24 She also commented that there was considerable scope for cooperation with Australian Universities on this training:

There has also been a lot of interest from Australian universities – nursing schools, for instance – to work with universities in the Philippines.

A lot of registered nurses who come to Australia from the Philippines have to go through bridging courses for both English proficiency and clinical work. We are trying to get Australian universities to link up with their Philippine counterparts so that our nurses get a higher standard of training, which hopefully would be acceptable here.<sup>23</sup>

- 7.25 The Ambassador added:

Even at the state level, what we are looking at is for the activity to be more economical. Rather than taking the Philippine nurses, say, to Melbourne to do bridging courses, maybe we can get the technology from Melbourne to the Philippines and just get one or

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20 Embassy of the Philippines, Committee Hansard, 24 June 2009, p. 15.

21 Embassy of the Philippines, Committee Hansard, 24 June 2009, p. 16.

22 Embassy of the Philippines, Committee Hansard, 24 June 2009, p. 17.

23 Embassy of the Philippines, Committee Hansard, 24 June 2009, p. 17.

two heads to give out the standards and make sure that they are able to take the bridging courses right there at less of an economic cost for everybody.

From what we understand, it is really difficult for our nationals to be able to hurdle that 457 visa because of the standards required. But if they are your standards then they are your standards.

That is why we are looking for ways for, say, nurses on 457 visas to hurdle the requirements in a way that is less expensive for them. We are looking at specific trades capability.

I think even your VETASSESS and TAFE are looking at our own TESDA in the Philippines to crank in the technology right there in the country, rather than letting the guys come here and spend a lot of money to qualify. We are looking at some technical approaches on that at the state level.<sup>24</sup>

7.26 The Sub-Committee asked whether any Philippine workers had experienced difficulties in having 457 visas renewed. The Ambassador responded:

Yes, what is happening in very particular cases is that some employers stop employing because of economic difficulties. That is the reason we have our labour attaché in Australia trying to bridge the activities of these 457 visa holders to be able to move onto another job.

Since earlier this year, there have been a few instances where some Filipinos on 457 visas were terminated by their employers. We are becoming aware of the need to bridge them for the next 28 days so they are still supported by their employers until they are able to find other employment.

There are also cases where a few have had to go back to the Philippines because they were not able to find any other subsequent employment.<sup>25</sup>

7.27 The Special Trade Representative also discussed the possibility of increasing exchanges of business missions and participation in trade fairs. She said that several missions had been arranged recently and noted particularly the participation of the Philippines in the CeBIT fair in Australia:

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24 Embassy of the Philippines, Committee Hansard, 24 June 2009, pp. 17-18.

25 Embassy of the Philippines, Committee Hansard, 24 June 2009, p. 18.

That is another sector that we are constantly promoting from the Philippines. This included participating in the CeBIT fair, which is the largest technology event in Australia. It was the first time that the Philippines participated in that fair and the response from the participants – the business delegation – was very good. We are looking at doing that on a yearly basis.<sup>26</sup>

7.28 The Special Trade Representative added:

In the past we have also done missions with food exporters from the Philippines to look at Australia as a market. One of the areas we would like to work on now is a reciprocal mission.

We had exporters of automotive parts and components from the Motor Vehicles Parts Manufacturers Association of the Philippines visit Australia last year, Melbourne in particular. They had a dialogue with their counterpart, the Federation of Automotive Parts Manufacturers, and we are now looking at inviting FAPM for a reciprocal mission to the Philippines.

It is really focussed on specific areas where we want to show that there are opportunities for more trade between Australia and the Philippines.<sup>27</sup>

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26 Embassy of the Philippines, Committee Hansard, 24 June 2009, p. 19.

27 Embassy of the Philippines, Committee Hansard, 24 June 2009, p. 19.



## Trade in Services

- 8.1 The Sub-Committee received a substantial amount of evidence regarding the growing importance of Australia's services trade in the regions under reference. In particular, the evidence focused strongly on the opportunities for trade in legal and education services.
- 8.2 In answer to a Supplementary Question from the Sub-Committee, however, DFAT noted that there is considerable scope for Australia to improve its overall performance in trade in services:

Australia is one of the world's leading suppliers of education services and a rapidly growing provider of many other services, including financial services and professional services such as engineering, architecture and legal services. Despite this, services accounted for only 21 per cent of Australia's exports in 2009 - even though they generate 73 per cent of GDP and 86 per cent of Australian jobs.

Increasing international trade in services is not only good for exporters; it can also be of great benefit to importers. This is because international trade in services provides countries with access to skills and technologies that they do not have, but which can be crucial to improving the productivity and efficiency of their own industries - not just in the services sector but also in the manufacturing, agriculture and resources sectors.

Services trade can therefore assist countries to increase their competitiveness and exports in other sectors, boosting economic growth and helping them move up the development ladder.

As the Minister for Trade and the Parliamentary Secretary for Trade have said recently, 'The services sector is the key to driving productivity across the global economy.'<sup>1</sup>

8.3 DFAT gave several examples of negotiations with our trading partners where services trade has been given a high priority:

Improving the business environment for Australian services exporters was a high priority for Australia in negotiations for the ASEAN-Australia-New Zealand Free Trade Agreement (AANZFTA), which entered into force on 1 January 2010.

The Government consulted closely with industry associations and firms representing services trade interests during the negotiations to ensure that their views informed the development of Australia's negotiating positions and objectives. The Agreement will enhance certainty and transparency for Australian services suppliers and investors, including through improvements to the WTO commitments of ASEAN countries in such areas as professional, financial, telecommunications and education services; strengthened regulatory disciplines, including on matters such as licensing procedures; and legal protections for Australian service suppliers with a commercial presence in ASEAN countries.

AANZFTA also creates a platform for ongoing economic engagement with ASEAN countries on services trade issues, including through a built-in agenda to review services commitments three years after AANZFTA's entry into force.

The Australia-United States Free Trade Agreement (AUSFTA) provides an open and non-discriminatory environment for Australian and US service providers, and includes a framework to promote mutual recognition of the qualifications of professional services.

Australia is working with the United States on continuing to expand access for the high quality professional service providers Australia has to offer the US market. The United States has also created a new visa category that is available only to Australian nationals. This specialty occupation (E3) visa will help Australian

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1 Department of Foreign Affairs and Trade, Responses to Supplementary Questions, Submission 44, p. 1.

business people and professionals capitalise on the opportunities offered under AUSFTA.<sup>2</sup>

8.4 Similarly, DFAT said that services have a high priority in the discussions and reviews of the Free Trade Agreements with Thailand, Singapore and Chile.<sup>3</sup>

8.5 In 2009 the APEC economies adopted a Services Action Plan (SAP):

In their 2008 Statement, APEC Leaders called for accelerated implementation of APEC's regional economic integration agenda, and:

...instructed officials to undertake initiatives designed to promote greater convergence in key areas of APEC's trade and investment portfolio, including...cross-border services.

In response to Leaders' instructions, a Services Action Plan (SAP) has been developed to provide an overarching level of coordination and focus to the services-related work conducted across all of APEC's various sub-committees and working groups.

The aim of the SAP is to provide common direction and coherence to APEC's work on services trade, and establish a forward work program to foster the development of open and efficient services markets in the APEC region.<sup>4</sup>

8.6 This action was prompted by recognition of the important and growing role of services in the world's economies:

Modern economies are heavily dependent on services as drivers of economic activity, growth and job creation. In developed and developing economies alike, services account for a large and increasing share of gross domestic production and employment and play a critical enabling role in all aspects of economic performance.

In 2007, the services sector accounted for over 70% of GDP in developed economies and over 50% in developing economies.<sup>5</sup>

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2 Department of Foreign Affairs and Trade, Responses to Supplementary Questions, Submission 44, p. 2.

3 Department of Foreign Affairs and Trade, Responses to Supplementary Questions, Submission 44, pp. 2-3.

4 APEC Secretariat, *APEC Services Action Plan*, p.69, App4\_09\_cti\_rpt\_ServicesActionPlan-1.pdf, accessed 13 October 2010.

5 According to the World Bank's World Development Indicators (2007).

Moreover, the rate of growth of services sectors in developing economies is higher than that in developed economies.

Services such as logistics, communications and financial services create the basic economic infrastructure upon which businesses operate. Educational, health and social services affect human security and the availability and quality of labour. Professional services provide the specialised expertise required by other firms to increase productivity and competitiveness.

In manufacturing industries, services provide critical inputs to the production chain, making up a major portion of value added through research and development, accounting, engineering, administration, advertising, warehousing and distribution services.<sup>6</sup>

## Legal Services

8.7 The Law Council of Australia reported that it works very closely with DFAT and the International Legal Services Advisory Council (ILSAC) to improve access to foreign markets for Australian providers of legal services.<sup>7</sup>

8.8 The Council explained that its cooperation with DFAT was the most efficient way of achieving its international goals:

The Law Council and DFAT work together to promote Australian legal services on two fronts. On one front, DFAT pursues Government to Government activity, such as negotiating free trade agreements. On the second, complementary front, the Law Council pursues a profession to profession approach, using its standing as the peak legal body in Australia to foster close relations with counterpart Bars in countries of interest.

In this way, by constant briefings between the Government and the Law Council, Australia can deliver a co-ordinated strategy to increase the international mobility of the Australian legal profession.<sup>8</sup>

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6 APEC Secretariat, *Group on Services*, accessed 13 October 2010 at: [http://www.apec.org/apec/apec\\_groups/committee\\_on\\_trade/group\\_on\\_services.html](http://www.apec.org/apec/apec_groups/committee_on_trade/group_on_services.html).

7 Law Council of Australia, Submission 25, p. 3.

8 Law Council of Australia, Submission 25, p. 3.

- 8.9 Austrade is another close partner of the Law Council. Its knowledge of overseas markets, and the services offered by its personnel in those markets, have been valuable additions to assist the Council's networking:

In September 2008, the Law Council's International Law Section signed a Memorandum of Understanding with the Australian Trade Commission (Austrade), agreeing to cooperate for the benefit of their respective members. Through this partnership the Law Council and Austrade draw together lawyers interested in international trade, providing an opportunity for them to meet and discuss international trade and investment issues of importance to them and to their clients.

The Law Council International Law Section-Austrade Roundtable runs seminars on international trade and investment directed mainly at medium size commercial legal practices and corporate counsel and provides a sounding board for Austrade on legal issues relevant to its business.<sup>9</sup>

- 8.10 The Council has also extended its efforts by negotiating directly with its counterpart organisations overseas:

The Law Council has also developed professional partnerships with international legal bodies to create opportunities for Australian lawyers and providers of legal services in foreign legal markets. These partnerships have taken the form of Memoranda of Understanding, which recognise the importance of promoting mutually beneficial trade and of strengthening ties in the delivery of legal services internationally. As at 30 January 2009 the Law Council has entered 14 Memoranda of Understanding with foreign legal representative bodies in the Asia and Pacific region.<sup>10</sup>

- 8.11 The Law Institute of Victoria, which appeared with the Law Council, commented that it had recently completed a Memorandum of Understanding with the Hong Kong Law Society. The Institute added that it had hosted meetings with a senior Korean member of parliament and had run a number of sessions on the Australia New Zealand ASEAN FTA with Austrade, DFAT and the Law Council.<sup>11</sup>

- 8.12 The Sub-Committee asked about the value of legal services exported and the Council responded that ILSAC, in a recent report, had put it at about

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9 Law Council of Australia, Submission 25, p. 3.

10 Law Council of Australia, Submission 25, p. 3.

11 Law Institute of Victoria, Committee Hansard, 11 September 2009, pp. 37-8.

\$675 million in 2006-07. The Victorian Institute added, however, that “that is probably an underestimation”:

There is a general perception within the industry that the measurement of services and the value of services are not as precise as they perhaps should or could be.<sup>12</sup>

- 8.13 The witnesses continued that there are a number of reasons for the uncertainty:

One of the things that we think would be of merit, is more focus on the ABS statistics ...of services. That was a figure; we think it is probably underreported. You could probably take that figure and add a bit. What ‘the bit’ is is the vexed issue about the capture of those figures.

Part of that is probably because some legal services are fly-in fly-out. Other legal services establish branch offices. It really comes down to how you want to measure it.

...certainly the Australian Services Roundtable has some concerns about the way the Australian Bureau of Statistics captures statistics on services.<sup>13</sup>

## Education Services

- 8.14 An important part of improving trade and investment relations concerns the facilitation of trade in education services, the movement of tourists, and smoothing and encouraging the migration of people with skills that are needed in the Australian economy.<sup>14</sup>

- 8.15 In evidence to the Sub-Committee, Universities Australia emphasised the importance of the rapid growth in exports of education services in recent years:

...education exports have become a very significant component in a relatively short period of Australia’s exporting activity. From almost nothing 10 or 15 years ago we now have the third largest export sector coming from education. That has been a marvellous

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12 Law Council of Australia and Law Institute of Victoria, Committee Hansard, 11 September 2009, p. 38.

13 Law Council of Australia and Law Institute of Victoria, Committee Hansard, 11 September 2009, pp. 38-9.

14 Department of Immigration and Citizenship, Submission 15, p. 1.

achievement, we think, but there are, as we know from a number of recent events, risks attached to that sector and to other sectors as well.

Our concern is to seek to underpin the sustainability of that achievement which for us in education is not only an economic achievement. Hand in hand with economic benefits to the country are a whole range of wider social and community benefits that come out of education beyond the simple making of money.

Indeed, were I addressing a humanities faculty, I probably would not even emphasise \$15 billion or \$16 billion of export success, I would be talking about the splendid integration of ideas that come with the mixing of people from different backgrounds, their ability to research from different perspectives and share their experience through education.

The nice thing about education is that the two things go together, so that we have created a very significant export industry. In the context of your inquiry, we are looking to find support for reinforcing a number of the underpinnings that have helped that happen and perhaps address in several ways some matters that can threaten that success.<sup>15</sup>

- 8.16 Universities Australia indicated to the Sub-Committee, however, that while Australia offers an open sector for participation by overseas universities, the same is not always available to Australian universities seeking to establish campuses overseas. Responding to a comment on the importance of exports of education services, Universities Australia said :

It is important; we would like it to become more important. One of the reasons that that is an issue is, of course, a lot of behind-the-border protections overseas as opposed to here, where, for instance, we have recently opened up our sector to universities like University College London, Carnegie Mellon and so on, which have been able to establish campuses here by exactly the same rules as Australian universities are established by. The same protocols apply.

On the other hand, that does not necessarily apply in many of our major overseas partners. An example is India, where there are severe restrictions on the establishment of campuses by foreign universities. In many other countries it has to be done in

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15 Universities Australia, Committee Hansard, 11 September 2009, p. 13.

partnership with local universities and you cannot have a freestanding foreign university establishing itself.

We would be particularly keen to see, in international FTA-type negotiations, complementary negotiations that deal with those sorts of behind-the-border restrictions, if not specific education chapters, for instance – and we would like to see that too.<sup>16</sup>

- 8.17 The Sub-Committee noted that the number of student visas granted had almost doubled between 2003-04 and 2007-08. The number of Asian students increased by almost 81 per cent and, from a low starting point, the number of students from Latin America more than trebled:

**Student Visas Granted – by Region<sup>17</sup>**

	<b>2003-04</b>	<b>2004-05</b>	<b>2005-06</b>	<b>2006-07</b>	<b>2007-08</b>
Asia	77,815	77,177	85,897	117,674	140,692
Latin America	3,686	4,843	7,192	9,698	12,353
Pacific	1,028	1,128	1,178	1,209	1,216
<b>Total</b>	<b>82,529</b>	<b>83,148</b>	<b>94,267</b>	<b>128,581</b>	<b>154,261</b>

- 8.18 The submission from DIAC makes the point that not only do these visiting students represent a large market for Australian education, but they also create valuable personal linkages that can “have downstream benefits for future trade and investment relations”.<sup>18</sup>
- 8.19 To assist in efforts to increase the scope for international marketing of education services, responsibility for that function was transferred to Austrade on 1 July 2010. Following its 2010 meeting, the COAG Ministerial Council on International Trade reported:

Ministers noted the arrangements for the transfer of responsibility to Austrade on 1 July 2010 for the marketing and promotion of international education. Ministers highlighted the important contribution of education exports to the economy and emphasised the importance of ensuring a smooth transition of the functions.

Ministers acknowledged that the rapid growth in the international education services sector had generated challenges for

16 Universities Australia, Committee Hansard, 11 September 2009, p. 14.

17 Department of Immigration and Citizenship, Submission 15, p. 1.

18 Department of Immigration and Citizenship, Submission 15, p. 1.



governments in relation to education quality, student welfare and the regulatory framework. Ministers noted the International Student Strategy for Australia and the Baird Review as complementary elements of governments' responses to these challenges. The Council of Australian Governments (COAG) International Student Strategy will give students more support and information, and better protect their rights.

The Commonwealth Government's response to the Baird Review, announced on 23 June, will improve the regulatory framework and consumer protection arrangements. Together, the Baird response and the International Student Strategy support the objective of providing a high-quality experience to international students and a sustainable future for quality international education in Australia.<sup>19</sup>

- 8.20 Universities Australia raised one serious issue, however, that could pose a threat to the continued growth in the number of visiting students in our universities. Its submission included a recommendation that by 2025, 40 per cent of adult Australians up to 35 years old should have a bachelor's degree. When queried on this, the response was :

It is the target given by the present government. It was not our target, it is the one that this government has laid down now as its objective for 2025. It is seeking 40 per cent of adult Australians up to the age of 35 – I think it is – having a bachelor's degree. ...We are at about the low thirties currently so it is a big ask.

How does it relate to this? Importantly, in a range of ways; that is, the government chose not to adopt one key recommendation of the Bradley review, which was to increase the funding per student in teaching and learning. It has adopted many of the other recommendations of the Bradley review framework, and we are very supportive of that. We think, potentially, there is an excellent framework now in place, but one we have a significant worry about is the absence of an increase in real funding per student in Australia.

Why is that relevant to this? We have been relying upon international students to cross-subsidise domestic students. It has reached the point where that is forcing our class sizes to be so large that the question is: if you were an international student,

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19 Council of Australian Governments Ministerial Council on International Trade, Meeting Communiqué, 30 June 2010, pp. 2-3.

why would you come here when you have got a class size, on average, of 26, when you can go to Canada for a class size of 20, Britain for 19 and Germany for probably about 12?

Unless we stop the reliance upon international students to cross-subsidise domestic students, and save the domestic treasury from having to fund higher education appropriately, we run the risk of undermining the very success that treasuries are free riding on.

There has got to be a correct balance there.<sup>20</sup>

- 8.21 Continuing this theme, the witnesses emphasised that the situation could quickly start to affect the reputation of our universities overseas and, consequently, the number of students wishing to study here:

We have had a 30 per cent real decline over the past decade in real funding per Australian student. That is nice for the taxpayer, but in the end the taxpayer may cop it on the chin if, for instance, the sorts of recent problems that emerged with international students kill the goose that lays the golden egg.

That can happen because classes will get too crowded, university services for those international students will not be able to assist them properly with accommodation or with employment that is safe and validated, and they will not have the appropriate other health and counselling support and the like on campuses that can help sustain that experience. They will start going elsewhere, or incidents will recur of the kind that we do not have the funding to pre-empt fully.

So there is an interesting connection between our export industry and what we do by way of funding for domestic students. These days, universities receive only about 20 per cent of their revenue as direct institutional grants for students. That is almost the lowest in the OECD – much lower than Germany, which is about 70 per cent.<sup>21</sup>

- 8.22 Universities Australia also raised the problem of differential treatment given to overseas students when compared to their domestic counterparts. It gave as examples travel concessions and safety issues:

International students of any brand really get annoyed that they don't get the same travel concessions as domestic students. It's a symbolic issue for them. They really feel short-changed and

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20 Universities Australia, Committee Hansard, 11 September 2009, pp. 15–6.

21 Universities Australia, Committee Hansard, 11 September 2009, p. 15.

abused because they don't get the concessions in New South Wales and Victoria that their equivalent domestics do, even though they're paying GST and they're paying income tax on their employment. Rightly or wrongly, that's how they feel.

That sort of issue, along with safety issues and the like, was bubbling away. I sat in a format like this as a member of a visiting delegation, and the minister for higher education in India picked up a letter from his nephew in Melbourne about how the nephew was attacked. He read it out and said: 'What are you going to do about it? You can't have this. This is going to be a problem.' So we came back and put submissions to COAG and we got told to go away again.

The sorts of issues that finally bubbled up with the Indian students are partly a whole-of-government issue because of that artificial separation where the states think they only do VET and the Commonwealth thinks it does universities. We are bringing them together now in our framework, particularly for domestic students, but we did not square the circle on the international students, and that is costing us dearly in brand Australia.<sup>22</sup>

- 8.23 Similarly, Universities Australia reported that the cost of student visas is also an issue and that many students feel they are being 'milked'. The Sub-Committee noted that the cost of a visa is shown as \$458 and queried whether this is the true cost, and how that compares to our competitors:

To the international student, yes. When you are paying \$20,000 a year for a degree, it is not a lot. But it is a little like the travel concessions. They list the visa thing again as one of those symbolic issues. They think they are being milked.<sup>23</sup>

- 8.24 The Sub-Committee said that it understood the cost in New Zealand is \$121 and asked what students used as a benchmark for visa costs:

...Other countries. It says one of two things: either we are milking them or, if it is a full-cost justification, which I am sure Immigration would say it is, we are inefficient in managing visas. If the costs are that much to manage a visa compared to New Zealand, which also operates on full-cost principles, then we have not got our costs under control.<sup>24</sup>

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22 Universities Australia, Committee Hansard, 11 September 2009, pp. 19-20.

23 Universities Australia, Committee Hansard, 11 September 2009, p. 20.

24 Universities Australia, Committee Hansard, 11 September 2009, p. 20.

- 8.25 The Witnesses added that the problems lie in the symbolic importance attached to these issues when Australian conditions are compared to other countries:

Compared to the \$20,000 a year in fees and living costs it is nothing, but what we get from surveys is that they see it like we would. If you are leaving a country with an exit charge and they demand \$100 for you to leave, but you do not have any money at the time, you think, 'What sort of country am I in?' It is that sort of symbolism.

The international students in the surveys that we do with them tell us that there are three things about Australia that are symbolically significant. One is the visa fee, another is the travel concessions and the third is the attitude of employers for work experience when they make inquiries in Australia – because one of the attractions of Australia in the past that helped us build the international education industry was that we were more relaxed about students working while studying than the US.

For a long while, you could not work off-campus if you were an international student in the US. Australia allowed students to work up to 20 hours a week much earlier than the US. That was quite attractive, although not necessarily for the sort of people you are talking about. For instance, a very wealthy Indian middle-class family does not worry about whether the student can work much or not.<sup>25</sup>

- 8.26 One issue raised by Universities Australia was the decline in government funding for universities. The witnesses pointed out that, compared to other OECD countries, government funding on higher education in Australia has declined as a share of GDP:

According to the OECD, which has the most comparable information in this area by common definitions, over the last 10 to 12 years we were the only OECD country where public expenditure on higher education as a share of GDP fell backwards. Depending on which 10 years you are talking about, it declined by four to six per cent, whereas the average OECD country increased its share of GDP on higher education through public outlays by 48 per cent.

So we were falling backwards while the others were going forwards. However, we were increasing our spending through

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private sources such that we now have, along with the United States and Japan, the highest share of private revenues going into universities of any of the other countries. Those three are the large private entities. In the United States and Japan it is through private universities; in Australia it is through the earnings of public universities.

In Australia, 40 per cent of our revenue comes from government – half of that is competitive research grants from the ARC and the NHMRC; the other half is direct grants to universities – whereas private schools get 60 per cent of their revenue from the Commonwealth government. So you have got public universities at 40 per cent and private schools at 60 per cent. They are indicators of how we have fallen back in the balance of public and private funding.

In universities we do not for a minute want to reduce our entrepreneurialism – because that is really what it has been for over 10 years now – in alternative sources of revenue. We like our mixed portfolio of revenue sources. We do not want to be dependent only upon private revenue or only upon government revenue, because we like to be free and independent. Having a range of benefactors really helps us position ourselves to do what we believe we are there to do, which is to provide independent generation of knowledge and training in knowledge.

We think the balance has got a bit out of whack and that the public component has fallen. Overall, for instance, we now have about 1.6 per cent of GDP being spent on higher education. The European Community has now committed itself to two per cent. For us to reach that would roughly require that government step up to the OECD average in public funding; then we would be there. That is an aspirational goal of the OECD, but we have a little way to go on that.

In research areas, which are additional to the teaching areas, the European Community has set a goal of three per cent of GDP for private and public research. In Australia we are only at about two per cent. There we are down on the private spending; in higher education we are down on the public spending. So both partners in the national endeavour have to step up to the plate more, in our

view, for Australia to be an even smarter and more skilled nation.<sup>26</sup>

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26 Universities Australia, Committee Hansard, 11 September 2009, p. 23.

## Government Trade Policy Statement

- 9.1 In April 2011, the Gillard Government released a comprehensive Trade Policy Statement – *Trading our way to more jobs and prosperity*.
- 9.2 The Statement noted that the opening of the Australian economy since the 1980s had contributed greatly to the strong and sustained economic growth of the past twenty years. It commented that international trade assisted the government in achieving its aims of increasing national prosperity and the creation of high-skill, high-wage jobs. Workers in export industries earn about 60 per cent more than other Australian workers.<sup>1</sup>
- 9.3 In evidence given to the Sub-Committee, the Department of Foreign Affairs and Trade set out the background to the preparation of the Statement:

The statement was prepared following consultations with a range of stakeholders, including key industry groups, the union movement and civil society. It also drew on the Productivity Commission's report on bilateral and regional trade agreements. That process had more than 100 written submissions.

Overall the trade policy statement has been welcomed by key industry bodies, including the Australian Chamber of Commerce and Industry, the Australian Industry Group, the Business Council of Australia, the National Farmers' Federation and the Australian Services Roundtable. Some other stakeholders as well have raised

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<sup>1</sup> Gillard Government Trade Policy Statement: *Trading our way to more jobs and prosperity*, Department of Foreign Affairs and Trade, April 2011, p.1.

issues dealt with in this statement when we have been consulting with them.<sup>2</sup>

- 9.4 The Statement estimates that the reductions in industry protection, and the consequent opening of the Australian economy to more trade, have made the average household about \$3,900 better off. At the same time trade intensity (exports plus imports as a share of total economic output) has increased from 28 per cent to 40 per cent.<sup>3</sup>
- 9.5 The Government's role is a vital one. Through charges and processes, such as customs duties, quarantine restrictions, subsidies, taxes, and fees and charges of various kinds, it can have a major influence on the cost and availability of goods. The statement recognises that reduction in these government-imposed restrictions benefits the economy by exposing businesses to international competition:
- ...compelling them to innovate, to be efficient and to restrain the prices they charge local consumers. And reducing trade barriers at home can enable consumers to buy imported items at lower prices than the cost of producing them at home.<sup>4</sup>
- 9.6 The statement offers examples that reflect this effect – the prices of most items of clothing and footwear are considerably lower than they were 25 years ago. By contrast the prices of untraded goods – the examples used are haircuts, rents and dental care – are noticeably higher.<sup>5</sup>
- 9.7 This influence extends beyond the border. A sound and open trade policy allows the factors of production – land, labour and capital – to move into the nation's more competitive industries. The essential factor here is that an open economy is able to maximise its comparative advantage and to specialise where that advantage is greatest.<sup>6</sup>
- 9.8 The essential point is that these advantages do not depend on other countries reducing their levels of protection. However, when other countries are also reducing their barriers, it allows Australia to take advantage of better market access for its exporters and increases the overall gains.<sup>7</sup>

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2 Department of Foreign Affairs and Trade, Committee Transcript, 3 June 2011, p.2.

3 Gillard Government Trade Policy Statement, p.1.

4 Gillard Government Trade Policy Statement, p.3.

5 Gillard Government Trade Policy Statement, pp.2-3.

6 Gillard Government Trade Policy Statement, p.3.

7 Gillard Government Trade Policy Statement, p.3.



9.9 Another essential factor is the pressure that is built up in the rest of the economy to also reform and become more efficient. Unless the reform process is economy-wide, export industries may be held back by the cost of non-traded inputs and by the costs imposed by excessive regulation:

Trade liberalisation therefore can drive wider economic reform, lowering prices not only to export industries but to the nation's consumers as well.<sup>8</sup>

9.10 The Statement recognises the changes that are occurring in the world economy, particularly the growth of globalised manufacturing processes supported by regional and global supply chains. It also notes the rise in the importance of services, which now:

...account for 73 per cent of Australia's economic activity, 85 per cent of employment and around 22 per cent of export revenue.<sup>9</sup>

9.11 ITS Global estimated that the services included in Australia's merchandise exports amounted to \$35 billion. This is in addition to \$53 billion of direct services exports. The Statement indicates that the Government intends to implement a reform program to make Australia's services sector one of the most open in the world.<sup>10</sup>

9.12 The Sub-Committee asked the Department of Foreign Affairs and Trade for some details of the proposed reforms. The Department commented:

The Government's overarching strategy for the service economy consists of:

- the creation of a sound macroeconomic environment that supports sustainable growth;
- increasing the productivity and competitiveness of the service economy by removing impediments to growth, through microeconomic reform;
- enhancing the capacity of service-based businesses, through investment in skills, innovation and infrastructure; and
- vigorously pursuing trade liberalisation.<sup>11</sup>

9.13 The Department explained also that:

A major focus of the Government's microeconomic reform agenda is the work of the Council of Australian Governments (COAG) under its National Partnership Agreement to Deliver a Seamless

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8 Gillard Government Trade Policy Statement, p.3.

9 Gillard Government Trade Policy Statement, pp.3-4.

10 Gillard Government Trade Policy Statement, p.4.

11 Department of Foreign Affairs and Trade, Submission 40a, p.1.

National Economy. In March 2008 COAG endorsed a far-reaching reform agenda, oversighted by the Business Regulation and Competition Working Group (BRCWG), for reducing the costs of regulation and enhancing productivity and workforce mobility in areas of shared Commonwealth, State and Territory responsibility. The COAG reform agenda is intended to deliver more consistent regulation across jurisdictions to address unnecessary or poorly designed regulation, to reduce excessive compliance costs on business, restrictions on competition and distortions in the allocation of resources in the economy.

The Government also has a wide range of other reforms in train that directly impact individual services sectors, including for example, the major infrastructure upgrades and competition reforms to Australia's telecommunications sector introduced under the National Broadband Network (NBN). The vastly improved broadband performance offered by the NBN will support greater productivity and innovation, including in areas such as e-commerce.

Another example is the report by the Australian Financial Centre Forum (AFCF) – *Australia as a Financial Centre: Building on our Strengths*, released on 15 January 2010. The AFCF report provides recommendations on domestic reforms and policies to improve the international competitiveness of Australia's financial services sector. The Government provided in-principle or direct support for nearly all of the Forum's 19 recommendations...<sup>12</sup>

- 9.14 The Government places support for the World Trade Organization among its top priorities and it is actively seeking a successful conclusion to the Doha Round. However, it recognises the difficulties faced by many developing countries in trying to fully participate in the world trading system. The ability to participate fully brings with it many benefits for such countries and directly influences their economic growth and the rate of poverty reduction they can achieve.<sup>13</sup>
- 9.15 To assist developing countries to take advantage of the opportunities that trade presents, Australia operates 'aid for trade' programs. The aim is to "strengthen the capacity of developing countries to participate in

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12 Department of Foreign Affairs and Trade, Submission 40a, p.1.

13 Gillard Government Trade Policy Statement, p.4.

international trade” and, by doing so, “improve the health of the global trading system”.<sup>14</sup>

- 9.16 In response to a question about ‘aid for trade’ programs, the Department of Foreign Affairs and Trade explained:

Aid for trade is about helping developing countries, especially least developed countries, to integrate better in the global trading system, to sell their goods and services more successfully in the international marketplace, and to create an appropriate trade enabling environment domestically. Success in these areas, in support of greater market access, can make trade a potent fuel for achieving economic growth.

Greater economic integration and the opportunities flowing from this can enhance economic activity, and help communities build new livelihoods, expand existing businesses and find new jobs. The liberalisation of sectors such as health services can facilitate access to better health care, and thereby reduce child mortality and improve maternal health.

Economic growth and the resulting improvement in prosperity can provide developing countries the resources and capabilities to reduce poverty, and to deliver more and better education and health services.<sup>15</sup>

- 9.17 The Department explained that the Government sees the role of ‘aid for trade’ as an important way of assisting developing nations to take a full share in the global trade system:

Aid for trade plays an important role in the trade policy space, and is a key component of international trade advocacy efforts. It supports Australia’s commitment to international cooperation and an open and transparent global trading system as a foundation of future prosperity – and is a critical avenue to poverty reduction and economic growth.

Trade is a key factor for economic growth. Developing country participation in global trade liberalisation is one of the most effective ways of delivering developing countries a better deal in world trade, encouraging development and reducing poverty - no country has achieved strong and sustained economic growth without it. But developing countries need assistance to participate

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14 Gillard Government Trade Policy Statement, p.4.

15 Department of Foreign Affairs and Trade, Submission 40a, p.2.

in the global trading system and capacity to translate the benefits of trade into development outcomes and progress towards the Millennium Development Goals. Aid for trade is being increasingly sought by developing countries.

Aid for trade helps to facilitate international trade and economic integration, utilising existing global institutions such as the WTO, APEC, East Asia Summit, ASEAN and the Pacific Islands Forum. It helps developing countries build and strengthen their economic and trade governance, undertake trade liberalisation, comprehensively engage in international trade negotiations and implement outcomes including to support economic reform and adopt international standards.<sup>16</sup>

- 9.18 The Department went on to explain that although the term 'aid for trade' is relatively new, the process has, in fact, been an important part of Australia's aid program for a considerable time:

Aid for trade has always been an important component of Australia's development assistance program. Over recent years Australia's aid for trade activities have increased and strengthened, consistent with the Government's commitment to support trade liberalisation unequivocally, resist protectionism and help developing countries gain access to international economic opportunities.

AusAID currently estimates Australia's total aid for trade activities at around \$600 million in 2009-10 (or around 15% of total ODA). This figure was calculated based on activity/sectoral codes identified by the OECD as aid for trade. Australia has no specific aid for trade program or facility. Activities are funded across various programs or facilities.

Australian aid for trade provided through multilateral and regional forums/organisations represents about 30% of overall aid for trade. On a geographic basis, Australia's aid for trade is primarily directed at East Asia (35%) and the Pacific (23%). The largest bilateral country recipients are Indonesia (15%) and Papua New Guinea (12%).

The key types of aid for trade activities are economic infrastructure for transport (51%), and building productive capacity (46%) mainly in the agriculture sector. These underpin regional integration and trade facilitation objectives.

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16 Department of Foreign Affairs and Trade, Submission 40a, pp.3-4.

Continuing efforts to strengthen aid for trade will focus on better tailoring and targeting of activities to achieve optimal impact, and to improve monitoring and evaluation mechanisms to take better account of trade related outcomes.

Strengthening our efforts on aid for trade will help deliver more efficient and effective aid that underpins Australia's broader foreign and trade policy interests. It will help achieve economic growth and reduce poverty, as well as see developing country partners achieve self-reliance.<sup>17</sup>

- 9.19 Examples of these policies already in place are reflected in the economic cooperation and capacity strengthening provisions in recent trade agreements (such as AANZFTA) and in activities within many of the programs being undertaken through APEC.
- 9.20 The OECD and WTO produced a report in 2009 assessing the effectiveness and achievements of aid for trade initiatives. The report commented:

The Aid-for-Trade initiative has succeeded in raising awareness about the support developing countries, and in particular the least developed, need to overcome the barriers that constrain their ability to benefit from trade expansion and reduce poverty. As a result partner countries are raising the profile of trade in their development strategies and donors are responding by providing increasing resources to build trade capacity – whether in terms of policies, institutions or infrastructure.

...Now, more than ever, aid for trade is indispensable for helping suppliers from low income countries build capacity to penetrate global markets. Consequently, aid for trade must remain an essential component of development assistance. The report concludes that maintaining momentum towards the trade expansion and poverty reduction goals of the initiative requires reinforcing local ownership and advancing the dialogue among stakeholders.<sup>18</sup>

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17 Department of Foreign Affairs and Trade, Submission 40a, p.3.

18 *Aid for Trade at a Glance 2009: Maintaining Momentum*, OECD/WTO, 2009, Executive Summary, p.13.

## Trade Liberalisation

- 9.21 The Statement notes that the ultimate objective of trade policy “is to increase the prosperity of a nation’s citizens”, although non-trade policies are the most effective at redistributing income among the population. However, those processes are much more effective in a strongly growing economy.<sup>19</sup>
- 9.22 The process of trade liberalisation has transformed the Australian economy from “a small domestic market protected by high tariff walls to an open, competitive economy supplying global markets”.<sup>20</sup>
- 9.23 The changes to the economy have gone far beyond the simple reduction of tariff protection; they have, for example, encompassed changes to the exchange rate, greater competition in financial markets, and an overhaul of government business enterprises. The Government Statement commented that this combination of trade policy and microeconomic reform is an integral part of the overall economic reform program.<sup>21</sup>
- 9.24 The trade liberalisation reforms have reduced average effective tariffs on manufactures from 22 per cent to below 5 per cent. On motor vehicles the maximum tariff rate fell from 100 per cent to five per cent; on clothing and some textiles the rates fell from up to 180 per cent to 10 per cent and will fall to five per cent in 2015. Tariffs on footwear and some other textiles are already at five per cent.<sup>22</sup>

## The Patchwork Economy

- 9.25 The Government Statement explains the problems arising from the extraordinary success of the mining sector. As the sector grows it is attracting skilled workers and other resources from less successful sectors. The result is described in the Statement as a “patchwork economy” – sectors operating at dramatically different speeds. The problem brings with it a high exchange rate and that, in turn, poses difficulties for exporters and import-competing industries.<sup>23</sup>

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19 Gillard Government Trade Policy Statement, p.4.

20 Gillard Government Trade Policy Statement, p.5.

21 Gillard Government Trade Policy Statement, p.5.

22 Gillard Government Trade Policy Statement, p.5.

23 Gillard Government Trade Policy Statement, p.6.

- 9.26 However, the mining sector itself faces competition from its overseas rivals, who are also benefitting from the commodity boom. The high exchange rate has two offsetting effects. It disadvantages exporters and import-competing industries, but pushes the prices of imported goods and services downwards and assists consumers and other industry sectors. As a result of these competing influences, the Government plans to concentrate on re-starting productivity growth to restore balance to the economy and allow all industry sectors to become more competitive.<sup>24</sup>

## Five Principles to Guide Trade Policy

### Unilateralism

- 9.27 The basic principle underlying the trade liberalisation program is that it should not rely on what other people do. The reforms carried out to date have been very beneficial to the competitiveness of the Australian economy. Consequently, it makes no economic sense to refuse to push forward with liberalisation because other countries refuse to offer concessions. The Statement compares it to “an athlete refusing to get fit for an event unless and until other competitors also agree to get fit”.<sup>25</sup>
- 9.28 The rule proposed by the Government is that trade negotiations should be judged solely on whether the results are in Australia’s interests, regardless of what other countries propose to do.<sup>26</sup>

### Non-discrimination

- 9.29 The Australian Government’s policy is to negotiate trade agreements that support the WTO’s basic rule of non-discrimination – reductions in protection offered to one country are also available to other countries. This is to some extent against the tide, because globally many of the agreements negotiated in recent years offer preferential treatment to the signatories and not to other trading partners.<sup>27</sup>
- 9.30 The Government is seeking to minimise the trade-diverting effects of its trade agreements. Preferential agreements can allow resources to be

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24 Gillard Government Trade Policy Statement, p.6.

25 Gillard Government Trade Policy Statement, p.7.

26 Gillard Government Trade Policy Statement, p.7.

27 Gillard Government Trade Policy Statement, p.7.

diverted from their most efficient applications by favouring products from the parties to such agreements. The Statement commented that:

Trade diversion amounts to a redistribution of jobs and prosperity instead of the creation of more jobs and prosperity. Worse, trade diversion is inherently job-destroying and income-destroying from a global perspective.

...the Gillard Government will not seek exclusive or entrenched preferential access to other countries' markets. Non-discriminatory trade agreements offer better long-run returns for Australia. They are more likely to result in trade creation instead of diverting trade from other countries that, in the absence of tariffs, would be lower-cost producers.

...the Gillard Government will vigorously pursue better access to other countries' markets for our exporters of agricultural produce, of manufactured goods and of services<sup>28</sup>

## Separation

9.31 Past experience has shown that trade policy and foreign policy should not be mixed – this means that trade deals should not be entered into for geo-political purposes:

Having decided to embark upon a trade agreement that gives each other preferential treatment, thereby discriminating against others, each country might soon find the other unwilling to give ground on issues that are politically sensitive domestically. Negotiations can become stalled, with interest groups in each country criticising the other's government for intransigence.<sup>29</sup>

9.32 Australia will negotiate bilateral trade agreements with any country that is genuinely interested in reducing its trade barriers:

- but will only sign deals that pass the test of being in Australia's national interest.<sup>30</sup>

## Transparency

9.33 Where negotiations take place between two countries that genuinely wish to liberalise, it promotes transparency in the negotiations. One of the problems faced in current trade negotiations stems from the reliance

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28 Gillard Government Trade Policy Statement, p.7.

29 Gillard Government Trade Policy Statement, p.8.

30 Gillard Government Trade Policy Statement, p.8.



placed on the results of mathematical modelling of the likely outcome of the negotiations.<sup>31</sup>

9.34 The problem is that the modelling uses a hypothetical agreement, usually assuming full, or almost full, liberalisation. The results therefore show very impressive figures for the benefits likely to be gained through the agreement – but the final agreement is usually quite different to the hypothetical construct.<sup>32</sup>

9.35 The Department of Foreign Affairs and Trade commented:

...modelling will depend very much on what the assumptions are. There are different types [of] modelling that you can do and they can be broader or bigger. So I think it is just saying there that modelling in and of itself is not the only thing that people should ever rely on. There may be circumstances where modelling is not the appropriate thing to do to make a judgment about what the net benefit to Australia would be from a trading agreement. It may be that there are limitations on where you should use modelling there. So it is really a contrast, I think, between what the government saw as some earlier practices and the way they want to move forward in the future.<sup>33</sup>

9.36 To achieve transparency, the Government Statement proposes:

- modelling should be based on the final product of the negotiations, not on a hypothetical model;
- there should be regular consultations with business groups, trade unions and community organisations, with special emphasis on likely regional effects;
- as each stage of the negotiations is completed, the information should be placed on government websites; and
- all agreements should be scrutinised by the Joint Standing Committee on Treaties.<sup>34</sup>

## **Indivisibility of Trade Policy and Economic Reform**

9.37 During the major reforms of the last twenty years, Australia has not waited on the actions of other countries. Reforms to make the economy more competitive have been pursued regardless of what others have done. The Government Statement makes it clear that this policy will continue:

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31 Gillard Government Trade Policy Statement, p.8.

32 Gillard Government Trade Policy Statement, p.8.

33 Department of Foreign Affairs and Trade, Committee Transcript, 3 June 2011, p.6.

34 Gillard Government Trade Policy Statement, p.8.

Applying the indivisibility, Australia will not wait for other governments to reform their economies before reforming ours. Australian economic reform is good for jobs, goods for prosperity. As reformers, we have never waited for the world and we need not wait for the world now.<sup>35</sup>

9.38 Productivity growth has accounted for 80 per cent of the increase in Australia's national income over the last 40 years. However, that growth has slackened in recent years. The Gillard Government has made the revival of productivity growth, through a new program of economic reform, a priority in its program.<sup>36</sup>

9.39 The Department of Foreign Affairs and Trade explained:

The Government has identified enhanced productivity growth as the key to increasing Australia's economic growth. The pursuit of productivity enhancing and nation building reforms through prudent investment in social and economic infrastructure, and policies to support skills and human capital development is a fundamental economic policy goal. This is focused in the following areas:

- Education reforms, including improved tertiary and vocational training as well as a greater allocation of resources and effort to schools and the critical early learning phase
- Core reforms to infrastructure, including in relation to transport, energy and water, the NBN and a range of reforms under COAG's Seamless National Economy National Partnership Agreement
- Promoting innovation, including through spending on research excellence, critical research infrastructure, business innovation and enabling technologies. This effort interacts with many of the education reforms and the development of infrastructure, especially the NBN.<sup>37</sup>

9.40 The Department of Foreign Affairs and Trade in its evidence to the Sub-Committee explained that economic reform must include trade facilitation measures to reduce the regulatory burden on businesses involved in international trade:

Domestically and also internationally we did play quite a big role in trying to use e-commerce to facilitate the movement of goods across borders, so that is one element. But generally I think trade

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35 Gillard Government Trade Policy Statement, p.9.

36 Gillard Government Trade Policy Statement, p.9.

37 Department of Foreign Affairs and Trade, Submission 40a, pp.6-7.

agreements in particular are looking more at how we can address some of those regulatory or process barriers.

In most agreements, in customs cooperation for example, there is quite a big focus on trying to remove things that are not really necessary for achieving policy objectives but really do provide additional costs on exporters or importers, do not really add to the whole situation, or provide more opportunities for people to slow down the movement of goods.<sup>38</sup>

## Disciplines in Australia's Trade Policy

9.41 Future trade negotiations will be conducted under a series of disciplines derived from the five principles set out above:

- Multilateral agreements offer the largest benefits;
- Regional and bilateral agreements must not weaken the multilateral system – they must be genuinely liberalising, eliminating or substantially reducing barriers to trade;
- Australia will not seek to entrench preferential access to markets in trade negotiations, but simply an opportunity to compete on terms as favourable as anyone else's;
- Australia will not allow foreign policy to dictate parties to and the content of trade deals;
- The public will be well informed about negotiations for, and the content of, proposed trade agreements and have an opportunity for input; and
- Australia will press ahead with domestic economic reform irrespective of whether other countries agree to reform their economies.<sup>39</sup>

## The Government Trade Negotiation Agenda

9.42 The Government faces a difficult time, with the world's economies struggling to overcome the setback of the Global Financial Crisis. Although the major economies resisted the temptation to re-establish protectionism, the Crisis has weakened the resolve of many economies to continue to push for liberalisation:

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38 Department of Foreign Affairs and Trade, Committee Transcript, 3 June 2011, p.2.

39 Gillard Government Trade Policy Statement, p.9.

Governments are fearful that further global trade liberalisation would put further pressure on domestic industries still struggling with the after-effects of the recession and shifting patterns of comparative advantage.<sup>40</sup>

9.43 This situation has increased the importance of a satisfactory outcome in the Doha Round. If the Round can be completed successfully it will stimulate the global economy and re-establish growth in job creation and prosperity. The Statement notes, however, that “the major and emerging powers appear indifferent to these opportunities”.<sup>41</sup>

9.44 Taking these factors into account, the Government has established a negotiating agenda that is consistent with the recommendations of the Productivity Commission’s report on trade agreements last year:

...the Government's negotiating agenda will steer a middle course of championing and protecting the multilateral system while seeking to negotiate high-quality, truly liberalising sectoral, bilateral and regional trade deals that do not detract from but support the multilateral system.<sup>42</sup>

9.45 The Government also announced that later this year it will:

...assess each set of trade negotiations against the principles and disciplines outlined in this Trade Strategy, in the light of progress on the various negotiations.<sup>43</sup>

## Current Negotiations

### The Doha Round

9.46 Strenuous efforts have been made to bring the Doha Round to a successful conclusion but a recent announcement by the WTO indicates that is unlikely this year. A News Item released on 31 May said that it is unlikely that agreement will be reached on agriculture, non-agricultural market access, services, trade remedies and intellectual property by the time of the Ministerial Conference in December 2011. Delegates are hoping to achieve at least a package for the least-developed countries as part of an “early

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40 Gillard Government Trade Policy Statement, p.9.

41 Gillard Government Trade Policy Statement, p.10.

42 Gillard Government Trade Policy Statement, p.10.

43 Gillard Government Trade Policy Statement, p.10.

harvest” in anticipation of a full agreement – but so far there is no indication of when that final agreement may be reached.<sup>44</sup>

9.47 The Department of Foreign Affairs and Trade confirmed the likely delay in its evidence to the Sub-Committee:

...we had a rush of enthusiasm and optimism coming from the end of last year when at the G20 summit and also at the APEC leaders meeting, leaders in their discussions – and they had some quite detailed discussions on the prospects for the round – were able to say, 'We think there's a window of opportunity to conclude the round this year.'

There was a lot of activity from December and it is still going on, in fact. But it seemed about a month ago, after a range of bilateral meetings in particular between the United States, Brazil, India and China, that there are a number of issues, a number of gulfs, that those countries in particular do not seem to be able to bridge, and that essentially means that we are not going to be able to finish it this year.

...Nobody wants to drop the round completely. Everybody says they are still very committed to trying to get a conclusion. But it is quite clear that we are not going to get the whole conclusion this year. So the focus is now turning to whether we can get, if you like, an early harvest of some issues by the time of the December WTO ministerial meeting in Geneva – whether we can get a harvest there, get some issues that we can get agreement on and a process to try to bring the rest to a conclusion over the following period.

So the focus now is just on trying to translate that political commitment into outcomes and then trying to work through in Geneva exactly what issues we could possibly pull out and have as an early harvest, and how to deal with the issues that are maybe harder and cannot be resolved before the end of the year and how to move through those issues ... over the next year or so.

...So we have a lot of work to do to maintain and continue our involvement in the WTO system. That will go on, as well is our efforts to try to find a way forward. I read the other day that

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44 *Members support Lamy's proposed three-speed search for Doha outcome in December*, WTO: 2011 News Items, 31 May 2011, [http://www.wto.org/english/news\\_e/news11\\_e/tnc\\_infstat\\_31may11\\_e.htm](http://www.wto.org/english/news_e/news11_e/tnc_infstat_31may11_e.htm), accessed 16 June 2011

someone described it as a marathon rather than a sprint. I think that is true. We will just continue to be one of the most vocally and policy optimistic and energetic members of the WTO, because we believe it is such an important thing. All aspects are important and we will continue to try to find a positive way forward on all parts of the WTO's agenda.<sup>45</sup>

9.48 The Government places the WTO Round as its top priority:

A multilateral trade deal offers the greatest prospective benefits. Successful completion of the Doha Round would create a new wave of global trade liberalisation and strengthen the integrity of the global trading rules to achieve greater gains from trade.

Global prosperity is maximised in a global market observing global trading rules.<sup>46</sup>

9.49 Recognising the value of reaching simultaneous agreement with 153 economies, the Government said it will "continue to press for an ambitious, comprehensive outcome of the Doha Round that liberalises trade in agriculture, manufacturing and services".<sup>47</sup>

## APEC

9.50 In 1994 APEC adopted the "Bogor Goals" for free and open trade and investment in the Asia-Pacific region – by 2010 for developed economies and 2020 for developing countries. By 2009 this program had produced a reduction in average tariffs from 16 per cent in 1988 to 6 per cent.<sup>48</sup>

9.51 The long-term aim is for the conclusion of a Free Trade Area of the Asia Pacific (FTAAP) but the Statement notes that at present there is no clear path to reach that goal. One possible route to achieving FTAAP is through the current negotiations on the Trans-Pacific Partnership (TPP), an agreement that will aim to expand its membership over time. Another possibility is through the Comprehensive Economic Partnership for East Asia (CEPEA), which involves the ten ASEAN members, China, India, Japan, New Zealand, the Republic of Korea and Australia.<sup>49</sup>

9.52 When asked about the likely progress on this issue, the Department of Foreign Affairs and Trade commented:

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45 Department of Foreign Affairs and Trade, Committee Transcript, 3 June 2011, pp.3 and 7.

46 Gillard Government Trade Policy Statement, p.10.

47 Gillard Government Trade Policy Statement, p.10.

48 Gillard Government Trade Policy Statement, p.10.

49 Gillard Government Trade Policy Statement, p.10.

In its basic form APEC has a goal of a free trade area of the Asia Pacific. That is a goal. The issue is how you get there. People are thinking about different ways of getting there. There can be overlapping ways of getting there. One way that some people have mentioned is the Trans-Pacific Partnership Negotiations. These can expand over time. Another possible way could be CEPEA.

But there are other proposals for regional free trade agreements. I think they have talked about that in ones that do not include us. There is one for ASEAN +3 that is also under discussion in that same forum. All of these have members that are also in APEC. Really I think it is about people trying to find their way through to what is the best and most productive way to produce freer trade over time.

...Our view is that we try to be involved in as many [of these mechanisms] as possible. Some of them are at different stages of development and some are much more at a formative stage. Some regional FTAs are in a negotiating phase. I think all we do is try to focus on all of those things that we are involved with and try to get as much progress and value out of them as we can.<sup>50</sup>

9.53 The Sub-Committee asked whether it is likely that India will become a member of APEC in the near future and the Department of Foreign Affairs and Trade responded:

Our policy is that we are supportive of India becoming a member of APEC, but the moratorium on membership has only just finished. There was a moratorium for a number of years and I think it was only last year that the moratorium came to an end. It is not clear exactly how membership issues are going to be taken forward.

The bottom line is still that it requires a consensus. There is bound to be a balancing of people supporting some members and other people say saying, 'Yes, but we would like to have some other people join as well'. So how all of that comes out is still not clear yet...<sup>51</sup>

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50 Department of Foreign Affairs and Trade, Committee Transcript, 3 June 2011, pp.8-9.

51 Department of Foreign Affairs and Trade, Committee Transcript, 3 June 2011, p.7.

## Trans-Pacific Partnership

9.54 This is the top regional priority for the Government's program. The aim is an agreement that "eliminates or substantially reduces barriers to trade and investment". An especially valuable aspect of the proposed agreement is that it will also deal with "behind-the-border" issues. The other major advantage is that it is intended to be dynamic – to stay relevant in the face of emerging issues and to allow for membership expansion.<sup>52</sup>

9.55 The Department of Foreign Affairs and Trade was asked about these aspects of the TPP negotiations and responded:

'Living agreement' refers to two issues. The first is that we want an agreement that genuinely expands membership over time. There have not been many examples of free trade agreements that, practically, have gone from, say, one or two people and expanded to a larger number. Often there are provisions in them that allow for new members to come in, but there are not many where that is actually happened. That is what we are thinking of.

We do not have answers on all of these because we are still involved in the negotiations. But it is about how we can make an agreement that can genuinely expand over time and also one that can be adjusted as new issues come onto the horizon, and how you manage to have that reflected in agreements so they do not get out of date. These are some of the issues that we are grappling with. We do not have the answers as yet, but they are things we think are important as goals. We are trying to work through them as we go.

On the trade facilitation front, again, we have two approaches in the TPP. One is, if you like, what we call a bottom-up approach. At the moment there are more than 24 negotiating groups that deal with different aspects of the negotiations. It is very complicated, as it is in all FTAs. All of those groups deal with either liberalisation or facilitation type issues, but there are some in particular, like customs corporation and trade facilitation issues, where they go through exactly what the behind-the-border issues are. There is another element to the TPP that is relatively new. It is one of what we call the horizontal issues. We have a number of cross-cutting issues in the TPP.



...We have identified thematic concerns that people have, such as how can we do the TPP in a way that really assists small and medium sized enterprises, how we can contribute to development and how we can contribute to improved regulatory coherence. The regulatory coherence is what I am coming to, and there are a couple of other ones as well.

Regulatory coherence is this issue that says that really what people need to do is not necessarily to have the same regulatory systems, because people are not necessarily going to do that; what they need to do is have some coherence and opportunities for people to contribute to preparation and implementation of regulations.

So we are looking at ways in which we can get regulators together from different countries and have processes and commitments in place so that, if you are going to put in place a regulation, you give people an opportunity to understand it and comment on it.<sup>53</sup>

- 9.56 The requirement for those seeking to join TPP is that they “need to demonstrate commitment to early and comprehensive liberalisation so as to maintain the momentum that has been generated by existing TPP parties”.<sup>54</sup>

## Australia-Korea Free Trade Agreement

- 9.57 The Government is seeking to complete these negotiations in 2011. The proposed agreement is an important one because Korea is our fourth largest trading partner and the aim is to put Australia on an equal footing with the US and EU in the Korean market.<sup>55</sup>

- 9.58 The agreement will include strong commitments by Korea on the liberalisation of services trade; while Australia will eliminate tariffs on Korean motor vehicles and liberalise the foreign investment requirements.<sup>56</sup>

- 9.59 When asked about the current progress of negotiations, the Department of Foreign Affairs and Trade commented:

We launched that negotiation relatively recently, in March 2009. We have made very fast progress on both agreeing the treaty text and working through all of the market access – the tariff

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53 Department of Foreign Affairs and Trade, Committee Transcript, 3 June 2011, p.9.

54 Gillard Government Trade Policy Statement, p.11.

55 Gillard Government Trade Policy Statement, p.11.

56 Gillard Government Trade Policy Statement, p.11.

concessions and the services commitments. We are really in the final phases of that negotiation.

The Prime Minister in her trip to Republic of Korea ... agreed with President Lee that we would have the goal of concluding the negotiations this year. So that is the track that we are all on. We are hoping that we will be able to conclude that agreement very soon, certainly within the time frame agreed by the leaders. That is a very important agreement, needless to say, and you will be hearing more about it in the next inquiry...<sup>57</sup>

- 9.60 DFAT in evidence to the Sub-Committee said that the negotiations are in their final stages.<sup>58</sup> The completion of negotiations has now assumed some urgency, as the US and Korea have completed negotiations on their FTA and it is only awaiting Congressional approval. If that agreement comes into operation before the Australia/Korea agreement is ready for operation, there could be difficulties for Australian exporters – especially beef exporters.

## **Japan-Australia Free Trade Agreement**

- 9.61 The negotiations with Japan have been running since 2007. However, late last year, the Japanese Government released a Basic Policy on Comprehensive Economic Partnerships. That policy suggests “a major commitment to fundamental reform of Japan’s agricultural sector”.<sup>59</sup>
- 9.62 The Japanese Government proposed that, if possible, these negotiations should be completed this year. Whether that is still possible after Japan’s recent natural disaster remains to be seen. However, the Australian Government has agreed to accelerated negotiations that, it says, “...would offer benefits across goods, services and investment”.<sup>60</sup>
- 9.63 When asked about the current state of negotiations, the Department of Foreign Affairs and Trade acknowledged the difficulties arising from the impacts of the earthquake and tsunami and that Australia had recognised there would be delays:

We started the free-trade agreement negotiations with Japan in 2007 and have been negotiating steadily since that time. Quite some progress has been made in constructing the treaty that

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57 Department of Foreign Affairs and Trade, Committee Transcript, 3 June 2011, p.11.

58 Committee Hansard, 3 June 2011, p.11.

59 Gillard Government Trade Policy Statement, p.11.

60 Gillard Government Trade Policy Statement, p.11.

would be the free-trade agreement, and we have had a lot of negotiations on the market access side. As negotiators you tend to think of it in terms of the written treaty text – you have to get a treaty text agreed and you have also got to get the market access concessions agreed, which are in the schedules and part of the treaty as well, of course.

There has been a tremendous lot of work done across the whole breadth – as you say, you end up with a minimum of 20, more like 25, separate areas of a big trade negotiation. A lot of progress has been made and we were very encouraged by the Japanese government's announcement late last year of its basic policy on agriculture reform and trade reforms associated also with the TPP.

So there was quite some momentum gathering in the bilateral negotiation. But unfortunately the 11 March triple disaster of the earthquake and the tsunami and then the radiation issues from Fukushima have really, understandably, taken up the attention of the Japanese government and, there is no doubt about it, have led to a slowdown in our negotiating schedule since then.

...It is a very clear case of needing to deal with the reconstruction issues. And of course agriculture, which is a big part of any trade negotiation from Australia's point of view – the agriculture officials as well as the actual sector have been really very directly involved in the disasters and the consequent reconstruction work because of the agricultural areas that were hit.

The Prime Minister visited Japan, as you know, just recently, and the public statements that were made at the time were very clear in saying that we understand that there are unavoidable delays in our negotiating process while Japan attends to the reconstruction work. But the leaders both committed to resuming the negotiations as soon as possible.

So what we are doing is trying to keep working through email and teleconferences on the things that we can. In fact we are expecting a small delegation from Japan in a few weeks to do with the services part of the negotiation. We keep working as much as we can in the overall constraints on the Japan negotiation. It is extremely important, clearly, to both Japan and Australia. There is a very clear political commitment to continuing that and to concluding that. But there is no doubt that the disasters have been a setback in our momentum this year.

...It is such a phenomenally big and important trading partner with potentially large gains to be had if the trade barriers can be reduced across the board but it is a very big agricultural market. So we will just keep going.<sup>61</sup>

## **China-Australia Free Trade Agreement**

9.64 China is Australia's largest trading partner and negotiations for an agreement began in 2005. The issues involved are complex and some are quite sensitive. The main issues under discussion include: agricultural tariffs and quotas in China, manufactures, services, temporary entry of people and investment.<sup>62</sup>

9.65 In October 2010, the two Trade ministers agreed to make fresh efforts to overcome the present lack of progress.<sup>63</sup> When asked about the outcome of these discussions, the Department of Foreign Affairs and Trade commented on the Chinese leadership's continuing commitment to the negotiations, then added:

There is clear recognition from both of the governments that it is an important undertaking. It was started in 2005. It is a big, difficult, complex negotiation. We know it is important and we will continue to pursue those negotiations. We expect to meet the Chinese for a full round of negotiations probably in July.<sup>64</sup>

## **Malaysia-Australia Free Trade Agreement**

9.66 Malaysia is Australia's 13<sup>th</sup> largest trading partner. Although both are signatories of the AANZFTA these negotiations seek to go further than that agreement. The aim is to complete negotiations by March 2012.<sup>65</sup>

## **Indonesia-Australia Comprehensive Economic Partnership Agreement**

9.67 Indonesia is our 11<sup>th</sup> biggest trading partner and its economy is growing rapidly. The Indonesian Government is aiming to be in the top ten world economies, measured by GDP, by 2025. This agreement will also seek to build upon the AANZFTA.<sup>66</sup>

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61 Department of Foreign Affairs and Trade, Committee Transcript, 3 June 2011, pp.10-11.

62 Gillard Government Trade Policy Statement, p.11.

63 Gillard Government Trade Policy Statement, pp.11-12.

64 Department of Foreign Affairs and Trade, Committee Transcript, 3 June 2011, p.11.

65 Gillard Government Trade Policy Statement, p.12.

66 Gillard Government Trade Policy Statement, p.12.

## **Gulf Cooperation Council Free Trade Agreement**

- 9.68 These negotiations are stalled at present awaiting a GCC review of its trade agreement policy. Two-way trade with the Council members is quite substantial at \$9 billion in 2010. Important products for Australia are motor vehicles, agricultural products, minerals and services (especially education, engineering and construction).<sup>67</sup>

## **Applying Non-Discrimination Principles**

- 9.69 The Government will not seek preferential treatment over other economies in its trade negotiations – it will seek only parity with others selling to those markets. It will offer our trading partners high-quality agreements that genuinely seek to liberalise trade. Decisions on signing or rejecting agreements will be based on whether they measure up to these principles:

The Government is willing to conclude a trade agreement with any country willing to sign up to a high-quality and comprehensive bilateral or regional trade deal that is consistent with the global trading rules.<sup>68</sup>

- 9.70 If Australia currently receives more favourable treatment than some other competitors in a particular economy, the government would have no objection to that treatment being extended to all other economies.<sup>69</sup>

## **Domestic Reform not Dependent on Others**

- 9.71 The Government Statement clearly recognises that economic reform is in Australia's national interest, whether or not its trading partners reform their own economies. In boosting the productivity of exporters, the reforms will provide an additional advantage over exporters from countries that do not reform their economies.<sup>70</sup>

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67 Gillard Government Trade Policy Statement, p.12.

68 Gillard Government Trade Policy Statement, p.12.

69 Gillard Government Trade Policy Statement, p.12.

70 Gillard Government Trade Policy Statement, p.13.

- 9.72 This process is aided by the openness of Australia's economy, which forces businesses to be as efficient and productive as possible if they wish to remain competitive in the global market.<sup>71</sup>
- 9.73 An important part of Australia's reform process is to remove the impediments that for many years made Australia a series of small, fragmented state and territory markets. Consequently, the Government is working towards the completion of a "seamless economy" – a single national market.<sup>72</sup>
- 9.74 Priority areas in the program are: a national school curriculum; a national industrial relations system; national road transport regulations; and a national ports strategy.<sup>73</sup>

## **Non-Trade Objectives**

- 9.75 The essence of this section of the Statement is that while trade policy can legitimately be applied to assist with "labour, environmental, health and community safety objectives". However, it should not be used as a "back-door" method of protectionism in these areas.<sup>74</sup>
- 9.76 An obvious example for Australia is the law on quarantine:
- The Gillard Government's decision to accept a World Trade Organization ruling on the importation of apples from New Zealand is testimony to its commitment not to use quarantine as an artificial trade barrier.
- ...Australia is committed to a science-based quarantine regime that does not create artificial barriers to trade.<sup>75</sup>
- 9.77 The Minister for Trade and the Minister for Agriculture, Fisheries and Forestry jointly commented on 30 November 2010:
- The Government ... will now proceed with a science-based review of the import risk analysis for New Zealand apples. The review will be conducted by Biosecurity Australia.

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71 Gillard Government Trade Policy Statement, p.13.

72 Gillard Government Trade Policy Statement, p.13.

73 Gillard Government Trade Policy Statement, p.13.

74 Gillard Government Trade Policy Statement, p.13.

75 Gillard Government Trade Policy Statement, p.13.

Minister for Agriculture, Fisheries and Forestry, Senator Joe Ludwig, and Minister for Trade, Craig Emerson, said Australia had strongly defended the integrity of the nation's quarantine regime throughout the dispute and the current review will ensure Australia remains appropriately protected from pests and diseases.

Minister Ludwig said industry and other stakeholders would be properly consulted through the review process, which would be based on the best available science.<sup>76</sup>

9.78 The Government, however, will preserve the right of Australian governments to make laws in important public policy areas, such as social and environmental issues.<sup>77</sup>

9.79 Environmental issues are becoming steadily more important in trade discussions but it is important that they should not become an excuse to reintroduce protectionism. The Department of Foreign Affairs and Trade addressed this issue in its evidence to the Sub-Committee:

...I think that is why there is that principle or that position set out in the agreement that environmental issues are important and all governments want to pursue them; the issue from a trade perspective is how to pursue them effectively and efficiently and in a way that is consistent with international trade rules.

Certainly we do not see a contradiction between multilateral environment agreements and multilateral trade rules. There are ways to address all of these issues that are consistent with those rules. We keep a very close eye on the development of policies, as we always have, to see how they can fit into the international trade rules system. I think that is why we say in here that environmentalism is important but should not be used for protectionist purposes.

...There has been an attempt to encourage people to move away from trade-distorting forms of assistance to less trade-distorting forms of assistance. Again, that is how we have been trying to address some of those issues as well. It is about how you address these issues, not about whether you do or whether you should.

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76 Joint Media Release, Senator the Hon Joe Ludwig, Minister for Agriculture, fisheries and Forestry and the Hon Dr Craig Emerson MP, Minister for Trade, *Australia to review import risk analysis of New Zealand apples*, 30 November 2010.

77 Gillard Government Trade Policy Statement, p.14.

I guess it is trying to find your way through about allowing people to address some of these issues but not in a way that is damaging from a trade perspective. There certainly is the capacity to do that. What we have to do a lot of the time is simply to monitor to make sure that people are actually following the rules and are trying to address policies in ways that are consistent with these broad ideas.

Of course you want to address the environment and of course you want people to have better standards of living; the issue is not about whether you want to do those things and whether you should have policies but what the best policies to do that are and how you can do it in a way that does not have unnecessary consequences for other people as well.<sup>78</sup>

- 9.80 Labour policies are a common cause of disagreement in trade negotiations. The Statement notes that they are intended to “encourage improved working conditions, human capital development, higher labour productivity and sustained economic growth”. Conversely, the Statement added:

They are not intended to be punitive in nature or to come at the cost of competitiveness, enterprise growth or trade relations.<sup>79</sup>

- 9.81 Supporters of protectionism often claim that low wage rates in an exporting country give their products an “unfair” advantage. They seem to overlook the advantages given to local products by cheaper capital against some imports and cheaper land against others.<sup>80</sup>

- 9.82 In its evidence to the Sub-Committee, the Department of Foreign Affairs and Trade commented:

I think some of the pressures that you are talking about come from more developed economies and wealthier economies. I think poorer economies tend to focus on trying to make sure that people have reasonable living standards. Part of that obviously is getting jobs and having jobs that have good returns for workers, and all of those sorts of issues. So I think there are different ways people address them.

We do not tend to find those issues as much of a problem in developing countries. But we certainly focus, through the WTO— and there has been some WTO work done on some of these issues

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78 Department of Foreign Affairs and Trade, Committee Transcript, 3 June 2011, pp.3-4.

79 Gillard Government Trade Policy Statement, p.14.

80 Gillard Government Trade Policy Statement, p.14.



as well – on the positive contribution that trade can make to lifting living standards and creating better paid jobs and what have you.

So there is quite a deal of work there. Again, some of these issues are about the detail but in principle it is quite clear that trade liberalisation links in to creating better standards of living, creating better jobs and what have you over the longer term. So it works through all of those sorts of issues, and that is what we try to focus on.<sup>81</sup>

- 9.83 Australia has signed two trade agreements that include labour provisions – with the US and with Chile. These provisions are also being considered in the negotiations with Korea, Malaysia and in the TPP negotiations. The government asserts that, if included, these provisions will not be used as disguised protectionism.<sup>82</sup>

## Investor-State Dispute Resolution

- 9.84 Some countries request investor-state dispute resolution clauses in trade agreements to allow their businesses to take international legal action for alleged breaches of the agreement. The Australian Government supports the principle that foreign and domestic businesses should be treated equally under the law.<sup>83</sup>

- 9.85 Consequently, the Government will not support the inclusion of provisions that give foreign businesses greater legal rights than domestic businesses. Nor will it allow provisions that constrain Australian governments from enacting laws on social, environmental and economic matters that do not discriminate between foreign and local businesses.<sup>84</sup>

- 9.86 When asked how such provisions have been dealt with in the past, the Department of Foreign Affairs and Trade said:

We have not dealt with it because it has never happened to us before. The issue really is that it has come up and there have been some stakeholders in particular who have raised concerns about the possibility that that could have an impact on some domestic policy formulation. What the government says in the trade

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81 Department of Foreign Affairs and Trade, Committee Transcript, 3 June 2011, p.4.

82 Gillard Government Trade Policy Statement, p.14.

83 Gillard Government Trade Policy Statement, p.14.

84 Gillard Government Trade Policy Statement, p.14.

statement is that the ISDS really gives foreign companies an additional process, if you like, to take up complaints, that is not available to domestic businesses. We do not see a rationalisation for that. It really depends on which side you are looking at it from.

In the past, people have been quite interested in having those provisions in countries where legal systems perhaps are less well developed and they do not have confidence in the legal system there. But we have never actually used any of those provisions where we have ISDS provisions overseas.

Domestically, there is the other focus, which is what about if somebody wants to use those provisions here in Australia. I think the government has decided that in the future we are not going to be pursuing ISDS where we have sometimes in the past, mainly with countries where we thought it would add to the level of protection primarily for Australian investors overseas. But no-one has ever used them against us in the past and we have not used them overseas.

This is an issue that was looked at by the Productivity Commission. They found no evidence to suggest that it provides any real benefit in terms of investment. So, again, the government has just made this change in statement. At the same time, I would say that we have not done ISDS in all agreements, anyway, in the past.

We did not do ISDS in the past with the United States when the free trade agreement was done. We have not done it with New Zealand either, my colleague is reminding me. We always forget New Zealand, because it was done so long ago. We do not have an ISDS with New Zealand and we do not have an ISDS with the United States. In the past, we have not really negotiated ISDS with any OECD country.

...in fact, the US is the biggest demander for investor state dispute settlement. They want it because they see themselves as the foreign investor in most of the circumstances. They did very strongly push for it to be included in the US Australia free trade agreement, but the government of the day resisted that. It said that it did not think it was necessary in that the two countries have established legal systems and commercial issues can be pursued commercially. You do not need to use this avenue of enforcing the

free trade agreement commitments via arbitration in a commercial context.<sup>85</sup>

- 9.87 Australia has itself requested the inclusion of investor-state dispute resolution provisions in agreements with developing countries. This practice will now be discontinued – the assessment of the risks involved in investing in a particular country will now be solely an issue for the company to determine.<sup>86</sup>

## Trade and Investment Promotion

- 9.88 The Statement comments that in recent years the demands placed on Austrade have resulted in its resources being spread too thinly. The government has decided that it will in future apply those resources in a manner based on sound economic and commercial principles.<sup>87</sup>

- 9.89 In response to a question from the Sub-Committee on the substance of the proposed changes, the Department of Foreign Affairs and Trade responded:

On 17 May Dr Emerson announced a comprehensive reform of Austrade, aimed at better meeting the needs of Australian businesses. Austrade will reshape its strategy, operating model and structure.

Austrade will reorient its overseas operations, with an increased focus on frontier and emerging markets, where Australian businesses can benefit most from government support.

Austrade's resources in North American and European markets will, in future, be heavily focused on attracting foreign direct investment, and Austrade will continue its important role in promoting Australia's education and training capabilities in all major markets.

Existing programs such as the Export Market Development Grants (EMDG) and Tradestart will also continue to support Australian exporters.<sup>88</sup>

- 9.90 On the question of staffing resources for Austrade, the response added:

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85 Department of Foreign Affairs and Trade, Committee Transcript, 3 June 2011, pp.13-14.

86 Gillard Government Trade Policy Statement, p.14.

87 Gillard Government Trade Policy Statement, p.15.

88 Department of Foreign Affairs and Trade, Submission 40a, p.2.

Austrade will rationalise staffing, and close some small offices in Europe and North America, while establishing offices in Mongolia and Central Asia and strengthening its presence in Latin America, China and Africa.

Australian business will benefit as Austrade's resources are better targeted around sound economic and commercial principles, and deployed where Austrade adds the greatest value. Services to Australian business will be concentrated on those firms which are ready to tackle the challenges of the international marketplace.<sup>89</sup>

9.91 A paper released at the time of the Minister's announcement of the review, summarised the New Operating Model that Austrade will follow:

The conclusions of the Review will fundamentally reshape Austrade's strategy, operating model and structure. The core elements of the new operating model are:

- A clearer rationale and purpose - predicated on addressing market failure and focussing resources where Austrade as a government agency can add the greatest value
- A realigned international network - with a different focus in different markets reflecting the commercial potential as well as the nature and scale of impediments to business in those markets and the optimal role for Government
- A service delivery model targeted to internationally ready firms, supported by simpler packaging and pricing of services
- A focus on identifying and bringing tangible foreign business opportunities to Australian business
- Sharper investment promotion, attraction, and facilitation priorities
- A more open and contemporary approach to sharing Austrade information and insight, with new investment in online service delivery and information dissemination and strengthened collaboration with government and commercial service providers
- A commitment to strengthening organisational capability through simplifying the organisational structure, new initiatives to build workforce capacity and streamlining of corporate administration.<sup>90</sup>

9.92 The Statement stressed the importance of market information and its role in identifying foreign commercial opportunities and entering new

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89 Department of Foreign Affairs and Trade, Submission 40a, p.2.

90 *Reform of the Australian Trade Commission: Maximising Our Value*, Austrade, May 2011, p.3.

markets. It noted that market information is a public good and its use by one firm does not reduce the information available to other firms:

Left to private markets, the search costs that would need to be borne by a single firm, particularly in an emerging or frontier market, can be prohibitively high.

Just as a government can correct for market failure in mineral exploration by conducting early geological survey work and disseminating the information obtained to all private exploration firms, there is a legitimate role for government in generating information in emerging or frontier markets and disseminating this freely to interested firms.

The strongest rationale for government support for trade and outward investment promotion therefore is one of addressing market failure. There is a far less compelling case for government to promote and assist exporters generally in the absence of market failure.<sup>91</sup>

9.93 The reasons behind the new arrangements were explained as follows:

The most obvious information deficiencies are in emerging, frontier and transitional economies; where governments play a significant role in the economy; where language and business culture can provide a barrier; where there may be less openness of regulatory frameworks and transparency of business processes; where there are greater difficulties accessing distribution channels and commercial connections; and where the value of the 'badge of government' is highest. Austrade's trade promotion activities will be reoriented towards these markets.

For investment attraction, the general market failure argument for government involvement is not as specifically related to the nature of the market per se. It makes sense for Austrade to concentrate its investment promotion activities on countries with a surplus of investible funds, rather than on frontier markets.<sup>92</sup>

9.94 The Policy Statement concluded by summarising the Gillard Government's trade policy program. It re-emphasised the primacy of the multilateral trade negotiations and the Government's resolve to strengthen the global trading system wherever possible.<sup>93</sup>

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91 Gillard Government Trade Policy Statement, p.15.

92 Gillard Government Trade Policy Statement, p.15.

93 Gillard Government Trade Policy Statement, p.16.

- 9.95 The Statement explained that while the Government would continue to seek reductions in foreign tariff barriers and quantitative restrictions, it would also be working on the reduction of non-tariff barriers and behind-the-border issues on both goods and services. This may involve negotiations with domestic regulators on such things as: licences, permits, complex domestic regulations and burdensome and time-consuming processing of applications.<sup>94</sup>
- 9.96 Trade policy will avoid the use of measures such as quarantine restrictions, labour provisions and environmental standards as “back door” protectionism. Foreign investors in Australia will have the same legal protection as domestic businesses.<sup>95</sup>
- 9.97 As explained above, Austrade’s trade facilitation activities will be refocused to give greater emphasis on emerging and frontier markets. Its investment promotion activities will be concentrated on North America, Asia and Europe.<sup>96</sup>
- 9.98 Finally, the Statement announced that trade policy priorities will be reviewed annually against the principles and disciplines set out above. The review will take account of progress made and of emerging opportunities for further liberalisation. The positions set out in the Statement are consistent with the recommendations in the Productivity Commission’s recent report on bilateral and regional trade agreements.<sup>97</sup>

Mr Michael Danby

Chair

July 2011

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94 Gillard Government Trade Policy Statement, p.16.

95 Gillard Government Trade Policy Statement, p.16.

96 Gillard Government Trade Policy Statement, p.16.

97 Gillard Government Trade Policy Statement, p.16.

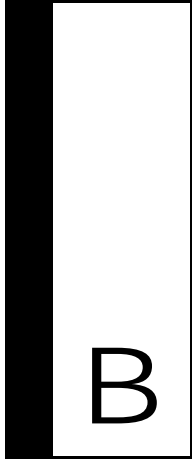


## **Appendix A – List of Submissions**

1. Westpac – Mr Huw McKay
2. Mr Jon Black, The Council of Mayors, South East Queensland
3. Mr Jon Stanhope MLA, Chief Minister, ACT Legislative Assembly
4. The Hon Mike Rann MP, Premier of South Australia
5. Embassy of Columbia
6. Wingecarribee Shire Council
7. REDIEX – Ministry of Industry and Commerce
8. Australian Services Union
9. Central Queensland Local Government
10. ITS Global
11. Embassy of Argentina
12. Department of Defence
13. NSW Department of State and Regional Development
14. Embassy of Mexico
15. Department of Immigration and Citizenship
16. Embassy of Peru
17. Embassy of Pakistan
18. Austrade
19. Department of Agriculture, Fisheries and Forestry

20. Embassy of Peru – Supplementary Submission
21. Embassy of the Philippines
22. Premier of Western Australia
23. Austrade – Answers to Questions on Notice
24. Three Plus Pty Ltd
25. Law Council of Australia
26. Embassy of Chile
27. Universities Australia
28. Sinogold
29. Embassy of Mexico – Supplementary Submission
30. Institute of Export
31. Tradegate
32. Export Vision
33. Embassy of Mexico – Reference to Questions on Notice
34. Mr Ken Waller, Director, The Australian APEC Study Centre, RMIT University
35. Exportise (Melbourne) Pty Ltd
36. Medicines Australia
37. Law council of Australia – Answers to Questions on Notice
38. Pacific Islands Trade and Investment Commission
39. Embassy of the Republic of Indonesia
40. Department of Foreign Affairs and Trade
- 40a. Department of Foreign Affairs and Trade (supplementary)
41. Embassy of Brazil
42. Embassy of Uruguay
43. Export Finance and Insurance Corporation
44. Department of Foreign Affairs and Trade – Answers to Supplementary Questions





## Appendix B – List of Exhibits

1. Embassy of the Bolivarian Republic of Venezuela in Australia – Mr Nelson Davila
2. Australian Dairy Industry Council – Mr Chris Phillips
3. Mr Peter Beattie’s speech to the business and exporters community in Queensland during *Exporter Week*, Brisbane, October 2008
4. Tradegate Australia Pty Ltd – Mr Peter Blanchard
5. New South Wales Business Chamber – Ms Christine Gibbs Stewart
6. Barokes Wines – Mr Greg Stokes
7. Sandilands Exports – Mr Peter Sandilands
8. Sandilands Exports – Mr Peter Sandilands
9. Merchantwise – Mr Andros Geogiades
10. Australian Council for Private Education and Training - Mr Andrew Smith
11. Australian Council for Private Education and Training – Mr Andrew Smith
12. Exportise Pty Ltd – Mr Michael Rogers
13. *Legal Services Country Profile – China* – International Legal Service’s Advisory Council, Attorney-General’s Department
14. *APEX Legal Services Initiative Information Sheet* – Asia-Pacific Economic Cooperation, Attorney-General’s Department





## **Appendix C – Witnesses appearing at public hearings**

**Canberra, Friday, 28 November 2008**

**Embassy of Peru**

His Excellency Mr Claudio de la Puente, Ambassador

**Embassy of Colombia**

His Excellency Mr Diego Betancur, Ambassador

Mr Carlos Arturo Forero, Counsellor

**High Commission of Pakistan**

His Excellency Mr Jalil Abbas Jilani

**Canberra, Wednesday, 11 March 2009**

**Embassy of Mexico**

Her Excellency Mrs Martha Ortiz de Rosas, Ambassador

**Canberra, Wednesday, 18 March 2009**

**Embassy of Argentina**

His Excellency Mr Pedro Villagra Delgado, Ambassador

Mr Leopoldo Sahores, Trade Attachè

## **Sydney, Tuesday, 5 May 2009**

### **Crescent Capital Partners**

Mr David Mortimer AO, Chairman

### **New South Wales Business Chamber**

Ms Christine Stewart, General Manager, International Trade

### **Export Consultants Group**

Mr Peter Campbell, Director

### **Australian Institute of Export**

Mr Peter Mace, General Manager

Mr Ian Murray, Executive Director

### **Tradegate Australia Ltd**

Mr Peter Blanchard, Chief Executive Officer

### **Sinogold Goldmining Ltd**

Mr Kevin Hobgood-Brown, Group Executive and General Counsel

## **Melbourne, Thursday, 21 May 2009**

### **The Australian APEC Study Centre, RMIT University**

Mr Ken Waller, Director

### **Sandilands Export**

Mr Peter Sandilands, Managing Director

### **Barokes Wines**

Mr Greg Stokes, Chief Executive Officer

### **Merchantwise Pty Ltd**

Mr Andros Georgiades, Creative Director and Co-owner

**Melbourne, Friday, 22 May 2009****Australian Council for Private Education and Training**

Mr Andrew Smith, Chief Executive Officer

Mr Steve Quirk, Manager of International Engagement

**Exportise (Melbourne) Pty Ltd**

Mr Michael Rogers, Director

**Three Plus Pty Ltd - Hospira Australia**

Mr Jason Thomas, Consultant

**Hospira Australia**

Dr Timothy Oldman, President – Asia Pacific

**National Union of Workers**

Mr Timothy Kennedy, Assistant National Secretary

**Generic Medicines Industry Association**

Ms Kate Lynch, Chief Executive Officer

**Australian Services Union**

Mr Paul Slape, National Secretary

**Community and Public Sector Union – SPSF Group and Public Services International (PSI) Oceania Region**

Mr David Carey, Federal Secretary – CPSU and SPSF Group and Executive Board Member representing Oceania – Public Services International

**Canberra, Wednesday, 24 June 2009****Embassy of Chile**

His Excellency Mr Jose Luis Balmaceda, Ambassador

**Embassy of Philippines**

His Excellency Mr Ernesto De Leon, Ambassador

**Office of Trade and Investment**

Ms Michelle S. Sanchez, Special Trade Representative

## **Canberra, Friday, 11 September 2009**

### **Medicines Australia**

Mr Ian Chalmers, Chief Executive Officer

Ms Deborah Monk, Director – Innovation and Industry Policy Branch

### **Universities Australia**

Dr Glen Withers AO, Chief Executive Officer

### **Department of Agriculture, Fisheries and Forestry**

Mr Paul Ross, General Manager – Bilateral Trade Branch (Americas, South East Asia, Subcontinent, New Zealand and Pacific), Trade and Market Access Division

Mr Paul Morris, Executive Manager – Technical Market Access, Trade and Market Access Division

Ms Victoria Anderson, General Manager – Bilateral Trade Branch (North Asia, Europe, Middle East and Africa), Trade and Market Access Division

### **Law Council of Australia**

Ms Margery Nicoll, Director – International

Mr Andrew Percival, Deputy Chair – International Law Section

Mr Andrew Hudson, Member of the Law Council of Australia and Section Chair of the International Law Section of the Law Institute of Victoria

### **Austrade**

Mr Gregory Harvey, Manager – Americas

Ms Helen Munro, Manager – Government, International Policy Group

Mr Pat Stortz, Manager – International Liaison Unit, South East Asia, South Asia and the Pacific

Mr Hian Yap, Manager – International Liaison Unit, North East Asia

## **Canberra, Wednesday, 28 October 2009**

### **South Pacific Trade Commissioner**

Mr Caleb Jarvis

**Canberra, Wednesday, 25 November 2009****Department of Foreign Affairs and Trade**

Mr Paul Tighe, First Assistant Secretary – Trade and Economic Policy Division

Mr Tim Yeend, First Assistant Secretary – Office of Trade Negotiations

Ms Cathy Raper, Assistant Secretary – Trade Commitments Branch, Office of Trade Negotiations

Mr Nicholas Coppel, Assistant Secretary – Pacific Regional and New Zealand Branch, Pacific Division

Mr Michael Mugliston, Special Negotiator – Free Trade Agreement

Mr Ian Turland, Director – New Zealand Section, Pacific Division

Mr Michael Dean, Director – PACER Plus FTA Section, Pacific Division

Mr Michael Growder, Director – North Asian Investment and Services Branch, Free Trade Agreement Division

Dr Mike Adams, Director – Regional Trade Policy, Trade Development Division

Mr Milton Church, Coordinator – Goods and Government Procurement, South East Asia Goods Branch, Free Trade Agreement Division

**Canberra, Wednesday, 10 March 2010****New Zealand High Commission**

Mr Vangelos Vitalis, Deputy High Commissioner

**Canberra, Wednesday, 17 March 2010****Embassy of Uruguay**

His Excellency, Mr Alberto L. Fajardo Klappenbach, Ambassador

**Embassy of Brazil**

His Excellency, Mr Fernando De Mello Barreto, Ambassador

## **Sydney, Wednesday, 14 April 2010**

### **New Zealand High Commission**

Mr Vangelis Vitalis, Deputy High Commissioner

### **Australian Federation of International Forwarders**

Mr Paul Golland, Chairman

Mr Brian Lovell, Chief Executive Officer

### **Export Finance and Insurance Corporation**

Mr Angus Armour, Managing Director and CEO

Mr Matthew Hocken, Associate Director, Government and Industry Relations

Mr Roger Donnelly, Chief Economist

## **Canberra, Friday, 3 June 2011**

### **Department of Foreign Affairs and Trade**

Ms Jan Adams, First Assistant Secretary - Free Trade Agreement Division

Mr Michael Dean, Director - PACER Plus Section, Pacific Regional and New Zealand Branch, Pacific Division

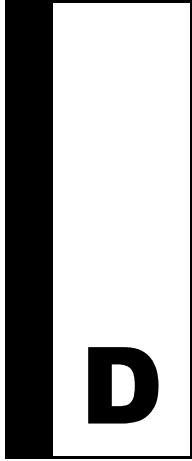
Mr Jonathan Kenna, Assistant Secretary - Trade Commitments Branch, Office of Trade Negotiations

Mr Hamish McCormick, First Assistant Secretary - Office of Trade Negotiations

### **AusAID**

Ms Julie Delforce, Director - Economic Growth and Regional Organisations Section, Pacific Division





**Appendix D – Port of Melbourne Supply  
Chain Information Map – February 2006**

