



Submission No 21

Inquiry into Australia's Relationship with Malaysia

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**JOINT STANDING COMMITTEE ON FOREIGN AFFAIRS, DEFENCE AND
TRADE
INQUIRY INTO AUSTRALIA'S RELATIONSHIP WITH MALAYSIA**

HEARING 16 OCTOBER 2006

**OPENING STATEMENT BY THE DEPARTMENT OF INDUSTRY, TOURISM
AND RESOURCES**

Introduction

In this statement, I would like to briefly outline the key elements of the Department's current engagement with Malaysia. The areas I will be covering are the free trade agreement, investment flows, resources and energy, and the automotive and tourism industries. Owing to the ongoing FTA negotiations it may be difficult to make more than general comments on the future of the relationship, but we will of course endeavour to do so where possible.

In 2005, total merchandise trade between Australia and Malaysia was A\$8.59 billion, an increase of 7.6 per cent from the previous year. Malaysia ranks as our second largest trading partner in ASEAN and our ninth largest trading partner overall. While Australian exports to Malaysia have increased gradually over the years, Malaysia's exports to Australia have increased markedly, largely due to a significant increase in crude petroleum exports. Our major non-agricultural exports to Malaysia are base metals, minerals, fuels, game machines and automotive parts and our largest imports consist of petroleum and electronic goods such as computers, telephones and radios.

Australia-Malaysia Free Trade Agreement (FTA)

On 7 April 2005, Prime Minister John Howard and his Malaysian counterpart, Prime Minister Dato' Seri Abdullah Ahmad Badawi, agreed to launch negotiations on a bilateral Free Trade Agreement (FTA).

Negotiations for Malaysia have been progressing steadily with the most recent discussions occurring at an inter-sessional meeting held in Canberra from 12 to 15 September 2006. DITR has been represented at all the negotiations. The Latest discussions focused on goods, rules of origin, investment, intellectual property and economic cooperation. Malaysia provided a senior team of negotiators comprising 25 officials from various Ministries and Departments.

Both countries had tabled initial tariff offers at their previous meeting in July. The September inter-sessional meeting provided an opportunity to comment on the offers and begin the process of identifying areas that could be improved. Further information exchange will consider the priorities for improvements in the offers, with Australia seeking further input from industry in this process.

Australia sought further information on Malaysia's import licensing system, noting it could impede the market access brought about by reducing import tariffs. There were a

number of products of interest to Australia where import licensing could pose a problem. There was also a useful discussion on the automotive sector where both sides see significant complementarities in our respective trade interests. This included Malaysia's current excise duties on automotive products which will be further addressed at the next meeting.

There was continued progress on drafting the texts of the various chapters of the FTA related to trade in goods, including those relating to: Customs Procedures; Standards, Technical Regulations and Conformity Assessment Procedures; and Sanitary and Phytosanitary Measures. Both sides agreed on the importance of these Chapters to the overall benefits of the FTA.

The Government has undertaken considerable on-going consultation and received numerous public submissions on a possible FTA with Malaysia, including from most peak industry bodies, unions and State and Territory Governments. Consultations have been held in all capital cities. DITR attended all relevant consultations and received copies of all relevant submissions. To date in excess of 60 submissions have been received. Submissions have come from a range of sensitive manufacturing sectors such as automotive, TCF and chemicals and plastics. State and Territory Governments, unions and non governmental organizations also made submissions.

Investment

Malaysian investment into Australia is of growing importance. However, there is a marked imbalance in the flows of direct investment, with Malaysian direct investment in Australia valued at nearly 9 times Australian investment in Malaysia. Current Malaysian limitations on foreign investment, including the Bumiputera partnership requirements, are seen by many Australian business people as continuing disincentives to doing business in Malaysia.

The total stock of Malaysian investment in Australia was A\$5.8 billion as of 2005, which is slightly down from the 2003 figure of A\$6.2 billion. Malaysia is also a significant source of FDI in Australia. The stock of FDI from Malaysia has risen from A\$724 million in 2000 to A\$3.3 billion in 2005. Malaysia provides the 10th largest FDI source of FDI for Australia. Malaysian FDI represents 1.2 per cent of all FDI stock in Australia. Malaysian investments are concentrated in energy, agribusiness, manufacturing, real estate, restaurants, travel agents and gaming.

Australian FDI in Malaysia was A\$371 million as at 31 December 2005. This makes Malaysia Australia's 16th most important FDI destination. Some of Australia's largest companies such as Leighton, Boral, Bluescope Steel, CSR and Ansell are operating in Malaysia.

Malaysia's involvement in APEC and the EWG

The APEC Energy Working Group (EWG) is one of eleven Working Groups under the APEC umbrella. The EWG comprises twenty-one Member Economies including Malaysia which is regularly represented at EWG meetings. Australia has held the Lead

Shepherd and Secretariat roles for the EWG since its inception. Malaysia is also an active member of the EWG Energy Business Network, a forum that provides industry perspective to the EWG.

Australia and Malaysia are both members of the EWG's newly formed Biofuels Task Force. The Biofuels Task Force was set up in response to APEC Energy Ministers' directions to better understand the potential for biofuels to displace oil in transport. The Biofuels Taskforce will be reporting their progress at the next APEC Energy Ministers to be held in Darwin, Australia next year

Coal

While Malaysia has significant coal reserves, they are not generally suitable or located appropriately for use in large scale power generation. As such, Malaysia is a major importer of coal, with coal demand expected to increase from 6.2 Mtpa in 2004 to 14 Mtpa in 2007.

In 2005 Australia exported around 2.9 MT of coal to Malaysia. There is some potential for Australia to expand exports, particularly as Malaysia is changing its energy mix to reduce reliance on gas/petroleum.

Australia also has an interest in the export of clean coal technology. The Australian Government is making significant contributions to development of technologies that reduce the environmental and greenhouse impact of coal.

Malaysian Minerals Commodities and Trade

Malaysia, has a long history of tin mining, which along with rubber, was a pillar of its economy for much of the 19th and 20th centuries. However, with the Government's prioritisation of the manufacturing sector and the continuing decline of Malaysia's tin mining industry over the past two decades, the contribution of mining to the national economy has fallen significantly. In 2004, the value of mined production, excluding oil and natural gas, was around 0.9% of gross domestic product (GDP). When the oil and gas sectors are included in industry valuations, the mining and quarrying industry contributes around 7% of Malaysia's GDP and employs around 30,000 persons, or 0.3% of the workforce.

Other factors that have impacted upon Malaysia's minerals sector in recent years include uncertainty surrounding the extent of Malaysia's mineral reserves, variations across state based regulatory regimes, growing pressures over land resources and concerns over the environmental impacts of mining.

Malaysia's most important metallic mineral reserves are tin and iron ore, followed by copper and nickel. Malaysia is endowed with around 16% of world tin reserves, second only to China. Other important mineral reserves include marine sand and limestone.

The current structure of the mining industry is characterised by a small mining and processing sector for base metallic minerals, and a relatively large mining and processing

sector for other minerals. In contrast to the oil and gas sector which has a substantial government presence, the non-energy minerals sector is largely owned and operated by private companies incorporated in Malaysia.

Australia's Mineral commodities trade to Malaysia is small, aside from Lead and Tin ores, where Australian holds 37% and 26% shares of Malaysian imports respectively. Malaysia, which imports iron ore for its small steel industry, sources almost all its needs from the Middle East and South America, although this may change with some small joint ventures in Australia's Midwest region.

Australian Share of Malaysian Imports for Designated Minerals Commodities 2001-05

	2001	2002	2003	2004	2005
Aluminium*	NA	NA	NA	NA	NA
Copper, refined (kt)	51%	45%	61%	39%	21%
Lead, refined (kt)	18%	20%	15%	21%	37%
Zinc, refined (kt)	31%	38%	12%	72%	25%
Tin ores and concentrates (kt)	18%	5%	4%	0%	26%
Tin, refined (t)	0%	0%	0%	1%	1%

* ABARE does not have figures for Malaysian Aluminium imports, although Malaysia accounts generally for around 5% of Australia's aluminium exports figures.

Malaysian Automotive Industry

The Malaysian automotive industry is one of the most protected in the region. Malaysia applies a tariff of 30% to imported automotive vehicles from non-ASEAN countries, and 5% from ASEAN countries. It also levies excise tax calculated on engine capacity and vehicle type. Large-engine vehicles, such as those produced in Australia, incur substantially higher excise. We understand that the Malaysian national car manufacturers, Proton and Perodua, may receive a 50% rebate on the value of excise paid. There is also a 10% sales tax on all vehicles (and all goods in general). Excise and sales taxes on imported vehicles are based on the import value including customs duty.

The Malaysian government requires an approval permit (license) for imports of motor vehicles, which limits importers to a small share of the total market volume and effectively acts as an import quota. The Malaysian Ministry of International Trade and Industry (MITI) gives approved permits based on quota, but does not publish names of approved persons/companies or volumes. Generally, import license approvals for commercial vehicles are not given. Malaysia has committed to phasing out the approval permit system by 31 Dec 2010.

Tourism

Australia and Malaysia share a strong bilateral tourism relationship. In 2005 Australia received 166,000 visitors from Malaysia. In the first seven months of 2006, the number of visitor arrivals from Malaysia has declined by 14 per cent. This trend has been attributed to the decline in travel spending by Malaysians, resulting in choices for short haul, low cost destinations instead of Australia. However, the number of arrivals is

expected to increase over the longer term with forecast growth of 5 per cent per year to reach 253,000 visitors per annum by 2015.

Malaysian visitors provide a substantial economic benefit to Australia. In 2005, this benefit equated to \$600 million in total inbound economic value, with forecasts for this value to reach \$1.1 billion by 2015.

Australia and Malaysia are active members of several multilateral tourism forums, including the World Tourism Organisation, APEC Tourism Working Group and the Commonwealth Tourism Minister's Meeting. While Australia and Malaysia do not share a memorandum of understanding on tourism cooperation, we do exchange information and expertise on tourism development through multilateral forums and occasional bilateral meetings.