



Submission by the Department of Foreign Affairs and Trade and  
Austrade to the Parliamentary Joint Select Committee on Trade  
and Investment Growth

## **Business Experience in Utilising Australia's Free Trade Agreements**

17 July 2015

The Department of Foreign Affairs and Trade (DFAT) leads work by Australian officials in support of the Government's trade agenda. This includes the advancement and protection of Australia's national interests through contributions to national economic and trade performance, contributing to Economic Diplomacy and developing public and business understanding in Australia and overseas of Australia's trade policy. DFAT coordinates whole-of-government positions on all issues relating to Free Trade Agreements (FTAs), and leads the Government's efforts to advance agreed objectives in these areas.

\*\*\*

The Australian Trade Commission (Austrade) is the Australian Government's agency for promoting trade, investment and international education, and strengthening Australia's tourism industry. Austrade provides advice to the Australian Government on its trade, investment, international education and tourism policy agenda and delivers Australian consular, passport and other government services in specific overseas locations. Austrade, in partnership with DFAT, also has the responsibility for raising awareness of Australia's FTAs amongst Australian businesses.

**Contents**

**ABBREVIATIONS** ..... IV

**SUMMARY** ..... 1

**SECTION 1 - OVERVIEW** ..... 4

**Why we do FTAs** ..... 4

**Current FTAs and negotiations underway** ..... 5

**Monitoring use of FTAs** ..... 7

**The benefits of FTAs for business** ..... 8

**Further Improving Access and Implementation** ..... 13

**Supporting Greater Business Use of FTAs** ..... 15

**SECTION 2: THE NORTH ASIA FREE TRADE AGREEMENTS** ..... 16

**Section 2.1: Korea-Australia Free Trade Agreement (KAFTA)** ..... 19

**Section 2.2: Japan-Australia Economic Partnership Agreement (JAEPA)** ..... 21

**Section 2.3: China-Australia Free Trade Agreement (ChAFTA)** ..... 24

**SECTION 3. BUILDING BUSINESS UPTAKE OF THE NORTH ASIA FTAS**.... 25

**SECTION 4: STATISTICAL EVIDENCE ON THE UTILISATION OF THE TARIFF CONCESSIONS UNDER AUSTRALIA’S FTAS** ..... 29

**Section 4.1: Overview**..... 29

**Section 4.2: AUSFTA** ..... 34

Section 4.2.1: Australian imports into the United States ..... 34

Section 4.2.2: United States Imports into Australia ..... 37

**Section 4.3: AANZFTA**..... 43

**Section 4.4: ANZCERTA**..... 48

**Section 4.5: SAFTA**..... 49

**Section 4.6: TAFTA** ..... 51

**Section 4.7: ACIFTA** ..... 53

**Section 4.8: MAFTA** ..... 55

**Attachments -**

- Attachment A – Australia’s Trade and Investment Performance with FTA Partners
- Attachment B – Australia’s International Business Survey 2015 (embargoed until 1<sup>st</sup> August 2015)
- Attachment C – Background on Import Clearances Data

## ABBREVIATIONS

AANZFTA	Agreement Establishing the ASEAN-Australia-New Zealand Free Trade Area
ABS	Australian Bureau of Statistics
ACELF	Australia-Chile Economic Leadership Forum
ACIFTA	Australia-Chile Free Trade Agreement
AIBS	Australia International Business Survey
ANIC	Australian Nut Industry Council
ANZCERTA	Australia-New Zealand Closer Economic Relations Trade Agreement
APEC	Asia Pacific Economic Cooperation
ASEAN	Association of Southeast Asian Nations
ATGA	Australia Table Grape Association
AUSFTA	Australia-United States Free Trade Agreement
AutoCRC	Automotive Cooperation Research Centre
ChAFTA	China-Australia Free Trade Agreement
CIE	Centre for International Economics
COO	Certificates of Origin
DOO	Declaration of Origin
FIRB	Foreign Investment Review Board
FJC	FTA Joint Committee
FTA	Free Trade Agreement
GATT	General Agreement on Tariffs and Trade
GCC	Gulf Cooperation Council
GSA	General Services Administration
HS	Harmonized Commodity Description and Coding System
KAFTA	Korea-Australia Free Trade Agreement
JAPEA	Japan-Australia Economic Partnership Agreement
MAFTA	Malaysia-Australia Free Trade Agreement
MAI	Malaysian Automotive Institute
MFN	most-favoured-nation
PACER	Pacific Agreement on Closer Economic Relations
PSR	Product Specific Rules of Origin
RCEP	Regional Comprehensive Economic Partnership
ROK	Republic of Korea
ROO	Rules of Origin
SAFTA	Singapore-Australia Free Trade Agreement
SME	Small and Medium Enterprise
TAFTA	Thailand-Australia Free Trade Agreement
TCO	Tariff Concession Order
TPP	Trans-Pacific Partnership Agreement
USITC	United States International Trade Commission
USITC DataWeb	USITC Interactive Tariff and Trade DataWeb
WTO	World Trade Organization

## SUMMARY

Australia's Free Trade Agreements (FTAs) are designed to protect and improve market access for Australia's goods, services and investment. As a result of the recent proliferation of FTAs in our region, failure to negotiate these FTAs would have put Australian businesses involved in export and overseas investment at a significant and growing disadvantage.

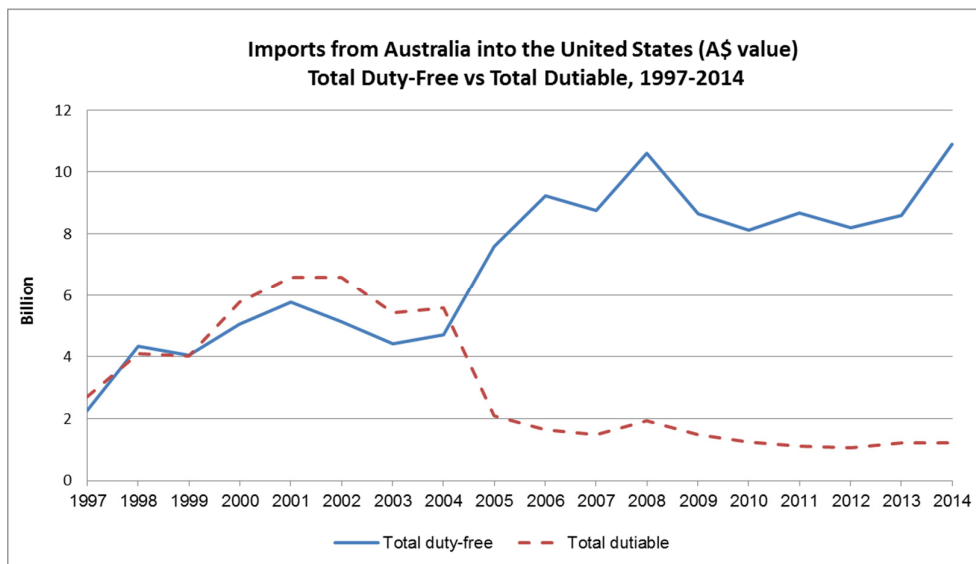
Australia's FTAs are being well used by business, as shown by available data and long term statistics on trade and investment flows. While these figures show good utilisation of FTAs, there are opportunities for business to further benefit, particularly from the new FTAs with North Asia.

It is important to note that many businesses are benefiting from FTAs without necessarily being aware of the benefits they are receiving. Businesses may be benefiting from their products being sold under lower tariffs overseas, but leave the management of exporting to customs brokers, freight forwarders or the importers themselves. Australian business people operating in other markets may benefit from improved entry conditions or the recognition of qualifications, without realising these benefits were the result of an FTA.

### Tariff Reductions

Available tariff data shows strong uptake of Australia's established FTAs.

Customs data on the Australia–United States FTA (AUSFTA) demonstrates that business has used the FTA to dramatically reduce the amount of Australian exports that face US tariffs. Prior to AUSFTA, more than 54 per cent of US imports from Australia faced the MFN tariff (meaning \$5 billion worth of Australian goods into the US faced these tariffs). By 2014, however, just 10 years after AUSFTA's entry into force, more than 96 per cent of Australia's imports into the US faced zero or concessional tariff rates. In fact, more than 90 per cent of our goods were entering into the US completely duty free.<sup>1</sup>



AUSFTA benefits also continue to flow to Australian importers and consumers. In 2014, \$7.6 billion of goods were imported into Australia from the US using AUSFTA

<sup>1</sup> Based on import clearances data – discussion on datasets at Attachment C

preferences and of this \$7.5 billion entered tariff free, reducing costs for businesses and consumers.

For our other established FTAs, partner countries do not collect data on tariff preference use for imports of Australian products. However, data on imports into Australia from those partner countries demonstrate that businesses are making use of the FTAs to significantly reduce the amount of goods imported into Australia that face the full mfn tariff. This has obvious benefits for Australian consumers and Australian businesses that use imports.

It is too early to accurately assess business take-up of the significant benefits and opportunities created by Australia's most recent FTAs with South Korea and Japan, although there is strong anecdotal evidence of good uptake.

DFAT is working to arrange with other FTA partners customs data exchanges to provide information similar as that available from the US to allow better analysis.

### **Services and Investment**

Compared to trade in goods, attributing changes in services trade and investment flows to the implementation of FTAs is more difficult to measure. A goods import receiving special FTA treatment generates documentation, but services suppliers and investors are not required to fill in a particular form in order to benefit under the FTA. Evidence of FTA utilisation by services suppliers and investors is therefore generally anecdotal. Moreover, an investor's decision to invest is generally based on a range of factors, making attribution of an investment decision to any one factor difficult.

### **Further Improving Access**

While FTAs focus on tariff elimination and address some non-tariff barriers, there will always be a range of other factors that impact on market access and trade. These can include quarantine or standards issues, labelling or other product requirements or customs arrangements as well as currency fluctuations. FTAs cannot in themselves remove all impediments to trade. For example, Australia maintains high quarantine standards to protect our biosecurity – Australia will not negotiate away our science-based approach to quarantine standards. Nor should we expect other countries to do the same. However, Australia does use in-built FTA work programs to help address non-tariff barriers.

Doing business successfully in foreign markets has inherent complexities and developing business acumen applicable to the target market is also crucial.

Australia's FTAs also include forward work programs and meeting structures to support further liberalisation, cooperation and improvements to implementation. Under some of our FTAs Australia has successfully used these processes to further improve access for our exporters.

All FTAs are negotiated agreements. While Australia seeks to have the simplest and most business-friendly rules, international trade is complicated. FTAs need to take into account the approaches and domestic situations of our FTA partners. This means different FTAs may have different rules and implementation arrangements. DFAT and Austrade are committed to ensuring business make the most of Australia's FTAs.

### **Promoting Business Utilisation**

Despite strong uptake, there is a clear role for government to assist businesses reap the rewards of Australia's FTAs.

For Australia's established FTAs DFAT and Austrade continue to provide information services and outreach to support utilisation, including leveraging off key events.

DFAT and Austrade have initiated an expanded outreach program to the business community to assist business take advantage of our FTAs and the recently signed North Asian FTAs in particular. As part of the May 2015 Budget, funding of \$24.6 million dollars was allocated to DFAT and Austrade to promote business awareness and understanding of the recently concluded FTAs. This work includes: a seminar series targeting business; the development of an online FTA dashboard, including a comprehensive tariff finder; a national advertising campaign; a range of promotional activities in collaboration with third parties to raise awareness; an Austrade run grant program for Australian member-based business organisations to deliver FTA projects focused on Japan, Korea and China; and the development of a North Asia FTA presentation toolkit to support third parties to deliver FTA education and outreach.

## SECTION 1 - OVERVIEW

### Why we do FTAs

- Bilateral and regional FTAs deliver new market access to key markets in the absence of progress in the WTO and support Australia's competitive position when challenged by competing FTAs.
- Australia negotiates comprehensive WTO consistent FTAs supporting broader liberalisation.

Australia's trade policy reflects the philosophy we bring to broader economic policy setting – of openness, competitiveness, and flexibility. Australia's pursuit of open trade, open investment and the movement of people and ideas across borders, fundamentally, is a means to ensure Australia retains a competitive environment that drives productivity and the efficient utilisation of resources within the Australian economy. Delivering opportunities for Australian business is at the heart of Australia's FTA agenda.

2. While Australia has already undertaken substantial liberalisation of its own trade barriers and should continue to do so, our trade policy aims to ensure other countries are similarly reducing their barriers and guaranteeing access through legally binding obligations.
3. Australia is a strong supporter of multilateral trade liberalisation and reform through the World Trade Organization (WTO) and its predecessor, the General Agreement on Tariffs and Trade (GATT). Australia's active participation in negotiations for the Environmental Goods Agreement, and the Information Technology Agreement, as well as the decision to accept the Trade Facilitation Agreement and seek to accede to the Government Procurement Agreement reflect our ongoing strong engagement in the multilateral trade system. Even while the Doha Round of WTO negotiations are stalled, Australia is continuing efforts to find a way forward. In plurilateral negotiations outside the WTO, Australia is leading negotiations on the Trade in Services Agreement, where our objective is to negotiate an agreement which is compatible with the WTO and which supports and feeds back into multilateral trade negotiations.
4. Since the Uruguay Round of GATT negotiations (1986-94), however, multilateral trade negotiations have stalled. Efforts to conclude the current WTO negotiations, the Doha Round which were launched in 2001, have been unsuccessful to date. In the interim there has been intense activity in pursuing FTAs in our region.
5. In the absence of action in the WTO and the proliferation of FTAs between our competitors and our major markets, successive Australian governments have decided to pursue FTA negotiations at the plurilateral/regional (multi-country) and bilateral levels, to supplement and support ongoing efforts in the WTO.

6. Australia's FTAs are comprehensive in their coverage and, among other things, achieve legally guaranteed elimination or reduction of market access barriers in goods and services and support transparency and predictability in two-way investment. As treaty-level, enforceable agreements, FTAs provide new opportunities for exporters and investors and for more competitively-priced imports for consumers and Australian businesses. In this way FTAs materially contribute to Australia's economic growth.

7. Reflecting Australia's support for the multilateral trade rules system and for ensuring that FTAs are trade-generating rather than trade-diverting, WTO-consistency is a priority objective for Australia's FTAs. Under WTO rules, FTAs must:

- eliminate tariffs and other restrictions on 'substantially all the trade' in goods between its member countries, and
- eliminate substantially all discrimination against service suppliers from member countries with substantial sectoral coverage.

8. WTO rules provide for all FTAs and Customs Unions to be subject to scrutiny by the membership to test their consistency.

9. Following the pre-WWII breakdown of British Empire trade preferences until the 1990s, Australia's only foray into bilateral and regional trade agreements was with New Zealand and South Pacific nations.

10. Australia's first trade agreement with New Zealand was concluded in 1922. It has subsequently been renegotiated and updated, culminating in its current advanced form in, the Australia-New Zealand Closer Economic Relations Trade Agreement (ANZCERTA). Australia has also had a series of non-reciprocal trade agreements with the countries of the South Pacific to foster economic development in the region.

### **Current FTAs and negotiations underway**

- Australia's FTA negotiations focus on key markets where supporting Australia's competitive position is crucial.

11. Australia has nine FTAs currently in force with New Zealand, Singapore, Thailand, United States, Chile, the Association of Southeast Asian Nations (ASEAN) (jointly with New Zealand), Malaysia, the Republic of Korea (ROK) and Japan. Australia recently signed an FTA with China that has not yet entered into force. The text of these agreements and detailed explanatory material can be found on the DFAT website<sup>2</sup>.

12. Business demand for FTAs has been particularly strong in markets where Australia faces a competitive disadvantage due to competitors securing their own deals. For example the Korea US Free Trade Agreement gave US competitors significantly better market access for beef into the crucial Korean market – Australian businesses were at a strong disadvantage.

---

<sup>2</sup> Links to this information can be found at: <http://www.dfat.gov.au/trade/ftas.html>

**Table 1.1 Australia's current free trade agreements**

Partner/s	Title of agreement	Entered into force
New Zealand	Australia-New Zealand Closer Economic Relations Trade Agreement (ANZCERTA)	1983
	Services Protocol	1989
	Investment Protocol	2013
Singapore	Singapore-Australia Free Trade Agreement (SAFTA)	2003
United States	Australia-United States Free Trade Agreement (AUSFTA)	2005
Thailand	Thailand-Australia Free Trade Agreement (TAFTA)	2005
Chile	Australia-Chile Free Trade Agreement (ACIFTA)	2009
ASEAN (Brunei, Burma, Cambodia, Indonesia, Laos, Malaysia, The Philippines, Singapore, Thailand, Vietnam) and New Zealand	Agreement Establishing the ASEAN-Australia-New Zealand Free Trade Area (AANZFTA)  First Protocol to Amend AANZFTA – Signed on 26 August 2014	2010 <sup>3</sup>
Malaysia	Malaysia-Australia Free Trade Agreement (MAFTA)	2013
Korea	Korea-Australia Free Trade Agreement (KAFTA)	2014
Japan	Japan-Australia Economic Partnership Agreement (JA-EPA)	2015

13. Australia is currently engaged in six other FTA negotiations - two bilateral FTA negotiations with India and Indonesia; and four plurilateral FTA negotiations: the Trans-Pacific Partnership Agreement (TPP), the Gulf Cooperation Council (GCC), the Pacific Agreement on Closer Economic Relations (PACER) Plus, and the Regional Comprehensive Economic Partnership (RCEP).

14. Australia has an inclusive vision for the economic architecture of the Asia-Pacific region. We see our regional/plurilateral and bilateral FTAs playing a potentially significant role as complementary building blocks or pathways towards a free trade area of the Asia-Pacific that is inclusive. APEC also plays an important role in working towards this goal. It is envisaged that both the TPP and RCEP, when concluded, could be expanded over time to include other regional countries.

---

<sup>3</sup> AANZFTA entered into force for Australia, Brunei, Burma, Malaysia, the Philippines, Singapore, Vietnam and New Zealand on 1 January 2010. It entered into force for Thailand on 12 March 2010, Laos on 1 January 2011, Cambodia on 4 January 2011 and Indonesia on 10 January 2012.

## Monitoring use of FTAs

- Monitoring the use of FTAs has challenges – trade and investment flows are affected by a range of factors.
- Where we have good data, such as on AUSFTA, we see very strong uptake.
- We are seeking to build data exchanges with other partners to better monitor utilisation.
- While business surveys provide useful on the ground perspectives, many businesses benefit from FTAs without knowing they do so.

15. Monitoring the use of FTAs has its difficulties. Simple trade and investment flows can provide useful indicators. This shows that growth in total two-way trade (both imports and exports of goods and services) and two-way investment between Australia and our FTA partners has generally increased strongly following implementation of FTAs (see Attachment A).

16. However, there are many factors at play driving trade and investment flows, including broader supply and demand issues, currency fluctuations and policy changes in target markets.

17. Business surveys can provide useful on the ground information. Some of these, including Austrade's own survey, the *Australia International Business Survey (AIBS)*<sup>4</sup> suggest that many internationally-active businesses perceive they do not fully understand FTA agreements or how they apply to their business. However, not all businesses benefiting from FTAs are necessarily aware of the benefits they are receiving. Businesses may be benefiting from their products being sold under lower tariffs overseas, but leave the management of exporting to customs brokers, freight forwarders or the importers themselves, they are thus unaware that tariff preferences are being utilised. Additionally, savings from FTAs due to lower cost imported inputs are not necessarily visible to the Australian businesses benefiting. Australian business people operating in other markets may benefit from improved entry conditions, or from the recognition of qualifications, without realising this was a result of an FTA.

18. So while these survey results are useful in informing us about the level of Australian business knowledge regarding FTAs, they tell us much less about how effective the FTAs in question are, or how much they are being utilised in terms of actual trade flows.

19. DFAT has quantitative data on some aspects of our existing FTAs. In particular, customs data on AUSFTA illustrates the utilisation of FTA tariff concessions for our goods trade. This demonstrates that business has used the FTA to dramatically reduce the amount of Australian imports entering the United States that pay tariffs.

20. Prior to AUSFTA in 2004 over \$5 billion worth of Australian products (54 per cent of imports from Australia) were paying the full applied tariff when imported into the

---

<sup>4</sup> The Australia International Business Survey (AIBS) undertaken by Austrade in conjunction with the Export Council of Australia and EFIC. The AIBS is due to be released 30 July 2015 and will then be found at [www.austrade.gov.au](http://www.austrade.gov.au).

US. By 2014 this had been reduced to \$476 million paying the full tariff (less than 4 per cent of imports). An additional \$729 million were paying reduced AUSFTA rates (see Section 4.2). This indicates that business is using this FTA to great effect. AUSFTA benefits also continue to flow to Australian importers and consumers. In 2014, \$7.6 billion worth of goods were imported into Australia using AUSFTA, with \$7.5 billion of this imported tariff free.

21. For our other existing FTAs, imports into Australia demonstrate that businesses are making use of the FTAs with our partners to significantly reduce the amount of goods imported into Australia that face the full MFN tariff (see Section 4).

22. DFAT is seeking to arrange with other FTA partners data exchanges to provide similar data as that available for AUSFTA to allow further analysis. This is contingent on partners' agreement, and actually having the data to exchange. Different countries have differing standards of trade data retention and capacity.

23. Compared to trade in goods, attributing changes in services trade and investment flows to the implementation of FTAs is necessarily less precise. A goods import receiving special FTA treatment generates documentation, but services suppliers and investors are not required to fill in a particular form in order to benefit under the FTA. Evidence of FTA utilisation by services suppliers and investors is therefore generally anecdotal. Moreover, an investor's decision to invest is generally based on a range of factors, making attribution of an investment decision to any one factor difficult.

24. There are, however, real gains. For example, Australian business people and professionals entering the US everyday are enjoying the fruits of AUSFTA. In 2005 Australia was able to secure a new visa category – the E-3 visa – which had its genesis in the AUSFTA negotiations. This annual quota of 10,500 visas helps Australian business people and professionals capitalise on the opportunities offered under AUSFTA by making it easier for them, and their partners, to work in the United States.

## **The benefits of FTAs for business**

- Australia's FTAs eliminate most tariffs on Australian exports; allow for cheaper imports, create mechanisms to address non-tariff barriers, liberalise services barriers; provide protections for investors; reduce barriers for investments; and can open government procurement markets.
- DFAT consults business regularly and closely on FTA negotiations.

25. Australia approaches all of its FTA negotiations with clear, well-developed commercial objectives alongside broader objectives such as WTO-consistency and policy coherence.

26. Business experience and input is crucial in informing Australia's approach to FTA negotiations. DFAT consults extensively with business and other stakeholders during all phases of the FTA process, from inception through to the conclusion of negotiations. For example, for the China – Australia Free Trade Agreement (ChAFTA) negotiations DFAT consulted over 750 businesses and other groups. Many business groups were consulted on multiple occasions and provided detailed input into the

structuring of the final deal. Business input is central to the task of compiling and understanding key impediments to trade in goods and services, and barriers to investment, along with other commercial-level factors that are relevant to determining negotiating priorities and approach. In addition, Austrade provides advice on key sectors of commercial opportunity and on a range of barriers to trade and investment flows that may be prioritised in any negotiation process.

27. The comprehensive, high ambition model adopted by Australia in negotiating FTAs means that, when the agreements are fully implemented, they contain tangible outcomes that are commercially meaningful for Australian business, specifically:

- . elimination of substantially all tariffs on two-way trade;
- . binding of eliminated, reduced or other tariffs (without FTAs countries have the right to unilaterally increase tariffs on a range of products)
- . removal or reduction of non-tariff barriers able to be addressed by an FTA;
- . liberalisation of services and foreign investment barriers;
- . protections for investors;
- . reduced barriers to foreign investment in both directions;
- . opening of government procurement markets;
- . increased certainty around the temporary entry of Australian business people and skilled workers for commercial purposes;
- . balanced settings on intellectual property; and
- . enhanced cooperation and reduced behind-the-border barriers to trade, including in areas such as competition policy, telecommunications and electronic commerce.

28. In a practical sense, Australian business will derive direct benefits where they avail themselves of opportunities from the opening of access to markets that were previously closed (or where there was limited access). A relevant example is what the bilateral FTA is already doing for many Australian agricultural goods exported to Japan. (See Section 2).

29. In other cases, Australia's FTAs will result in a levelling of the playing field so that Australian business will receive the same access and other regulatory treatment that competitors had secured through their bilateral agreements, such as New Zealand and Chile with their agreements with China, and the EU and US with their agreements with the ROK.

30. Where we have full data available the benefits accruing to Australian exporters are clear. Table 1.2 shows the preferential access Australian exporters of key products are enjoying in the US market. (A detailed discussion of this can be found in Section 4.2.)

**Table 1.2 Australian imports into the United States in 2014:  
Examples of products using AUSFTA**

Product	2004 Imports (Pre – AUSFTA)		2014 Imports (Post – AUSFTA)	
	Value (\$A)	Duty Paid	Value (\$A)	Duty Paid
Beef (HS 0201 and 0202)	\$1.51 billion	Imports paid tariffs (e.g. \$1.27 billion of various beef cuts with a tariff of US\$0.044 per kilogram)	\$2.26 billion	Over 99 per cent entered duty-free under AUSFTA
Sheep and goat meat (HS 0204)	\$358 million	Over 90 per cent of imports paid a tariff.	\$641 million	Over 99 per cent duty-free either under AUSFTA or 0% MFN tariffs.
Wine (HS 2204)	\$993 million	Imports paid tariffs between US\$0.053 per litre and US\$0.224 per litre.	\$498 million	Over 96 per cent paying a reduced rate of duty under AUSFTA.
Zinc (HS 7901)	\$36 million	Imports paid tariffs between 1.5% and 3%.	\$260 million	All imports duty-free under AUSFTA.
Wheat gluten (HS 1109)	\$45 million	Imports paid tariffs between 1.8% and 6.8%.	\$219 million	Over 16 per cent duty-free under AUSFTA and 84 per cent paying a reduced rate of duty under AUSFTA.
Rear view mirrors for vehicles (HS 7009.10)	\$81 million,	Imports paid a tariff.	\$71 million	Over 99 per cent duty-free under AUSFTA.
Cotton seeds (HS 1207.2)	\$3 million	Imports paid a tariff of US\$0.47 per kg.	\$55 million	Over 99 per cent duty-free under AUSFTA.
Sports and pleasure motorboats other than outboard motorboats (HS 8903.92)	\$64 million	Imports paid tariffs of 1.5%	\$45 million	81 per cent duty-free under AUSFTA.
Shelled almonds (HS 0802.12)	No imports	Imports of almonds faced a tariff of US\$0.24 per kg.	\$32 million	Over 99 per cent duty-free under AUSFTA.

31. FTAs are not just about Australian exports. Australian businesses and consumers benefit from cheaper and more efficient imports. Table 1.3 shows the extent to which Australian businesses and consumers enjoy duty-free goods imported from our FTA partners.

**Table 1.3: Imports Entering Australia Tariff-Free in 2014**

	<b>% of Imports by Value Entering Tariff-Free</b>
AANZFTA Parties	96.6
Chile	99.4
Malaysia	97.6
New Zealand	98.9
Singapore	98.0
Thailand	96.4
United States (including confidentialized imports)	83.9
United States (excluding confidentialized imports)	91.2

(Note - duty-free access includes goods entering at MFN tariffs of 0 per cent or through special arrangements as well as through FTA preferences)

32. The legally binding character of FTAs means that they deliver certainty that the concessions and obligations in the agreement are enforceable and that non-compliance can be backed up by legal action, typically in the form of dispute settlement procedures.

33. More intangibly, FTAs can have a “head-turning” effect that can trigger new business interest and corresponding trade and investment flows. For example, ACIFTA changed perceptions about doing business with Chile, and Chile is now a hub for Australian business in Latin America. There are now approximately 120 Australian companies with an investment or office in Chile; this has increased dramatically since the ACIFTA came into force and includes BHP Billiton, Rio Tinto, Origin Energy, Orica and Pacific Hydro.

34. FTAs, particularly with emerging economies or where the trading relationship is not mature, can also drive economic cooperation and activity in new areas and forge new relationships between businesses.

**Case Study – The Australia – Malaysia Technical Collaboration Agreement**

The Australia – Malaysia Technical Collaboration Agreement, signed in 2011 arose from the Malaysia – Australia Free Trade Agreement negotiations. It led to a Memorandum of Understanding between Australia's Automotive Cooperative Research Centre (AutoCRC) and the Malaysia Automotive Institute (MAI) to promote joint automotive research projects and the development of new technologies. The partnership between AutoCRC and MAI has delivered 10 collaborative business-to-business agreements to date.

In January 2015 an electric-powered bus collaboration was announced. The partnership, worth \$170 million, is between *Bustech* (part of Transit Australia Group), *Swinburne University of Technology*, MAI and a private Malaysian company to develop and produce electric buses. The first buses are set to be produced in July 2015 and will commence trials in September.

Government support for the AutoCRC-MAI partnership provided for structured engagement between industry bodies with complementary capabilities and requirements. At a Government-to-Business Dialogue in September 2014, business representatives called for the replication of this model of cooperation across other sectors.

35. FTAs also unlock new areas of opportunities in services and goods trade. For example AUSFTA also provides Australian firms with access to the US federal government procurement market and that of 31 US states. Under AUSFTA, Australian companies have easier access to the General Services Administration (GSA) Schedules<sup>5</sup>, providing access to US Government contracts, without having to work through a joint venture or an American subsidiary. The GSA Schedules Program establishes long-term US government-wide contracts with commercial firms. Some Australian success stories are explored below.

---

<sup>5</sup> The GSA Schedules are the primary contract vehicles used for procurement for the US Federal government.

## Case Study – Australian Companies Accessing the US Government Procurement Market

- *ResMed* has enjoyed increased business through the AUSFTA. The Agreement has made it easier for the company to do business with the US government, including Veterans Affairs.
- *Vigil Systems* is a global leader in the development of advanced driver performance management systems and programs. *Vigil Systems* landed several deals in the US market, taking advantage of favourable US Government Procurement conditions, such as the company being waived from the Buy America Act.
- *NGA.net* is an Australian ICT company that provides Human Capital software to assist in the management of its recruitment and retention efforts. *NGA.net* engaged Austrade to assist them in researching the U.S. Government market in 2007. *NGA.net* received a GSA Schedule in December 2009. Over 25 Federal Agencies in the United States as well as hundreds of other organisations in specialized verticals rely on *NGA.net* to transform their business with their Talent Management solutions. In December 2013, they received an award specific to human resources in the U.S. Government.

36. AUSFTA also includes a Working Group on Professional Services, whose function is to support profession-led initiatives to establish mutual recognition of professional qualifications and licensing. So far it has enabled Australian lawyers to provide services in Australian and other third country law in Delaware, an important centre for corporate law in the United States. This Working Group has also secured a temporary right for Australian engineers to practise in Texas, a major mining and energy state. Moreover, the Working Group has supported efforts by the Australian accounting profession to increase recognition of their members' qualifications at the state level in the United States.

## Further Improving Access and Implementation

- All FTAs are negotiated outcomes – no “perfect” FTAs have ever been negotiated. Inevitably partners' distinct approaches and domestic systems means each FTA is different.
- Australia seeks the most business-friendly rules possible, including where possible providing self-certification of origin options for goods.
- Non-tariff barriers can be moving targets; Australia's FTAs include mechanisms to address non-tariff barriers.
- Australia uses FTA committee structures to support smooth implementation.

37. It is important to note that, as FTAs are negotiated agreements with a balance of benefits between the parties, not all of Australia's objectives, for all business sectors, will be met in all circumstances. The “perfect” FTA is yet to be negotiated. Nor will the rules for each FTA be identical, as Australia is negotiating with different trading partners who themselves have different systems and processes. Compromise positions must be reached. A one size fits all approach to FTAs is not practical.

38. Trading internationally has its challenges, with an FTA or without. Importing countries seek to know, and in some cases control, what goods and services enter through borders. All countries have legitimate biosecurity and security concerns over imported goods. And trade under FTAs usually requires some customs processing in order for special treatment to be administered. Australia works to cut red tape and make these processes and any compliance regimes as business friendly as possible. As a default, this means seeking to set the requirements for documentation needed to enjoy preferential FTA trade arrangements as minimal as possible, including if possible self-certification of origin options to save on business costs and increase flexibility. Where Australia has been able to secure agreement to self-certification options uptake has been strong and implementation smooth. Australia also seeks to use FTAs to improve efficiency of trade, including through, for example, streamlining and cooperation on customs arrangements.

39. While FTAs focus on tariff elimination and address some non-tariff barriers, there will always be a range of other factors that impact on market access and trade. These can include quarantine or standards issues, labelling or other product requirements or customs arrangements as well as currency fluctuations. FTAs cannot in themselves remove all these impediments. Indeed, some obstacles to trade are legitimate. For example Australia maintains high quarantine standards to protect our biosecurity – Australia will not negotiate away our science-based approach to quarantine standards. Nor should we expect other countries to do the same.

40. Other non-tariff barriers can be moving targets; if one barrier is removed a new one can quickly emerge. That is why, while addressing some specific non-tariff issues in FTAs, Australia also uses in-built FTA work programs to help address ongoing and emerging non-tariff barriers. For example, JAEPA, KAFTA and CHAFTA include specific review mechanisms to address ad hoc non-tariff barriers.

41. More broadly, Australia's FTAs include forward work programs and meeting structures to support further liberalisation, cooperation and improvements to implementation. Under some of our FTAs, Australia has successfully used these processes to improve access for our exporters.

42. For example the Trade in Services Protocol under ANZCERTA continues to deliver improved services market access; most recently removing exclusions to foreign ownership limits in broadcasting in 2015. And Australia was able to respond to business concerns about initially onerous origin certification requirements under AANZFTA by negotiating with all parties an amendment (The First Protocol) to reduce red tape including streamlining certification processes.

43. The committee structures and broader agency to agency cooperation supported by the FTAs is important in the smooth implementation of FTAs. For example close relationships developed through the FTA process between DFAT and Japan Customs has meant that the limited problems encountered over certificates of origin, including when there have been errors in certificates issued by Australian parties, have been resolved through direct contact. Australia will continue to use the committee structures of all our FTAs to support smooth implementation.

## Supporting Greater Business Use of FTAs

- The Department and Austrade provide support for business using FTAs and outreach work to explain the benefits and promote uptake.

44. DFAT and Austrade support a range of outreach activities to promote business utilisation of our FTAs. This includes promotional activities (seminars, conferences, advertising), educational campaigns, and online resources. While we offer a range of detailed information and guidance relating to all of Australia's FTAs on our websites, we also offer bespoke email inquiry lines to businesses with queries relating to AANZFTA, MAFTA, KAFTA, JAEPA, and ChAFTA. DFAT encourages businesses to ask about how to get the most out of our FTAs.

45. DFAT and Austrade acknowledge the head-turning effects of FTAs. Not only at the time of conclusion, and signing, or entry into force of the agreement, but also years later as we celebrate the significant anniversaries of these FTAs which heralded renewed bilateral commitments with our trading partners. In 2015, TAFTA is celebrating its 10th anniversary as is AUSFTA. To mark these events, DFAT and Austrade are supporting promotional events in Australia and overseas. In Thailand, for example, a year of outreach and promotion is underway to continue to engage businesses on the benefits of TAFTA.

46. Looking ahead, DFAT and Austrade will continue FTA related engagement with business, particularly with the recent conclusion of FTAs with the giant economies of North Asia. The extensive outreach on the North Asia FTAs is discussed in Section 3.

## Section 2: The North Asia Free Trade Agreements

- Provides great access to Australia's most important markets.
- Responds to business demands to improve Australia's competitive position in these markets, including addressing competitive disadvantage in Korea and China given our competitors have FTAs with these countries
- To support business making the most of these agreements the Department and Austrade are delivering a comprehensive outreach program.
- Independent modelling shows these agreements will boost Australia's economy, and without these agreements the competitiveness of Australia's exports, particularly in agriculture, would have been reduced.

47. DFAT, together with Austrade is working closely with the Australian business community to promote the trade and investment opportunities arising from Australia's recent FTAs with Korea and Japan and potential opportunities in China. These are crucial markets – Australia exported \$170.7 billion worth of goods and services to Korea, Japan and China in 2014, comprising 52 per cent of our total exports.

48. The FTAs give Australian business unprecedented access to these markets. We have obtained access to the Japanese market that is unmatched by any other major competitor. We are bridging the competitive gap we faced with competitors due to deals that Korea had previously concluded, including vis-à-vis beef in competition with the United States, and wine with Europe. The China FTA – signed on 17 June 2015 – will, upon entry into force, further improve our goods, services and investment opportunities across the board into our largest export market and trading partner. It progressively addresses the competitive disadvantage Australian dairy and wine exporters faced due to the China – New Zealand FTA, and provides a competitive advantage across a wide range of other products. These FTAs also help boost the prospects of increased two-way investment flows.

49. Many businesses have also pointed to the positive dynamics from the upgrade of these bilateral economic relationships, including recent visits of business delegations accompanying the Prime Minister and the Minister for Trade and Investment. The FTAs have made these three economies even more prominent to business people engaged in international trade and investment, as well as raising Australia's profile in these key markets.

50. To further increase the uptake of the North Asia FTAs, the Government is pursuing a range of measures to help the business community, and the community at large, understand the new opportunities. The Government has provided additional resources from 2015-16 to promote business understanding of the North Asia FTAs and to assist businesses to access and maximise their benefits under these agreements. Advocacy and outreach activities will take place in both Australia and in target offshore markets. This work is addressed in Section 3.

51. DFAT is working closely with Korean and Japanese counterparts to ensure smooth and effective implementation of the FTAs.

52. Trade data on the uptake of preferences under the FTAs with Korea and Japan relies presently on the small number of months since the agreements with Korea and Japan entered into force. KAFTA entered into force on 12 December 2014 and the JAEPA entered into force on 15 January 2015. While early signs in the goods trade data are encouraging, the volatility in monthly trade data in general means that some caution is warranted when looking at just a few months of trade. Nonetheless, the strong jumps in products ranging from key exports, such as beef, to the smaller end, such as some horticultural products, show the quick utilisation of opportunities available.

53. Goods trade under both KAFTA and JAEPA has been flowing smoothly as a result of trade facilitation measures such as the option for businesses to self-declare origin of goods rather than pay for a certificate of origin issued by an authorised body.

54. DFAT is discussing with Korea and Japan the development of formal data exchange arrangements on a periodic basis to monitor uptake of preferential access of the free trade agreements with Korea and Japan. While arrangements are not finalised, we are working towards periodic exchanges of import values at a national tariff level split between preferential trade under the relevant agreement and non-preferential trade. DFAT hopes to also establish similar arrangements with China in due course.

55. DFAT is also taking forward the Japan and Korea FTAs' built-in agendas through the institutional arrangements established by the Agreements. A JAEPA Joint Committee meeting was held on the day of its entry into force. DFAT is discussing with the Japanese and ROK. Governments the possibility of convening Joint Committee meetings for respective FTAs in the second half of 2015, as well as other subsidiary committee meetings. DFAT is reaching out to business and industry peak bodies on experiences of using the FTAs to inform this engagement. It is also working with agencies to integrate institutional arrangements with existing bilateral mechanisms to the extent possible.

#### *Modelling the FTAs' impact*

56. DFAT engaged the Centre for International Economics (CIE) – a private, independent economic consultancy – to estimate the impacts of the China, Japan and Korea FTAs on the domestic economy and exports<sup>6</sup>. CIE considered the collective effects of goods, services and investment liberalisation under KAFTA, JAEPA and ChAFTA.

57. The results of this modelling show the three FTAs are worth \$24.4 billion in total additional income to Australia between 2016 and 2035 and will result in an annual boost to the economy of \$2.4 billion after 20 years of their operation. In 2016, the first year when all three FTAs will likely have entered into force, GDP is forecast to be \$1.0 billion higher.

58. Tariff reductions under the three FTAs will drive a 12 per cent increase in Australia's merchandise exports to North Asia by 2035, and will contribute to a 29 per cent increase in agricultural exports to North Asia, with a 5 per cent increase to all markets. Tariff elimination will also lead to a 6 per cent increase in mining exports to North Asia and a 43 per cent increase in manufacturing exports to North Asia.

---

<sup>6</sup> A copy of this modelling can be found at <http://dfat.gov.au/about-us/publications/Documents/economic-modelling-of-australias-north-asia-ftas.pdf>

59. The opening up of new services markets in China, Japan and Korea is expected to contribute to a 14 per cent increase in services exports to North Asia by 2035, with financial services, insurance services, recreational services, and transport services among the industries benefiting and contributing to a 2.1 per cent increase in total services exports overall.

60. Australian exports of goods and services to China, Japan and Korea are forecast to be 11 per cent higher by 2035 as a result of the three FTAs – total exports will be 1.5 per cent higher. The modelling also confirms the overwhelming benefits of freer trade for the Australian economy – real wages will be 0.5 per cent higher by 2035 and the terms of trade 1.3 per cent higher by 2035. Increased exports and cheaper imports will allow Australian businesses to hire more workers – the annual net jobs increase will be 7,925 in 2016; peak at 14,566 in 2020; and return to 5,434 in 2035.

61. Australia's competitiveness in agriculture would be most disadvantaged if we do not secure free trade in our major export markets. Agricultural exports to North Asia would be 6.5 per cent lower and 1.7 per cent lower in total by 2035. Without the three North Asia FTAs, Australia's terms of trade would fall 0.1 per cent and the real wage growth would be 0.04 per cent lower by 2035.

## Section 2.1: Korea-Australia Free Trade Agreement (KAFTA)

- Responded to business demands to address competitive disadvantage with the US and EU having secured earlier FTAs with Korea.
- Implementation progressing smoothly, including business-friendly self-certification of origin process.

62. KAFTA, which entered into force on 12 December 2014, secures Australia's competitive position in the Korean market – Australia's third-largest export destination, where our major competitors already enjoy preferential access. On entry into force of KAFTA, 84 per cent of Australia's goods exports (by value) entered Korea duty free; by full implementation, tariffs on 99.8 per cent of our exports to Korea will be eliminated.

63. The tariff outcomes for small to medium agricultural enterprises for example are substantial. Tariff cuts on commodities including beef, dairy, sugar, cherries, oranges, macadamia nuts, wheat and wine will benefit existing export businesses, and encourage more producers and manufacturers to seek-out opportunities in international markets.

### Case Study: Macadamia Nuts

Australian macadamia nuts are enjoying a boom in Korea. The 30 per cent tariff is being phased out over 5 stages – with the two tariff cuts that have already been made (one on entry into force on 12 December 2014 and one on 1 January 2015) the tariff is already down to 18 per cent.

The Korean market is responding. For mid- December 2014 to mid-May 2015 Australian exports of macadamia nuts to Korea were worth \$4.75 million - a huge increase over the \$1.84 million in the same period the previous year.

64. A number of products have already had much higher export volumes in the few months since KAFTA's entry into force. It is too early to draw conclusions about the effect of KAFTA on bilateral trade and investment or to the extent to which KAFTA preferential outcomes are being utilised, but anecdotal evidence suggests very good uptake. We have received positive feedback from key industry sectors on utilisation, including lamb, beef, table grapes, cherries and macadamias. There is continued very strong interest from the business community and DFAT continues to assist exporters to utilise KAFTA through our enquiry line and email inbox.

65. Under KAFTA, Australia has committed to eliminating its remaining tariffs on imports from Korea. Lower tariffs mean cheaper business inputs, supporting competitiveness and profitability for our small businesses and family enterprises. KAFTA will enhance the competitiveness of Australia's high end, small and medium size manufacturers, including parts and component producers. For example, Korea is a major market for Australian automotive parts and components, such as gear boxes, engines and other items, and Korea's 8 per cent tariff was eliminated in December 2014 when KAFTA came into force. Likewise Korea eliminated its tariffs on almost 90 per cent of Australia's pharmaceutical products (including vitamins) on entry into force.

### **Case Study: Blackmores**

*Blackmores* is a market leader in the vitamin, herbal and mineral supplement market in Australia, with strong market positions in New Zealand, Thailand, Malaysia, Singapore, Hong Kong, Taiwan, Macau, China, Cambodia and a growing presence in Korea. *Blackmores* has over 600 employees across Australia, New Zealand and Asia. Since launching in Korea in 2010, *Blackmores* has established itself as a high-quality premium natural health brand with Korean consumers. However, *Blackmores* had faced a competitive disadvantage given exports from the US and EU were already enjoying tariff-free entry into Korea. Prior to the entry into force of KAFTA, Australian exports faced tariffs of up to eight per cent. Under KAFTA, Korea now provides tariff-free entry for all of Australia's pharmaceutical, vitamin and health supplement products within three years of entry into force of the Agreement (by 1 January 2016). '*Blackmores* is pleased to learn of the positive conclusion of the KAFTA negotiations and welcomes a new era of competitive trading that awaits Australian companies exporting to Korea' said *Blackmores* CEO and Managing Director, Christine Holgate.

66. A variety of service providers benefit from KAFTA, with new access for legal, accounting and telecommunications services. The Government believes that outcomes in KAFTA will allow Australian Small and Medium Enterprises (SMEs) to better access the Korean market, engage with millions of potential new customers and deploy their world-leading expertise. An engineering services mutual recognition Memorandum of Understanding, negotiated as part of KAFTA, was signed during the visit of the Parliamentary Secretary for Trade and Investment, Steven Ciobo, to Korea in April 2015.

67. KAFTA also improves opportunities and protections for Australian investors in Korea and promotes the prospect of increased investment from Korea into Australia, particularly by raising the screening threshold at which private Korean investments in non-sensitive sectors are considered by the Foreign Investment Review Board (FIRB). This will strengthen the ability of Australian businesses – large and small – to attract greater private investment from Korea. It also supports the Government's drive for increased foreign investment to create jobs, boost infrastructure and productivity, and stimulate economic growth.

## Section 2.2: Japan-Australia Economic Partnership Agreement (JAEPA)

- World's best access to Japan, including unprecedented agriculture market access.
- Australia enjoying a first-mover advantage.
- Implementation progressing smoothly, including business-friendly self-certification of origin process.

68. JAEPA which entered into force on 15 June 2015 delivers substantial benefits for the Australian economy, facilitating business with Japan – our second-largest trading partner with two-way trade values at \$70.3 billion in 2014. Japan is one of the most protected markets in the developed world, particularly in agriculture. JAEPA is the most liberalising bilateral trade agreement that Japan has ever concluded. It provides Australian exporters, importers, investors and producers a significant advantage over their international competitors. Once JAEPA is fully implemented, more than 97 per cent of Australia's merchandise exports to Japan will receive preferential access or enter duty-free.

69. DFAT and Austrade's assessment of business utilisation is that exporters are embracing the preferential tariff rates and quotas, and are using the origin self-declarations effectively. Australian exporters also appear to be benefitting from the increased interest in Japan in Australia's supply capacity which JAEPA has generated.

70. Japanese importer interest in JAEPA is substantial and Austrade Japan has delivered 67 event presentations, briefings and seminars on JAEPA, and has jointly run with DFAT, nine additional events for business, government and other stakeholders in market. Austrade Japan continues to engage exporters through seminars in Australia, webinars, and through the recent *Australia Japan Business Spotlight* week in Tokyo. Japanese media interest in JAEPA has been considerable with more than 80 articles in mainstream newspapers (national and regional) plus television coverage which have explored the benefits of JAEPA.

71. Preliminary trade data since JAEPA's entry into force show strong growth for a number of horticultural and other agricultural goods exports but it is too early to identify sustained trends.

72. We have received positive feedback by key industry sectors on utilisation, including beef, offal, cheese, cask wine, abalone, sugar, wheat gluten and chocolate mixes exports into Japan, as well as imports of motor vehicles into Australia. Beef is Australia's largest agricultural export to Japan. Between January and the end of May 2015 (which includes 4 ½ months of preferential JAEPA access) exporters of fresh and frozen beef have taken advantage of improved access with trade of \$746 million, an increase of 35 per cent over the same period in 2014.

73. JAEPA is a living agreement; it contains a built-in agenda, including a commitment to review market access for key sensitive agricultural products within five years or earlier, if Japan enters into an FTA with one of our competitors in these products.

### Case Study: Table Grapes

It is estimated that the Japanese market for table grapes could be worth up to \$40 million over the next five years. JAEPA is expanding this opportunity by giving preferential access to Australian table grapes during Australia's export seasons with a reduction of tariffs from March to October from 17 per cent to 0 per cent over seven years; and November to February from 7.8 per cent to 0 per cent over seven years.

The first shipment of Australian table grapes for the 2015 export season arrived in Japan in mid-February with 6 key exporters/marketers securing business in Japan this season. Early trade figures are extremely encouraging. From January to May in 2015 (including 4 ½ months of JAEPA being in force) Australian exports of table grapes to Japan were worth \$6.6 million – compared to \$580,000 in the same period in 2014. Jeff Scott, CEO of the Australian Table Grape Association has acknowledged the increasing demand by Japanese importers and, while a new market for the industry, Japan “*has become a priority market for future expansion*”.

74. All of Japan's tariffs on energy and mineral products will be eliminated within ten years. Most were removed immediately on entry into force of the agreement. For example, the 3.2 per cent tariff on coke and semi coke of coal (used for steel making) was removed on day one of JAEPA. Australia is Japan's second largest supplier, with 2014 exports worth \$151 million. Elsewhere, tariffs of 11.7 per cent on unwrought nickel (unalloyed) will be phased out over seven years. Australia is Japan's largest supplier of unalloyed nickel, with trade worth \$140 million in 2014.

75. Japan applies high tariffs of up to 30 per cent on some manufactured products. Under JAEPA these tariffs have been, or soon will be, eliminated, opening up new opportunities for Australian exporters. For example, tariffs of 5.2 per cent on pearl jewellery (worth \$7.0 million in 2014) were eliminated on entry into force. A range of plastic products (worth around \$33 million in 2014) will benefit from the removal of tariffs of up to 6.5 per cent.

76. Japan's commitments in the WTO on trade in services are limited. Under JAEPA, Japan has bound its regulatory regime in a much wider range of service sectors, providing greater certainty of treatment for Australian service providers and investors. Market access for Australian lawyers is guaranteed, including ensuring Australian law firms will be able to form Legal Professional Corporations under Japanese law. Australian lawyers residing in Japan are able to take advantage of expedited registration procedures to provide Australian and international legal services in Japan.

77. Australian financial services providers are able to supply a clearly defined list of financial services on a “cross-border” basis, enabling Australian providers to do business in Japan without the need to open a full commercial presence. Japan guarantees market access for Australian education providers to Japan's higher education services market, including vocational and technical education. Japan allows Australian investment in telecommunications and internet-based services based on existing notification requirements for foreign investors. Australian and Japanese governments commit to encourage and support efforts towards mutual recognition of professional services qualifications.

78. JAEPA builds on the longstanding and important bilateral investment relationship to improve opportunities and protections for Australian investors in Japan, while sending

a clear message to Japanese investors that Australia is open for business. By raising the screening threshold at which private Japanese investments in non-sensitive sectors are considered by the FIRB, JAEPA will promote greater investment from Japan, into both new and established Australian businesses. Foreign investment creates jobs, boosts infrastructure and productivity, stimulates economic growth and helps to integrate the Australian economy into regional and global value chains.

**Case Study: Almonds**

The immediate removal of the 2.4 per cent tariff on almonds by JAEPA has delivered a competitive advantage over the US, a key competitor in the Japanese market.

Early trade figures are extremely promising. From January to May in 2015 (including 4 ½ months of JAEPA being in force) Australian exports of almonds to Japan were worth \$1.6 million – compared to \$357,000 in the same period in 2014.

The Australian Almond Board took the opportunity in March 2015 to exhibit at FOODEX 2015 and present at an Austrade-organised “Australian Almond Seminar” to showcase Australian Almond capability, consistency of supply and quality to Japanese customers as well as specific advantages under JAEPA. Additionally, the Almond Board participated in Austrade's *Australia Japan Business Spotlight Program* (21-22 April 2015) profiling almonds in a JAEPA seminar and high-end food service promotion campaign.

### **Section 2.3: China-Australia Free Trade Agreement (ChAFTA)**

79. ChAFTA was signed on 17 June 2015, but is yet to complete parliamentary treaty making processes. Over 85 per cent of Australia's goods exports to China will enter duty free when ChAFTA enters into force, rising to 93 per cent after four years and 95 per cent when ChAFTA is fully implemented.

80. ChAFTA has been keenly awaited by the Australian business community, given the size of the Chinese market and its projections for growth across many sectors. ChAFTA will help Australian suppliers benefit from China's continuing need for commodities and resources and related services to support its infrastructure development. The expansion of China's middle class will continue to see rising demand for premium agricultural produce and processed foods.

81. China is Australia's largest trading partner, with two-way trade valued at almost \$153 billion in 2014, 23 per cent of Australia's total trade. Merchandise trade between Australia and China has grown at an average of 17.8 per cent annually over the past decade, the fastest rate of any of our major trading partners. Services trade grew at an average of 10.1 per cent per annum over the same period. China is Australia's largest services market, with exports worth \$8.2 billion in 2014 (13.6 per cent of Australia's services exports). In 2014, the Chinese services sector also overtook industry as the largest contributor to China's GDP and driver of GDP growth.

82. ChAFTA will deliver China's best-ever package of services commitments, including the provision of new or significantly improved market access not included in any of China's previous FTAs (other than China's agreements with Hong Kong and Macau). Beneficiaries include Australian banks, insurers, securities and futures companies, law firms and professional services suppliers, education services exporters as well as health, aged care, construction, manufacturing and telecommunications services businesses in China.

83. Australia's investment relationship with China is also growing. The stock of Chinese investment in Australia reached \$64.5 billion in 2014, up from just \$2.3 billion in 2004, making China Australia's seventh-largest source of investment. ChAFTA will improve opportunities for investors in both countries. It will promote further growth of Chinese investment into Australia, in particular by raising the screening threshold at which private Chinese investments in non-sensitive sectors are considered by the FIRB from \$252 million to \$1,094 million. Australian investors will benefit from greater regulatory certainty, new market access for Australian services suppliers to establish a commercial presence in China, and a MFN commitment from China to extend to Australian investors and services suppliers in certain sectors any further market access it extends to investors or services suppliers of any other country under a future FTA or other investment arrangement.

84. ChAFTA will provide Australian business with significant new opportunities, with Australian products and services to enjoy a competitive advantage in the large and growing Chinese market. Businesses and consumers would also benefit from the removal of tariffs on imports from China. ChAFTA also includes an extensive built-in agenda, including a commitment to review the Agreement within three years with a view to deepening liberalisation and expanding market access.

### **SECTION 3. BUILDING BUSINESS UPTAKE OF THE NORTH ASIA FTAS**

85. DFAT together with Austrade dedicate expertise and ongoing resources to the implementation of Australia's FTAs to ensure that business can best maximise the potential benefits such agreements offer. Recent implementation initiatives are focused on Australia's most recently signed FTAs, those with Korea, Japan and China.

#### *North Asia FTA Advocacy Program*

86. The Government is committed to ensuring that recently negotiated FTAs are used widely by Australian business to maximise the benefits for their companies and the broader Australian economy. As part of the May 2015 Budget, funding of \$24.6 million over two years (from 2015-16) was allocated to Austrade and DFAT to promote business awareness and understanding of the recently concluded FTAs in North Asia, and to assist businesses to access and maximise the benefits of these agreements.

87. The *North Asia FTA Advocacy Program* will assist business utilisation of FTAs by:

- . Providing information to businesses on the opportunities arising from the three recent FTAs;
- . Showcasing Australian businesses already benefiting from the FTAs, and those that anticipate that they will benefit;
- . Outlining how the FTAs offer Australian businesses advantages over competitor businesses from other countries;
- . Encouraging Australian businesses to take immediate advantage of the two recently concluded agreements with Korea and Japan;
- . Preparing Australian business for the entry into force of the agreement with China hopefully in late 2015; and
- . Providing information about where to access the support required to effectively utilise the FTAs.

88. The North Asia FTAs are particularly significant, given these agreements cover Australia's top three export markets and account for around 40 per cent of Australia's total two-way trade in merchandise and services. Nevertheless, while the focus of the Advocacy Program remains on the North Asia FTAs, the promotional activities will encourage the use of all of Australia's FTAs, and also encourage stakeholder engagement on those FTAs currently being negotiated. Activities will take place in both Australia and in offshore markets.

#### *Promotion to offshore buyers and investors*

89. Austrade, DFAT and other Australian Government agencies based offshore are continuing a program of promoting the FTAs in Korea, Japan and China, including in collaboration with local Australian business chambers and host governments. In all three North Asia markets, investment and buyer development activities will showcase Australia as a trade and investment destination.

90. The Minister for Trade and Investment, the Hon Andrew Robb AO MP, is continuing his involvement in FTA advocacy beyond the conclusion of each agreement. The Minister is actively considering future activities in Korea, Japan and China for the purposes of FTA promotion. In April 2015, Parliamentary Secretary to the Minister for Foreign Affairs and Parliamentary Secretary to the Minister for Trade and Investment, the Hon Steven Ciobo MP, led a high-level business delegation to Korea and Japan. Other ministers are also travelling to promote these FTAs including the Assistant Treasurer, the Hon Josh Frydenberg MP, who during his visit to Korea and Japan in April focussed on gains for Australian business in financial services.

*Seminar series*

91. The Australian Government commenced the North Asia FTA seminar series in March 2015. These seminars are jointly organised by Austrade and DFAT, drawing on a network of contacts from across Federal, State and Territory Governments, including Treasury, TradeStart, AusIndustry and EFIC. In addition to providing information on the FTAs themselves, the seminars outline government support for businesses that are interested in these markets.

92. Additionally, local businesses are being invited as both speakers and attendees at the seminar events, and these are proving to be particularly well-received elements of the seminars. The North Asia FTA seminars are being hosted in Australia by the Hon Andrew Robb AO MP, Minister for Trade and Investment; the Hon Bruce Billson MP, Minister for Small Business; and the Hon Steven Ciobo MP, Parliamentary Secretary to the Minister for Foreign Affairs and Parliamentary Secretary to the Minister for Trade and Investment.

93. Initial interest in the North Asia FTA information seminars has been strong. This response provides an early indicator of business appetite for information and government assistance with regard to the implementation of the three recent North Asia FTAs. However, business interest has not been limited to the three North Asian agreements - during the current seminar series, officials have also answered questions or had discussions with businesses regarding both existing and potential FTAs with the US (AUSFTA), India (CECA), TPP, and AANZFTA, amongst others.

94. Feedback on the value of the seminars held to date has been very positive, with almost all business respondents to the post-seminar survey indicating that they would recommend the seminar to others.

**Table 2.1: FTA information seminars Mar-Jun 2015**

Date	Location	State or Territory	Audience
11 March 2015	Gold Coast	QLD	32
13 March 2015	Bentleigh	VIC	54
8 April 2015	Frankston	VIC	47
9 April 2015	Queanbeyan	NSW	53
10 April 2015	Adelaide	SA	43
23 April 2015	Ararat	VIC	41
6 May 2015	Yass	NSW	60
18 May 2015	Rockhampton	QLD	25
10 Jun 2015	Penrith	NSW	116
12 June 2015	Central Coast	NSW	22
	<b>Total</b>		<b>493</b>

95. Feedback from the survey has included the following comments:

- *“provides knowledge, information and connection as well as people who can help you to overcome the issues you might have”*
- *“gives a good general understanding of a complex subject”*
- *“great information and connection to senior officials”*
- *“creates an understanding of what the FTAs actually mean”*

96. As the program of seminars is deployed, Austrade and DFAT will continue to collect feedback through an online survey, and will use the results to ensure the content remains relevant and to report on the effectiveness of the seminars.

#### *FTA Dashboard*

97. As part of FTA outreach, an online FTA dashboard, including a comprehensive tariff finder, is under development by DFAT. This will be a fast and efficient tool for potential and existing exporters to use in order to make well-informed decisions about using the three North Asia FTAs to trade internationally. The Dashboard will complement Austrade’s existing tariff finders for other FTAs, and is designed to be scalable to encompass FTAs in the future beyond Korea, Japan and China. Unlike existing tariff finders, there will be comprehensive Rules of Origin (ROO) guidance and informative trade data incorporated into a single, intuitive interface. The first phase of the FTA Dashboard is expected for release later in 2015.

#### *Advertising campaign*

98. A national television and digital advertising campaign, supporting a mix of press, social media and online is aimed at educating both existing and prospective Australian business exporters about new market access opportunities created by the FTAs with North Asia. The campaign will also explain to the general public ways in which the FTAs will benefit the entire community through increased economic growth, job creation, increasing consumer confidence and enhanced prosperity for all Australians.

*Extended outreach*

99. DFAT and Austrade are also undertaking promotional activities in collaboration with third parties such as bilateral business chambers, banks and consultancy companies, to raise awareness and of the potential benefits of FTAs to the Australian business community. Seminars were held in September and December 2014 with a range of Australian Government officials to help equip them with knowledge covering the KAFTA, JAEPa and ChAFTA agreements, in order to communicate the benefits of the agreements to stakeholders. Further information has been made available on the DFAT and Austrade websites to better profile FTA information for business<sup>7</sup>.

100. Austrade is currently implementing a new grant program, expected to commence in July 2015, for chambers of commerce and industry, business councils and chambers, and peak industry associations. The *Free Trade Agreement Business Engagement and Utilisation* (FTA-BEU) grant is a discretionary, merit-based programme available to Australian member-based business organisations who are interested in delivering FTA projects focussed on Korea, Japan and China. The grants will deliver projects aimed at helping their members and stakeholders understand and utilise the FTAs. Information sessions will be conducted in capital cities across Australia.

101. In order to further expand the reach of FTA promotion, Austrade and DFAT are developing a North Asia FTA presentation toolkit to support third parties to deliver FTA education and outreach. DFAT and Austrade are making available a wide variety of information and materials that allow partners and allies to create their own material and promote the FTAs and the opportunities within FTA markets. The participation by business organisations in educating Australian firms and assisting them to use FTAs is designed to help strengthen the involvement and long term engagement of a broader cross-section of SMEs, active in the Korea, Japan and China markets.

---

<sup>7</sup> See <http://www.dfat.gov.au/fta> and <http://www.austrade.gov.au/>

## SECTION 4: STATISTICAL EVIDENCE ON THE UTILISATION OF THE TARIFF CONCESSIONS UNDER AUSTRALIA'S FTAS

- Almost all imports from Australia now enter the United States duty-free – currently 90.1 per cent enter duty free compared to 45.8 per cent prior to AUSFTA.
- A further 6.1 per cent of imports enter the United States at reduced rates under AUSFTA.
- Almost all imports into Australia from FTA partners enter duty free.

### Section 4.1: Overview

#### **Note on Methodology –**

- The following section reports findings on FTA use for imports into Australia for all of Australia's FTAs and for imports from Australia into the United States for AUSFTA. A time series for the period 1997 to 2014 is used to provide historical perspective on the tariff treatment of imports both before and after the entry-into-force for each of Australia's more recent FTAs.
- Note that this statistical evidence uses, for "imports" into Australia, an "import clearances" dataset compiled by the Australian Bureau of Statistics (ABS) and, for imports into the United States, an "imports for consumption" dataset compiled by the United States Census Bureau and made publicly available on the website of the United States International Trade Commission (USITC). Import clearances are imports that have cleared customs and been assessed for any duty payable. A discussion of this can be found at Attachment C. For simplicity the term "imports" is used in the rest of this analysis.
- KAFTA and JAEPA have not been included in this analysis as they have only recently entered into force. Available trade data is as yet subject to adjustments.

102. Monitoring the use of FTAs has its difficulties. Simple trade and investment flows can provide useful indicators, but a range of factors are at play including broader supply and demand issues, currency fluctuations and policies in target markets. Data based on the tariff treatment at the point of entry provides the best measure of the actual uptake of FTA preferences. DFAT has these data for entry into the US, and for entry into Australia from all our FTA partners. DFAT is working with other FTA partners on the exchange of data to support further analysis.

103. However, available customs data indicates that Australia's FTAs are heavily used for both imports into Australia and, on the basis of the evidence from AUSFTA, by goods imported into our FTA partners from Australia.

104. Table 4.1 shows the percentage of imports into the United States from Australia, and into Australia from the world and for each of our FTA Partners, that entered under each of the following categories of tariff treatment:

- a) An FTA's tariff commitments (in most cases a 0% tariff but for some products a reduced MFN tariff).
- b) A 0% MFN applied tariff (i.e. no tariff).
- c) Developing country preferences. These are special reduced tariff rates Australia provides for developing countries. (Not relevant to trade between Australia and the United States.)
- d) A domestic tariff concession. These are domestic programs which allow certain imports to be imported duty-free or at a tariff rate lower than the MFN applied tariff. This includes Australia's tariff concession orders (TCOs).
- e) A tariff higher than 0%.

**Table 4.1: Imports in 2014: Categories of Tariff Treatment: Percentage of Total Imports from each Country (or the World)<sup>8</sup>**

	FTAs	0% MFN tariffs	Developing Country Preferences	Domestic tariff concessions	MFN tariffs higher than 0%
<b>Imports into the US from Australia</b>	43.4	46.6	0	6.1	3.9
<b>Imports into Australia</b>					
From the World	9.9	48	1.7	15.7	22.5
From FTA Partners					
AANZFTA Parties	30	57.5	0.7	8.5	3.3
Chile	11.9	79.6	0.1	8.0	0.4
Malaysia	13.6	69.4	0.7	14.0	2.3
New Zealand	45.1	52.1	0	1.7	1.1
Singapore	7.6	85.5	0.6	4.4	1.9
Thailand	70.3	14.5	0.7	11.1	3.4
United States	26.5	42.7	0	14.9	7.8

Table 4.1 indicates that:

- a) Where there is an FTA very little trade is still paying tariffs higher than 0%. The highest figure is imports into Australia from the United States where 7.8 per cent of imports still paid tariffs in 2014. By comparison, a much higher 22.5 per cent

<sup>8</sup> Australia's import clearance data, since 2008, excludes certain confidentialized imports at the country level, which cannot be allocated to a particular treatment. For most of Australia's FTA Partners this is primarily an issue for 2013 and 2014, and the amount is small (under 2 per cent of the value of imports from each Partner). However, the amounts are significant for imports from the United States through the 2008-2014 period, and in 2014 accounted for 8.1 per cent of imports. The confidentialized imports have been included in this submission only in relation to imports from the United States and the World. This is why the figures in Table 4.1 for imports into Australia from the World and the United States add up to less than 100 per cent. For more information see Appendix G to DFAT Publication *Composition of Trade* under Trade Statistics in Publications at [www.dfat.gov.au](http://www.dfat.gov.au)

of all imports into Australia from the world (including imports from FTA Partners) paid MFN tariffs in 2014.

- b) The use of an FTA's tariff commitments varies significantly, particularly if tariffs were already set at zero – there is no need to use the FTA rate. The most used FTAs are for imports into the United States from Australia, and into Australia from Thailand and New Zealand. Smaller, but still very significant use of FTA tariff commitments occurs for imports into Australia from AANZFTA Parties and the United States.

105. One of the key objectives of FTAs is the elimination of tariffs and the achievement of free trade between the Parties. Table 4.2 shows that this had been very largely achieved in 2014 with regard to actual trade flows, with most trade from FTA Partners entering tariff-free. Trade entered tariff-free under any one of the following categories: a 0% FTA tariff; a 0% MFN tariff; a 0% developing country preference; or a 0% tariff under a domestic tariff concession program.

106. This increase in the value and percentage of goods entering Australia from our FTA Partners tariff-free has been due to three factors:

- a) Elimination of tariffs under Australia's FTAs.
- b) Continuing increases in imports of goods with MFN tariffs of 0% from most FTA Partners.
- c) The elimination in 2005 of the 3% tariff on goods imported under Australia's TCOs.

**Table 4.2: Imports Entering Tariff-Free in 2014**

	<b>% of Imports Entering Tariff-Free</b>
<b>Imports into the US from Australia</b>	90.1
<b>Imports into Australia</b>	
From the World	74.3
<u>From FTA Partners:</u>	
AANZFTA Parties	96.6
Chile	99.4
Malaysia	97.6
New Zealand	98.9
Singapore	98.0
Thailand	96.4
United States (including confidentialized imports)	83.9
United States (excluding confidentialized imports)	91.2

107. When using Table 4.2 it is important to note that, except for ANZCERTA and SAFTA, some of the tariff commitments in Australia's FTAs had not been fully implemented in 2014. Additional tariff commitments are being implemented in 2015 or later years. Therefore, there will be additional products for which imports will enter at a 0% FTA tariff rate in future years as tariff commitments are fully implemented. For example, in relation to imports into the United States from Australia:

- a) While 9.9 per cent still paid tariffs in 2014, this comprised 3.9 per cent paying MFN tariffs and 6 per cent paying reduced AUSFTA tariffs.
- b) The 6 per cent paying reduced AUSFTA tariffs in 2014 (\$729 million) included \$480 million in wine imports on which the AUSFTA tariff was eliminated on 1 January 2015.

108. The extent of FTA use by any particular country pair is heavily dependent on the product composition of goods exported by one country to the other. For example Australia has tariffs predominantly on motor vehicles, and textiles and steel products so where imports of these products are higher by a particular country, such as Thailand, use of the FTA preferential tariff rates is higher. This means:

- a) There is significant use of AUSFTA by imports from Australia into the United States as many of the products we export to that market would still face MFN tariffs without AUSFTA.
  - i. In 2004, prior to the entry-into-force of AUSFTA, 54.2 per cent of goods imported from Australia were paying MFN tariffs.
  - ii. In 2014 this had fallen to only 3.9 per cent of goods, with 43.4 per cent making use of AUSFTA (37.4 per cent at AUSFTA 0% tariff rates and 6 per cent at AUSFTA reduced rates).
- b) There is also significant use of TAFTA by imports from Thailand into Australia.
  - i. In 2004, prior to the entry-into-force of TAFTA, 65.3 per cent of imports from Thailand were paying tariffs, either MFN tariffs higher than 0% or reduced tariff rates under Australia's developing country preference or domestic tariff concession schemes.
  - ii. In 2014 this had fallen to 3.6 per cent of goods paying tariffs, with 96.4 per cent of goods entering Australia tariff-free under MFN rates of 0%, or TAFTA/AANZFTA tariff-free treatment or 0% tariffs under domestic tariff concession schemes.
- c) However, a high percentage of imports from Singapore and Chile enter Australia under MFN rates of 0%.
  - i. In 2014, 85.5 per cent of imports from Singapore entered Australia under 0% MFN tariffs, and another 4.4 per cent entered duty-free under domestic tariff concession arrangements. For Chile, 79.6 per cent entered under 0% MFN tariffs and 8.0 per cent under duty-free domestic tariff concessions.
  - ii. As a consequence use of FTA tariff commitments was lower compared to other FTA Partners: 7.6 per cent of imports for Singapore and 11.9 per cent for Chile.

109. Rules of origin and associated administrative procedures do not seem to be a significant hindrance to use of any of Australia's FTAs in relation to imports into Australia, or for imports into the United States under AUSFTA.

- a) It is unlikely that FTA tariff use would be so high if the rules of origin and/or the administrative procedures imposed significant costs on business.
- b) The import data provides strong evidence that existing trade is making very large use of FTA tariff concessions. There does not seem to be a lot of trade not utilizing these commitments and paying MFN tariffs instead.

110. While there has been good use of each of the FTAs from the year in which each came into force, there generally seems to be a delay of between one and three years before businesses are making full use of the FTA tariff commitments. While some delay in utilisation would seem reasonable, as businesses adjusted their production processes and sourcing arrangements, this delay would also suggest that there may have been initial gaps in business fully understanding the new opportunities. Some examples of this delay:

- a) Looking at the 9 AANZFTA Parties for whom AANZFTA entered into force in 2010, imports using the FTA were 2.9 per cent of the total in 2010, but rose to 4.6 per cent in 2011 and 5.6 per cent in 2012.
- b) The situation is even more striking for imports from Indonesia, for whom AANZFTA entered into force in 2012. In 2012 12.9 per cent of imports from Indonesia used AANZFTA, but this rose to 21.7 per cent in 2013 and 32.3 per cent in 2014.

## **Section 4.2: AUSFTA**

111. There is significant use of AUSFTA tariff commitments by imports into both the United States and Australia.

112. AUSFTA has resulted in most trade between Australia and the US now enjoying duty-free treatment, including under MFN tariffs of 0%, AUSFTA tariffs of 0%, or domestic tariff concession programs (e.g. Australia's tariff concession orders and the United States duty-free treatment for special programs such as certain chemicals and items for the handicapped).

### **Section 4.2.1: Australian imports into the United States**

113. AUSFTA has contributed to a major reduction in imports paying MFN tariffs higher than 0%. For example, in 2014 only 3.9 per cent of imports (\$476 million) into the United States from Australia paid the MFN tariffs higher than 0%. This was a major reduction on the 54.2 per cent of imports (\$5.58 billion) that paid MFN tariffs higher than 0% in 2004, the year prior to AUSFTA's entry into force (see Charts in Section 4.2).

114. In 2014, 43.4 per cent of imports (\$5.25 billion) into the United States from Australia used AUSFTA. Of this, 37.4 per cent of total imports (\$4.52 billion) entered under AUSFTA zero tariffs and 6.0 per cent of imports (\$729 million) entered under AUSFTA reduced tariff rates.

115. AUSFTA resulted in a large increase in the amount of Australian imports entering the United States duty-free post entry into force in 2005. For imports into the United States from Australia in 2002-2004<sup>9</sup>, an annual average of 44.8 per cent of imports (\$4.76 billion per annum) entered duty-free. While in 2012-2014<sup>10</sup>, this had increased to 88.8 per cent of imports (\$9.23 billion per annum).

116. Chart 4.2e illustrates the large reduction in Australian imports into the United States paying MFN tariffs higher than zero and the large increase in Australian imports entering under AUSFTA zero tariffs. In 2002-2004, an annual average of 55.2 per cent of Australian imports into the US (\$5.86 billion per annum) paid MFN tariffs that were higher than 0%. In 2012-2014, this had fallen to 11.2 per cent of Australian imports (\$1.16 billion per annum) paying tariffs of which 4.3 per cent (\$449 million per annum) paid MFN tariffs, and 6.9 per cent of imports (\$713 million per annum) paid AUSFTA reduced tariff rates.

---

<sup>9</sup> These were the three calendar years immediately prior to the entry into force of AUSFTA on 1 January 2005.

<sup>10</sup> The most recent three calendar years.

Charts 4.2a, 4.2b, and 4.2c provide a breakdown of total Australian imports into the US pre and post AUSFTA's entry into force in 2005.

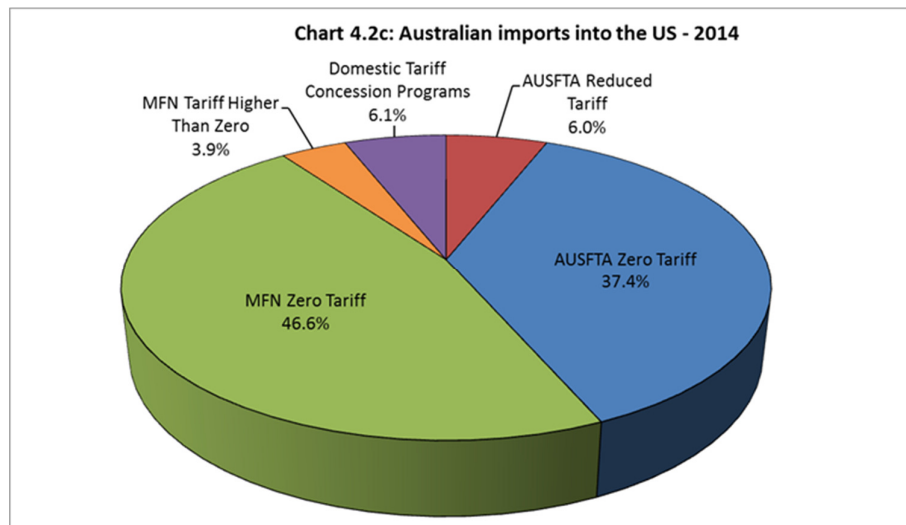
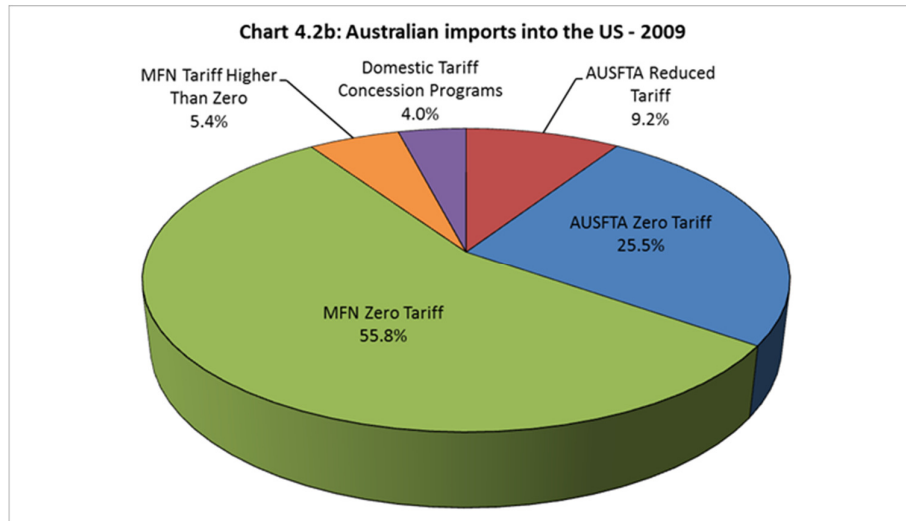
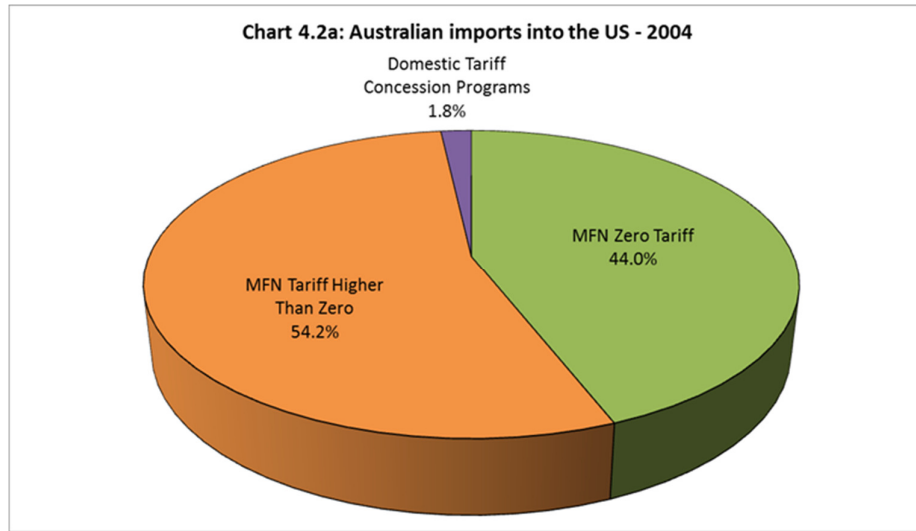


Chart 4.2d provides a breakdown of total Australian imports into the US over the period 1997-2014 comparing duty-free versus dutiable lines

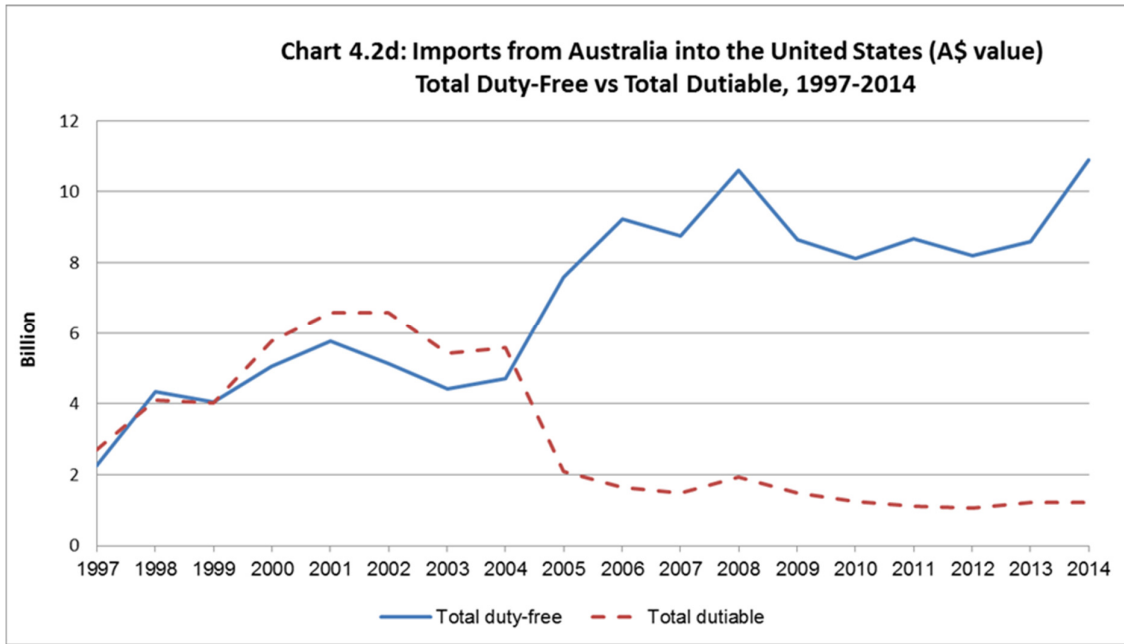
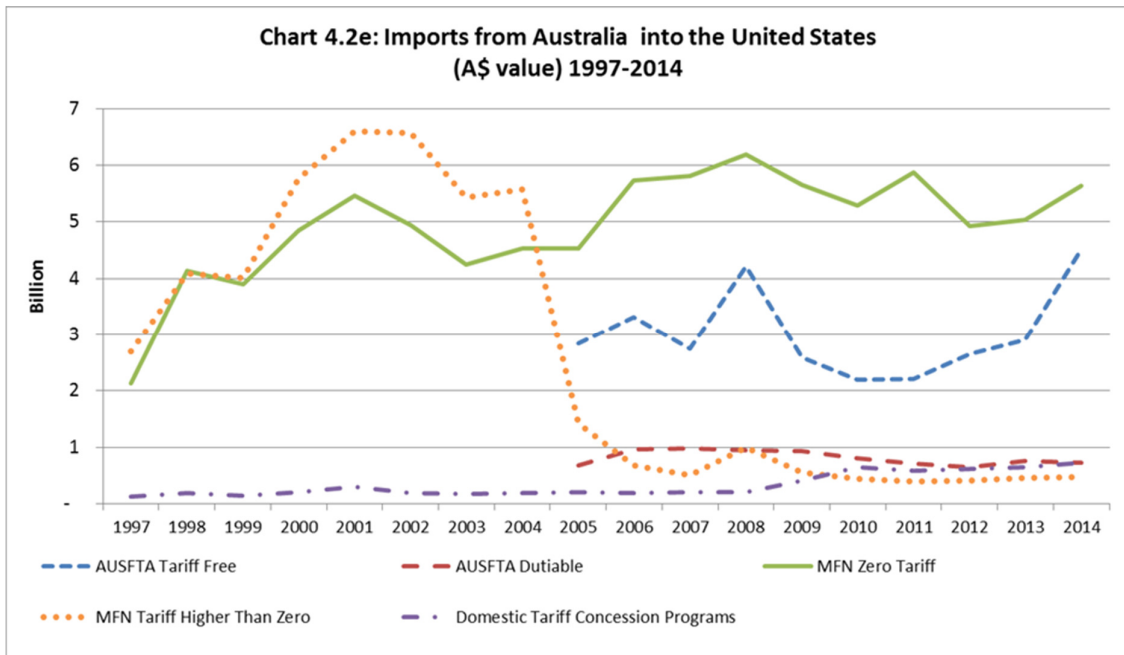


Chart 4.2e provides a breakdown of total Australian imports into the US over the period 1997-2014 based on tariff treatment at the border



## Section 4.2.2: United States Imports into Australia

117. In 2014, 26.5 per cent (\$7.61 billion) of United States total imports into Australia used AUSFTA (Chart 4.2h). Of the \$7.61 billion, 26.2 per cent (\$7.53 billion) entered under AUSFTA 0% tariff rates and 0.3 per cent (\$80 million) entered under AUSFTA reduced tariff rates. Only 7.8 per cent of imports (\$2.22 billion) into Australia from the United States paid MFN tariffs higher than 0%. This was a major reduction on the 26.8 per cent of imports (\$5.48 billion) that paid MFN tariffs higher than 0% in 2004 (Chart 4.2f).

118. For imports into Australia from the United States, in 2002-2004, 63.3 per cent of average annual imports (\$13.51 billion) entered duty-free<sup>11</sup>. In 2012-2014 (post AUSFTA entry into force) goods entering duty-free had increased to 84.9 per cent of imports (\$24.29 billion per annum).

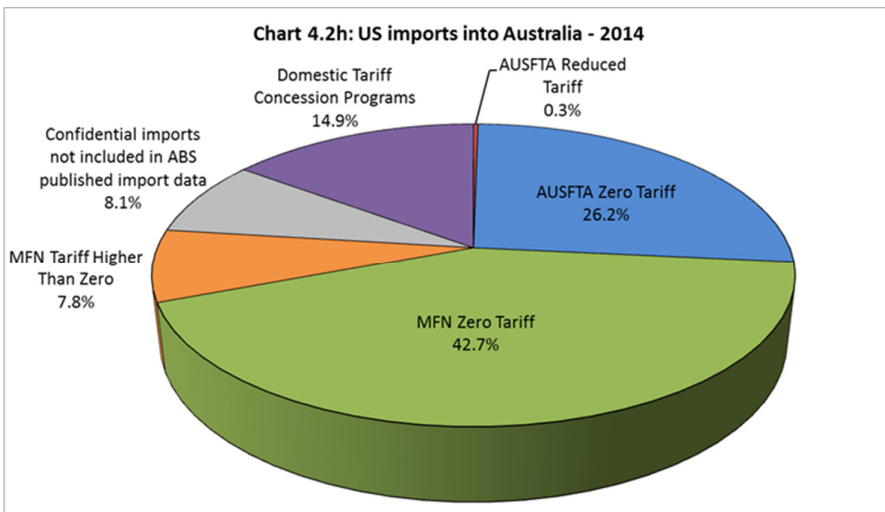
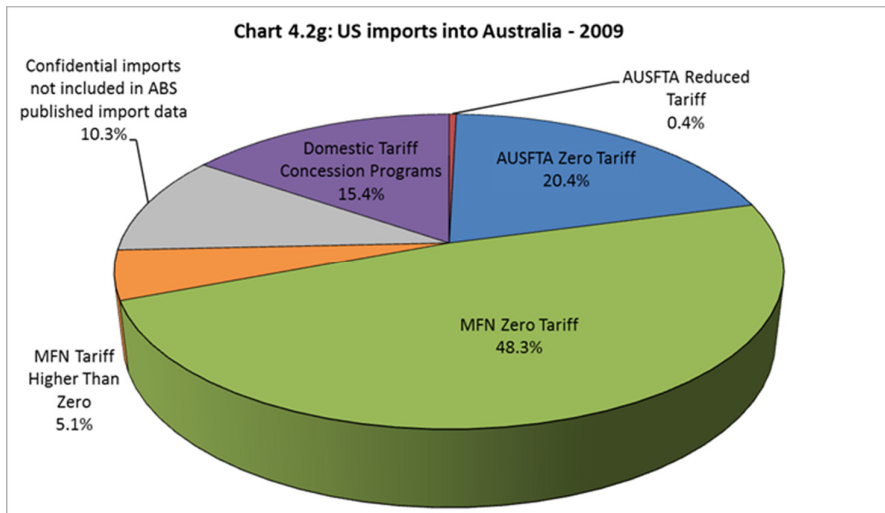
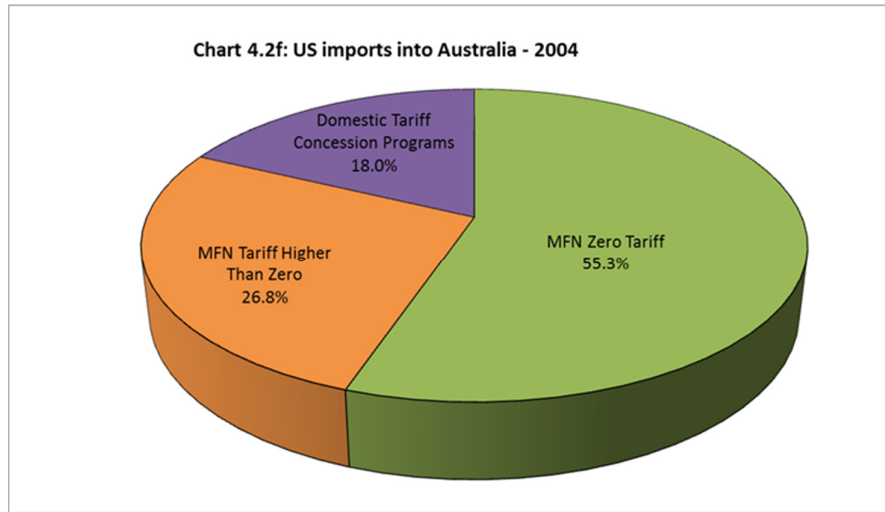
119. The very large reduction in the amount and percentage of imports into both the United States and Australia still paying tariffs is mainly due to AUSFTA, but partly due also to increases in imports receiving duty-free treatment in both the United States and Australia under their respective domestic tariff concession programs.

120. Chart 4.2j shows the fall in United States imports into Australia entering under MFN tariffs higher than zero and the increase in imports entering under AUSFTA zero tariffs. In 2002-2004, an annual average of 25.4 per cent of imports (\$5.42 billion per annum) paid MFN tariffs that were higher than 0%. In 2012-2014, this had fallen to 6.7 per cent of imports (\$1.93 billion per annum) paying tariffs, of which 6.5% of imports (\$1.85 billion per annum) paid MFN tariffs, and 0.3% of imports (\$77 million per annum) were paying reduced AUSFTA tariff rates.

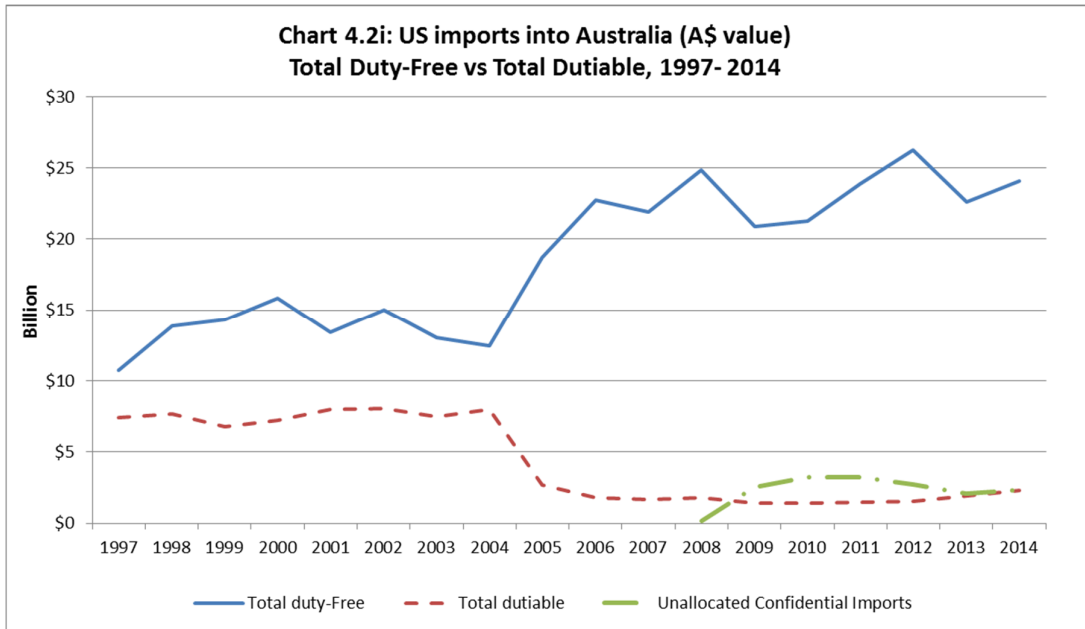
---

<sup>11</sup> A change in confidentialization practices in 2008 means that since then, a subset of imports are not included in the imports and cannot be allocated to either duty-free or dutiable. However, these imports would have entered under both duty-free and dutiable categories of tariff treatment.

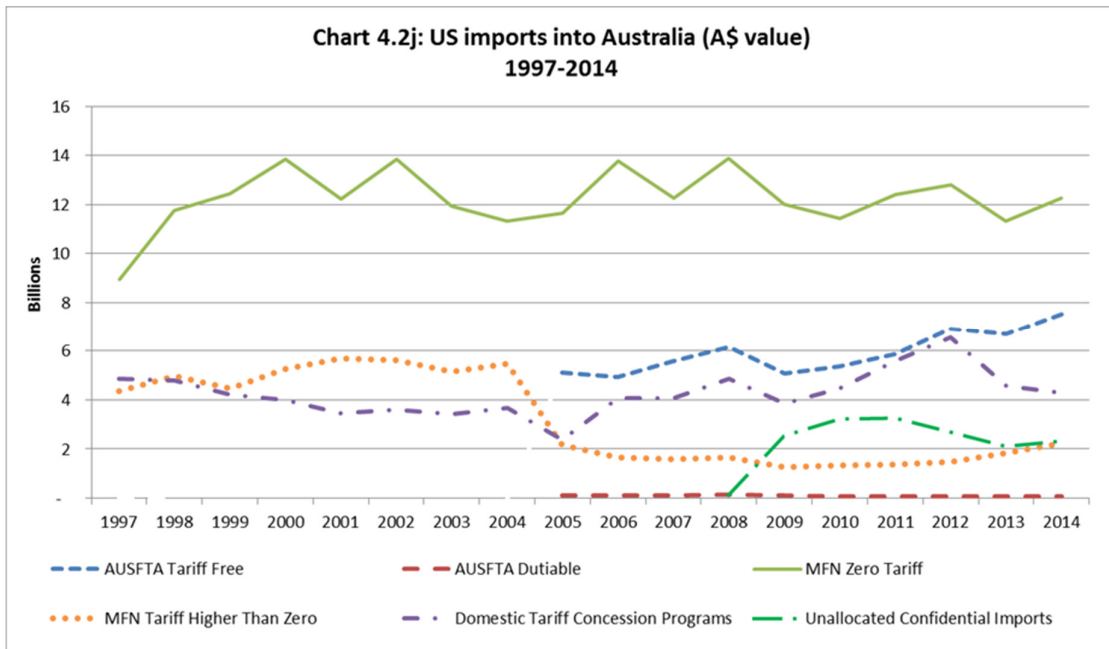
Charts 4.2f, 4.2g, and 4.2h provide a breakdown of total US imports into Australia pre and post AUSFTA entry into force in 2005



**Chart 4.2i provides a breakdown of total US imports into Australia over the period 1997-2014 comparing duty-free versus dutiable lines**



**Chart 4.2j provides a breakdown of total US imports into Australia over the period 1997-2014 based on tariff treatment at the border**



*Products making use of AUSFTA*

*Australian imports into the United States*

121. A wide variety of products are making use of AUSFTA. In 2014, the largest imports from Australia into the United States were \$2.26 billion of beef (HS 0201 and 0202), with over 99 per cent entering duty-free under AUSFTA. In comparison in 2004, imports of beef were \$1.51 billion, all of which paid MFN tariffs e.g. \$1.27 billion (347,100 tonnes) of various beef cuts with a tariff of US\$0.044 per kilogram.

**Table 4.3: Australian imports into the United States in 2014: Examples of products using AUSFTA**

Product	2004 Imports		2014 Imports	
	Value (\$A)	Duty Paid	Value (\$A)	Duty Paid
Beef (HS 0201 and 0202)	\$1.51 billion	Imports paid tariffs (e.g. \$1.27 billion of various beef cuts with a tariff of US\$0.044 per kilogram)	\$2.26 billion	Over 99 per cent entered duty-free under AUSFTA
Sheep and goat meat (HS 0204)	\$358 million	Over 90 per cent of imports paid a tariff.	\$641 million	Over 99 per cent duty-free either under AUSFTA or 0% tariffs.
Wine (HS 2204)	\$993 million	Imports paid tariffs between US\$0.053 per litre and US\$0.224 per litre.	\$498 million	Over 96 per cent paying a reduced rate of duty under AUSFTA.
Zinc (HS 7901)	\$36 million	Imports paid tariffs between 1.5% and 3%.	\$260 million	All imports duty-free under AUSFTA.
Wheat gluten (HS 1109)	\$45 million	Imports paid tariffs between 1.8% and 6.8%.	\$219 million	Over 16 per cent duty-free under AUSFTA and 84 per cent paying a reduced rate of duty under AUSFTA.
Rear view mirrors for vehicles (HS 7009.10)	\$81 million,	Imports paid a tariff.	\$71 million	Over 99 per cent duty-free under AUSFTA.
Cotton seeds (HS 1207.2)	\$3 million	Imports paid a tariff of US\$0.47 per kg.	\$55 million	Over 99 per cent duty-free under AUSFTA.
Sports and pleasure motorboats other than outboard motorboats (HS 8903.92)	\$64 million	Imports paid tariffs of 1.5%	\$45 million	81 per cent duty-free under AUSFTA.
Shelled almonds (HS 0802.12)	No imports	Imports of almonds faced a tariff of US\$0.24 per kg.	\$32 million	Over 99 per cent duty-free under AUSFTA.

*United States imports into Australia*

122. In 2014 the largest import into Australia was \$1.03 billion worth of petrol motor vehicles of a cylinder capacity exceeding 3,000 cc (HS 8703.24), of which 88 per cent were imported duty-free under AUSFTA. In 2004, imports were \$229 million, of which 98 per cent paid MFN tariffs. Other US products making use of AUSFTA are listed in Table 4.4 below.

**Table 4.4: United States imports into Australia in 2014: Examples of products using AUSFTA**

Product	2004 Imports		2014 Imports	
	Value (\$A)	Duty Paid	Value (\$A)	Duty Paid
Petrol motor vehicles of a cylinder capacity exceeding 3,000 cc (HS 8703.24)	\$229 million	98 per cent paid tariffs.	\$1.03 billion	88 per cent imported duty-free under AUSFTA.
Diesel motor vehicles other than PMVs of a cylinder capacity exceeding 2,500 cc (HS 8703.33.20)	\$98 million	Imports paid a tariff of 5%.	\$541 million	64 per cent were imported duty-free under AUSFTA.
Petrol motor vehicles of cylinder capacity exceeding 1,500 cc but less than 3,000 cc (HS 8703.23.19)	\$15 million	Imports paid a tariff of 15%.	\$261 million	81 per cent were imported duty-free under AUSFTA.
Parts suitable for use solely or principally with the machinery of headings 8429 or 8430, nes individually (HS 8431.49.90)	\$109 million	97 per cent paid a 5% tariff.	\$211 million	51 per cent were imported duty-free under AUSFTA, 29 per cent under tariff concession orders and 20 per cent paid a tariff.
Food preparations, not elsewhere specified (nes) (HS 2106.90.90)	\$76 million	99 per cent paid a tariff of 4%.	\$196 million	73 per cent were imported duty-free under AUSFTA.
Diesel-electric locomotives (HS 8602.10)	\$18 million	41.4% paid a tariff of 5% and 58.6 per cent entered under tariff concession orders.	\$194 million	81 per cent were imported duty-free under AUSFTA.
Beauty or make-up preparations and preparations for the care of skin (HS 3304.99)	\$88 million	Almost 100 per cent paid a tariff of 5%.	\$154 million	85 per cent were imported duty-free under AUSFTA.
Powered mowers for lawns etc. (HS 8433.11)	\$98 million	All imports paid a 5% tariff.	\$127 million	98 per cent were imported duty-free under AUSFTA.
Whiskies (HS 2208.30)	\$94 million	51.5 per cent paid a 5% tariff and 48.5 per cent entered under a domestic tariff concession program.	\$104 million	98 per cent were imported duty-free under AUSFTA.

123. It is important to note that some tariff reductions under AUSFTA have not yet been fully implemented – so the amount of imports that enter under AUSFTA tariff free treatment rather than reduced AUSFTA tariffs should increase in the future.

124. Many imports into both the US and Australia enjoy duty-free access through either MFN tariffs that are zero or domestic tariff concession programs. However, AUSFTA still benefits these imports through binding most of these tariffs at 0% - that is, guaranteeing that they cannot rise again in future.

125. The domestic tariff concession programs are unilateral initiatives and the tariff concessions for particular products could be withdrawn at any time. In this eventuality many of these imports – as long as they meet AUSFTA's rules of origin – could then look at using AUSFTA.

126. Many factors influence trade flows. The period since AUSFTA's entry-into-force has seen both the mining boom and the 2008-09 Global Financial Crisis with important effects such as a sustained period of a high Australian dollar and a long period of subdued economic growth in the US.

### Section 4.3: AANZFTA

127. There is significant use of AANZFTA tariff commitments, and tariff commitments under the bilateral FTAs we have with four of the AANZFTA Parties (New Zealand, Singapore, Thailand and, since 2013, Malaysia). For example:

- a) 18.1 per cent of imports (\$8.38 billion) entered Australia using a bilateral FTA from an ASEAN country or New Zealand in 2009, the year before AANZFTA entered into force (Charts 4.3a and b); and
- b) 30 per cent of imports (\$16.72 billion) entered Australia using AANZFTA or one of the bilateral FTAs in 2014 (Charts 4.3a and b).

128. AANZFTA use has been increasing each year since the Agreement entered into force on 1 January 2010. Charts 4.3a and b show use of each of the following four categories of tariff treatment for 2007-2014 (in dollar value and percentage terms):

- a) AANZFTA tariff commitments;
- b) One of the four bilateral FTAs or another bilateral trade agreement (i.e. a small amount is imported tariff free under an earlier bilateral trade agreement with Malaysia, which is a legacy of the former imperial preferences);
- c) Australia's developing country preference schemes; or
- d) The MFN tariff, where this is higher than 0%.

129. There has been a significant reduction in imports from AANZFTA Parties paying MFN tariffs (higher than 0%):

- a) In 2007-2009<sup>12</sup> 6.4 per cent of imports (\$3.12 billion) paid MFN tariffs; and
- b) In 2012-2014<sup>13</sup> this had fallen to 2.9 per cent of imports (\$1.58 billion).

130. Our initial assessment of the import clearance data suggests that business is making some use of AANZFTA to benefit from regional supply chains through regional cumulation of origin, but that bilateral trade flows remain much more important in FTA tariff use. All of Australia's FTAs allow for some form of cumulation of origin between the Parties – e.g. they all allow originating materials imported from another Party to the same FTA to be counted towards meeting the rules of origin required of the final good when claiming FTA tariff treatment. As most of Australia's FTAs are bilateral in nature, cumulation can usually only take place between the two Parties to each other. However, AANZFTA, as a regional FTA with 12 Parties, should, in principle, be more significant in promoting cumulation and regional production. However, the statistical evidence indicates that use of Australia's bilateral FTAs with four AANZFTA Parties remains more significant than use of AANZFTA

---

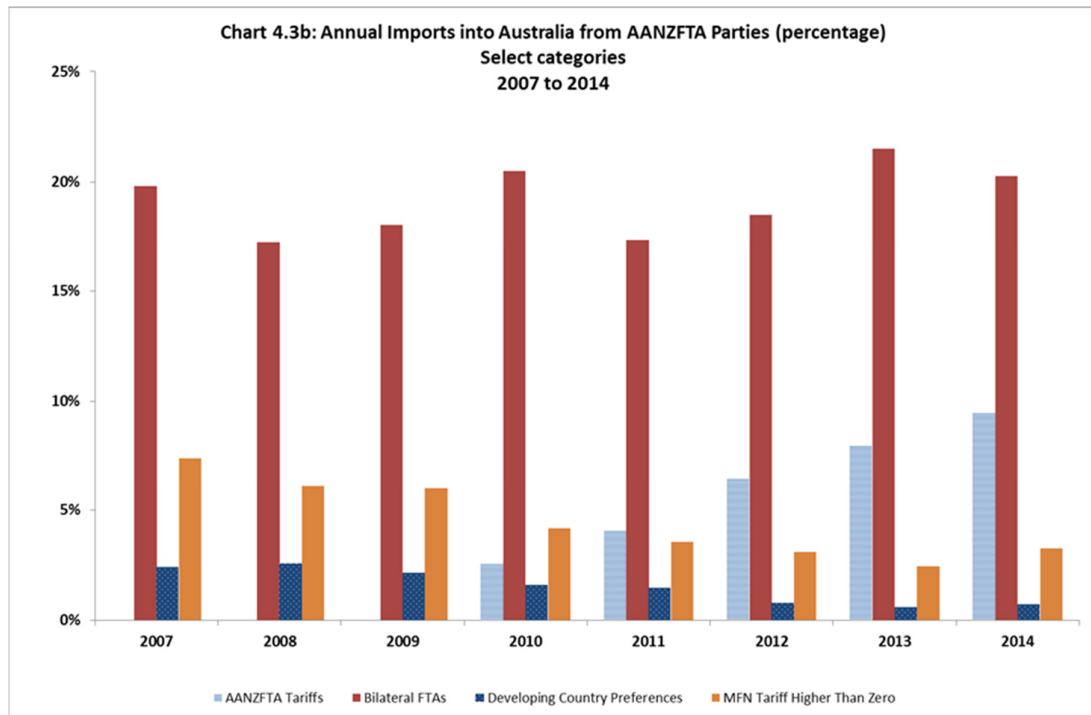
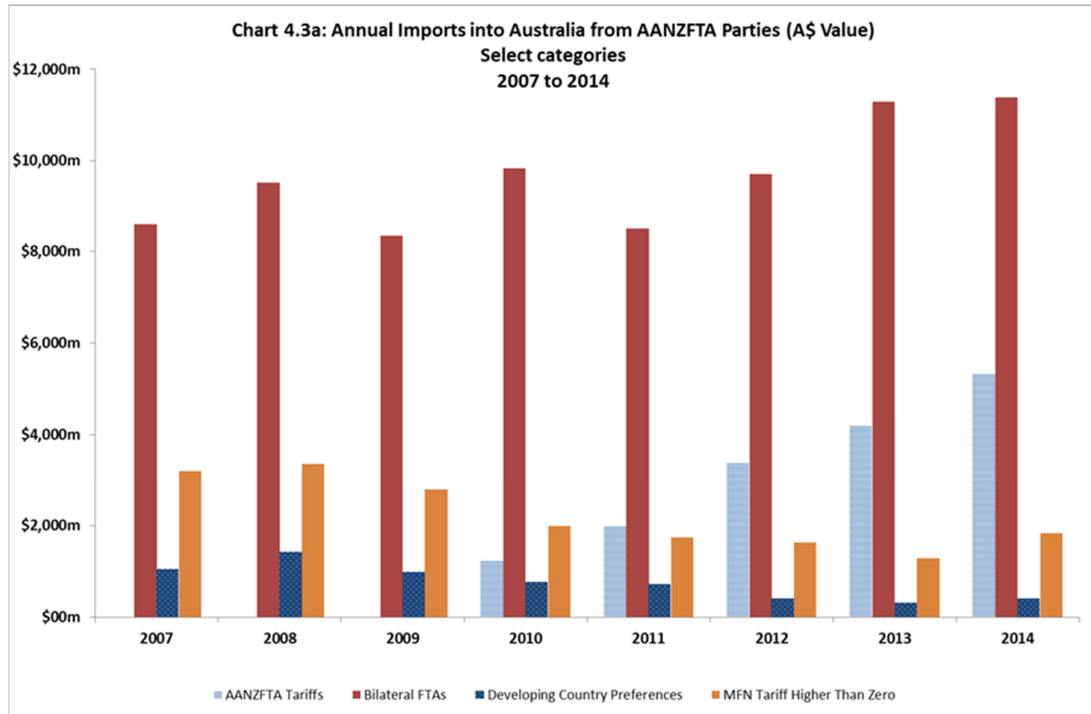
<sup>12</sup> These were the three calendar years immediately prior to the entry-into-force of AANZFTA on 1 January 2010 for eight Parties. AANZFTA entered-into-force for Thailand in March 2010, for Cambodia and Laos in January 2011, and for Indonesia in January 2012.

<sup>13</sup> The most recent three calendar years.

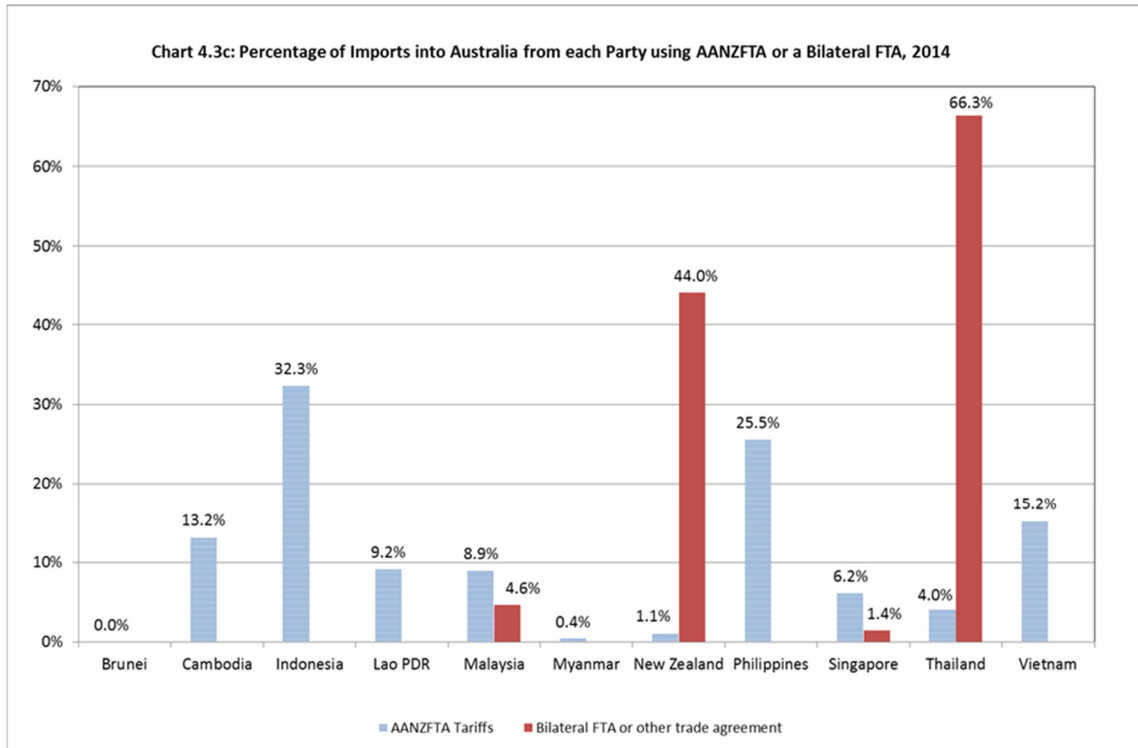
131. An important factor in trade with AANZFTA Parties is the fact that for many of these countries a high proportion of their trade consists of products on which Australia's MFN tariffs are 0%:

- a) In 2009, MFN tariffs of 0% accounted for 62.0 per cent of imports (\$28.77 billion) from these countries (Chart 4.3e); and
- b) In 2014, this was 57.5 per cent of imports (\$32.06 billion) (Chart 4.3g).

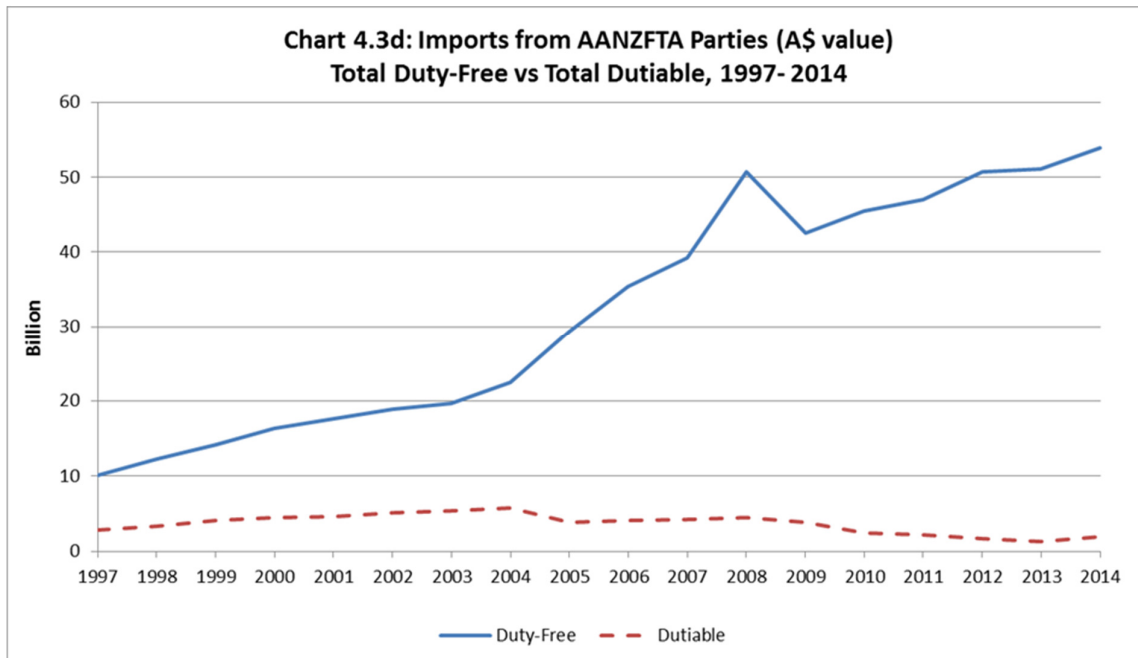
**Charts 4.3a and 4.3b provide a breakdown of total AANZFTA Party imports into Australia over 2007-2014**



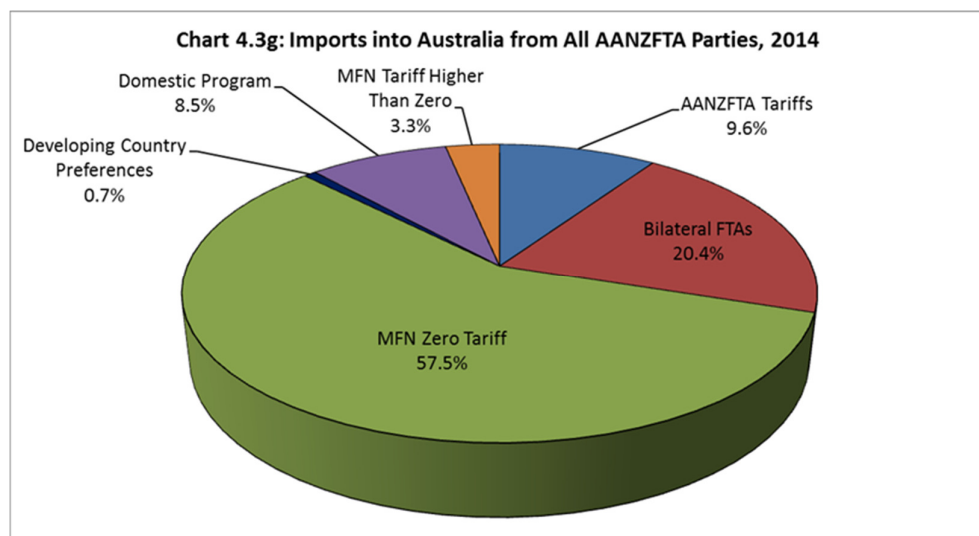
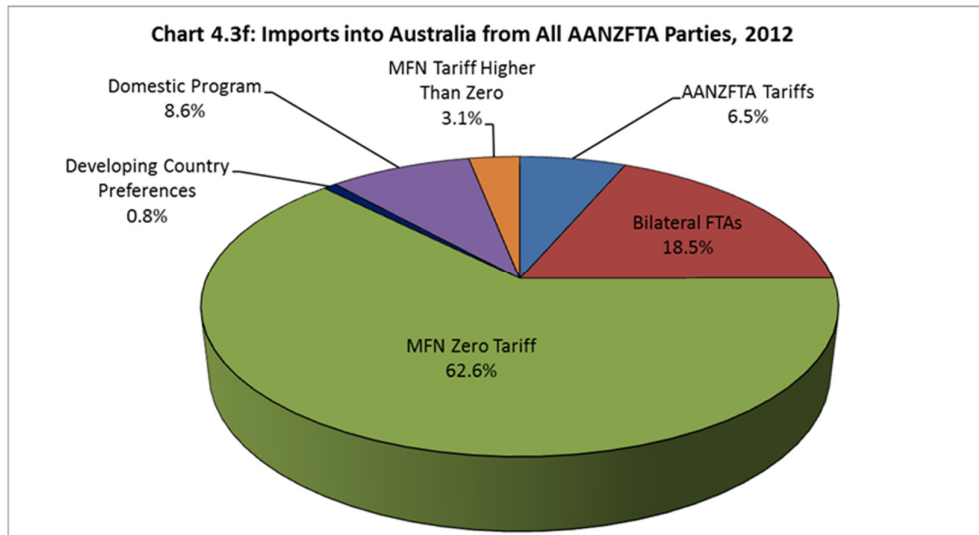
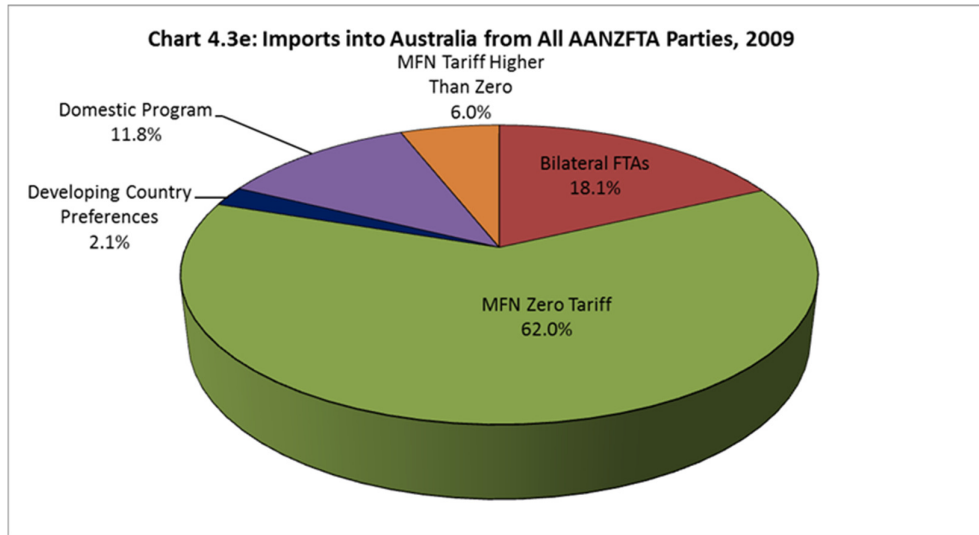
**Chart 4.3c provides a breakdown of total imports into Australia in 2014, whether from AANZFTA or a Bilateral FTA**



**Chart 4.3d provides a breakdown of total AANZFTA Party imports into Australia over the period 1997-2014 comparing duty-free versus dutiable lines**



Charts 4.3e, 4.3f, and 4.3g provide a breakdown of total AANZFTA imports into Australia over 2009, 2012, and 2014

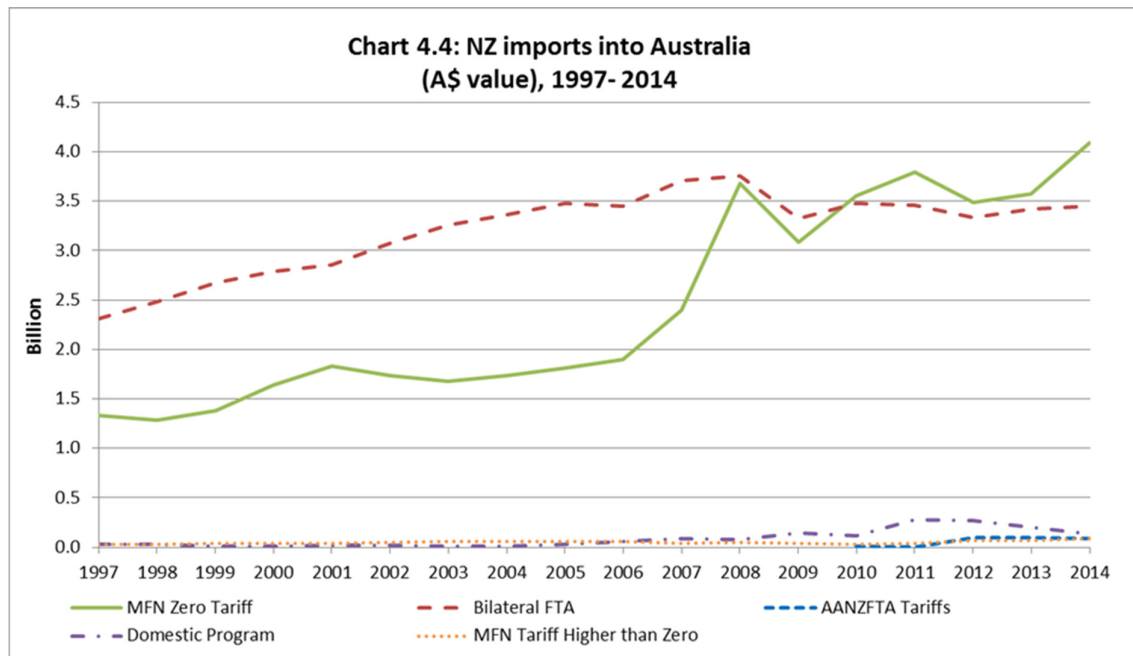


## Section 4.4: ANZCERTA

132. ANZCERTA entered into force on 1 January 1983, and all tariffs were eliminated by 1 July 1990. Therefore ANZCERTA was a very well established agreement by the time of the time series – 1997 to 2014 – used for this research. Throughout this period around 99 per cent of imports from New Zealand have entered Australia tariff-free. Between 1997 and 2007 generally between 33 and 38 per cent of imports used MFN tariffs of 0% and between 60 and 65 per cent used ANZCERTA tariff commitments. From 2008 to 2014 between 47 and 52 per cent used MFN tariffs of 0% and between 45 and 50 per cent used FTA tariff commitments. This change would appear to reflect changes in the product composition of imports from New Zealand.

133. Since 1 January 2010 imports from New Zealand have also been able to make use of AANZFTA where they meet the rules of origin under that Agreement. In 2014, 2.5% of imports from New Zealand using an FTA made use of AANZFTA, and 97.5% made use of the bilateral FTA. However, while imports from New Zealand using AANZFTA remain small, it is interesting that there has been significant growth in the last few years – in 2010 only \$7.2 million used AANZFTA, but by 2014 this had grown to \$86.8 million. This suggests that, like Singapore, the regional potential of AANZFTA is taking time to be recognized and tentatively made use of by business.

**Chart 4.4 provides a breakdown of total NZ imports into Australia over the period 1997-2014 based on tariff treatment at the border**



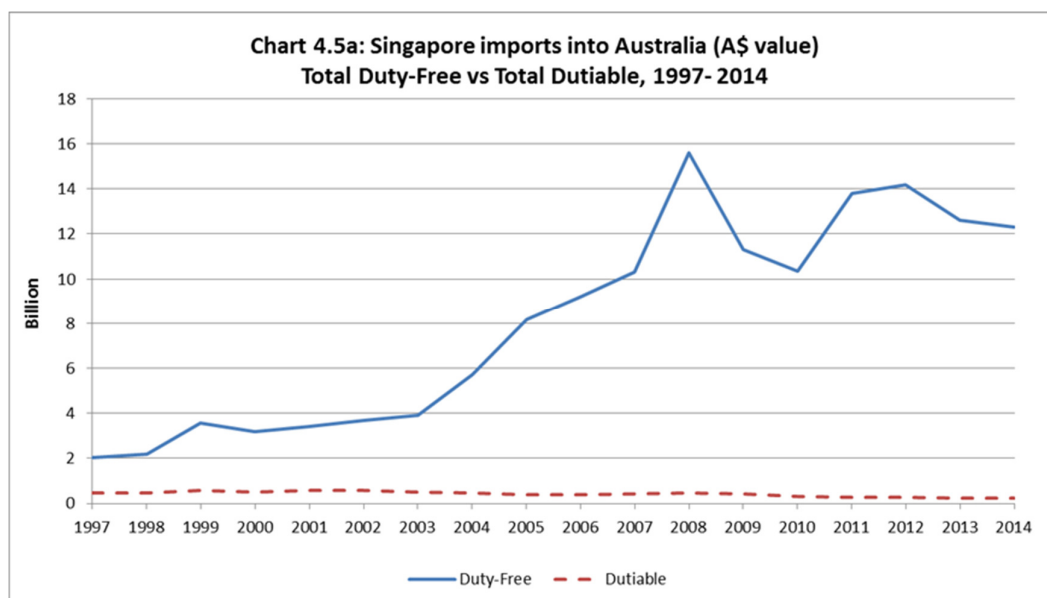
## Section 4.5: SAFTA

134. SAFTA entered into force on 28 July 2003. Prior to this most imports from Singapore entered Australia duty-free (86.5 per cent of imports in 2002), mainly under MFN tariffs of 0%. There was already a rising trend in imports and this has continued following SAFTA's entry-into-force. In 2014 almost all imports from Singapore – 98 per cent – entered tariff free (Chart 4.5d), with this occurring through:

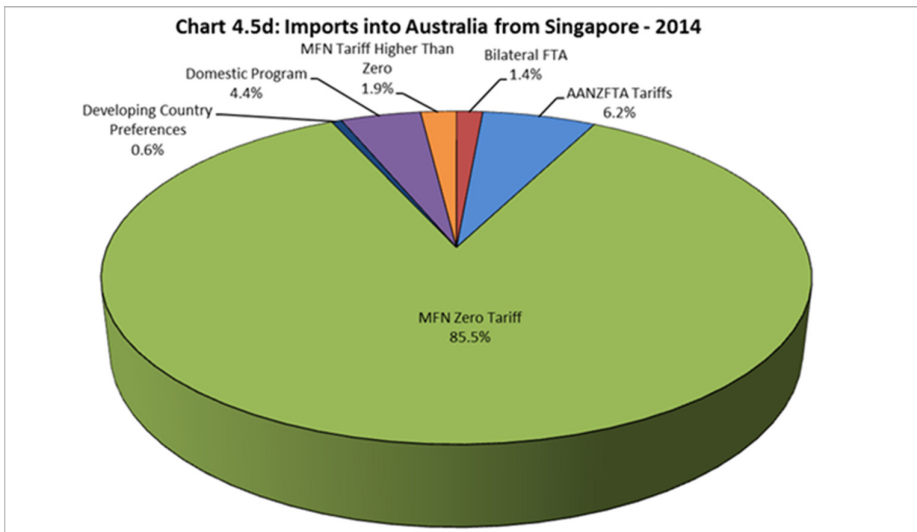
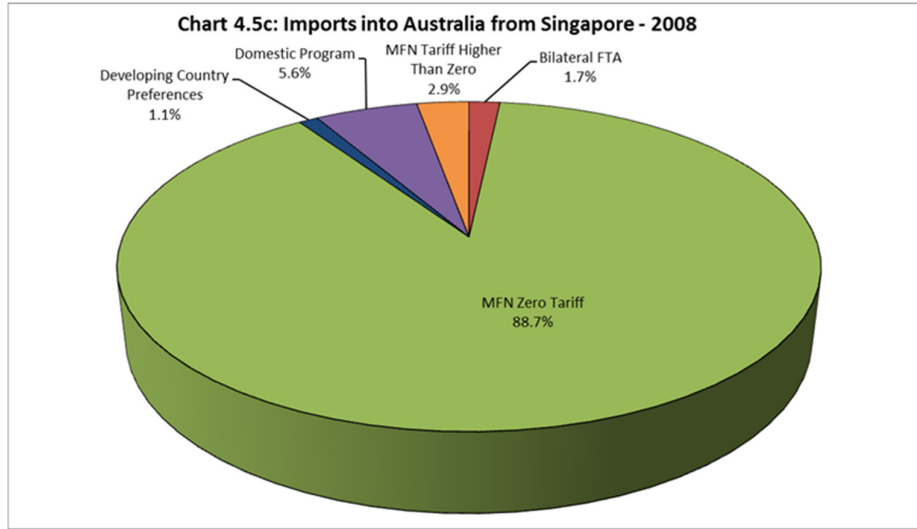
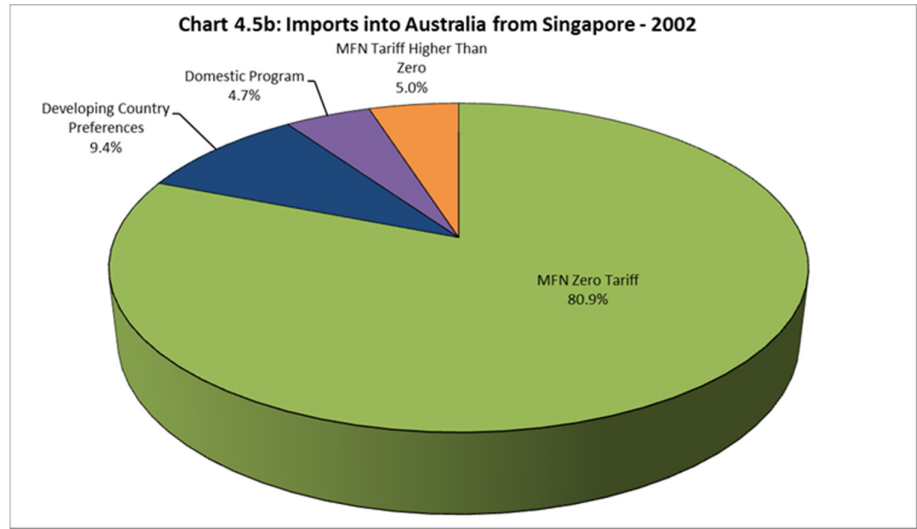
- a) \$10.72 billion in imports under 0% MFN tariffs (85.5 per cent of total imports).
- b) \$954 million in imports at 0% tariffs under FTAs (7.6 per cent).
- c) \$546 million in imports at 0% tariffs under domestic tariff concession arrangements (4.4 per cent)
- d) \$68 million in imports at 0% tariffs under developing country preferences (0.6 per cent).

135. Since the entry-into-force of AANZFTA on 1 January 2010, imports from Singapore have been eligible to be imported under either AANZFTA or SAFTA on condition that they meet the relevant rules of origin. Interestingly, 81.2% of imports from Singapore using an FTA made use of AANZFTA, and 18.8% made use of SAFTA in 2014. However, the regional uptake was initially slow – in 2010 the figures were 57.7% using AANZFTA and 42.3% using the bilateral FTA. This suggests that business may not at first have fully understood the potential opportunities opened up by AANZFTA compared to the bilateral FTA – whether due to different ROO or the regional cumulation in AANZFTA – and it took them time to begin using AANZFTA. Compared to the 2010 imports, the imports using AANZFTA have increased from \$290 million to \$775 million (a 167% increase), while those using the bilateral FTA have dropped from \$213 million to \$179 million (a reduction of 15.7%).

**Chart 4.5a provides a breakdown of total Singapore imports into Australia over the period 1997-2014 comparing duty-free versus dutiable lines**



Charts 4.5b, 4.5c, and 4.5d provide a breakdown of total Singapore imports into Australia over 2002, 2008, and 2014



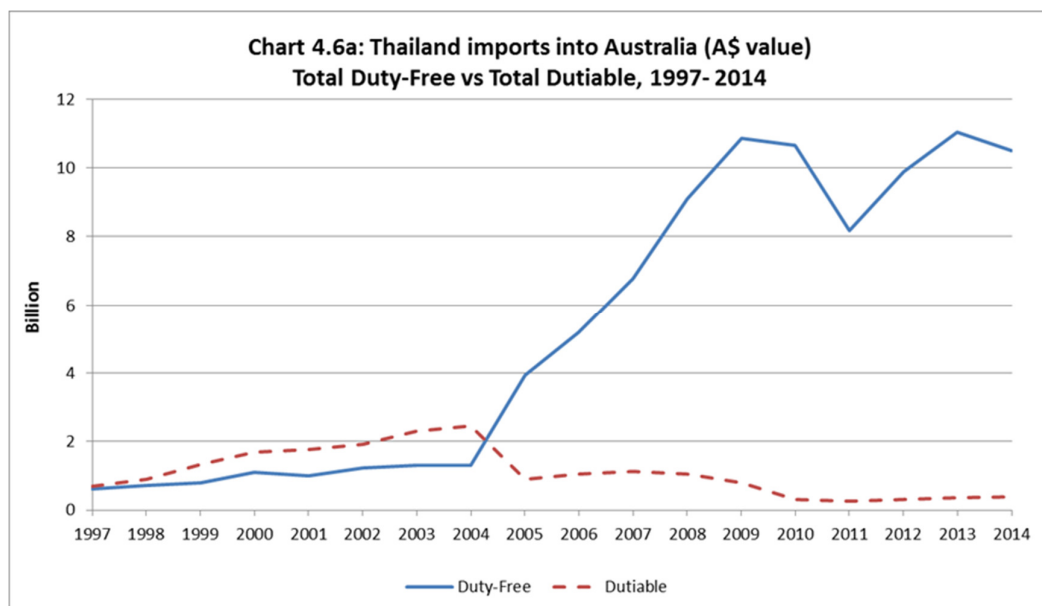
## Section 4.6: TAFTA

136. Prior to the entry into force of TAFTA, most imports from Thailand were paying tariffs (\$2.4 billion in 2004, or 65.3 per cent of imports), either MFN tariffs higher than 0% (28.8 per cent of imports) or reduced tariff rates under Australia's developing country preference schemes (32.6 per cent of imports) or domestic tariff concession schemes (3.9 per cent). From TAFTA's entry into force there was a very significant increase in the value and percentage of imports entering Australia duty-free and, in 2014, 96.4% (\$10.5 billion) entered duty-free:

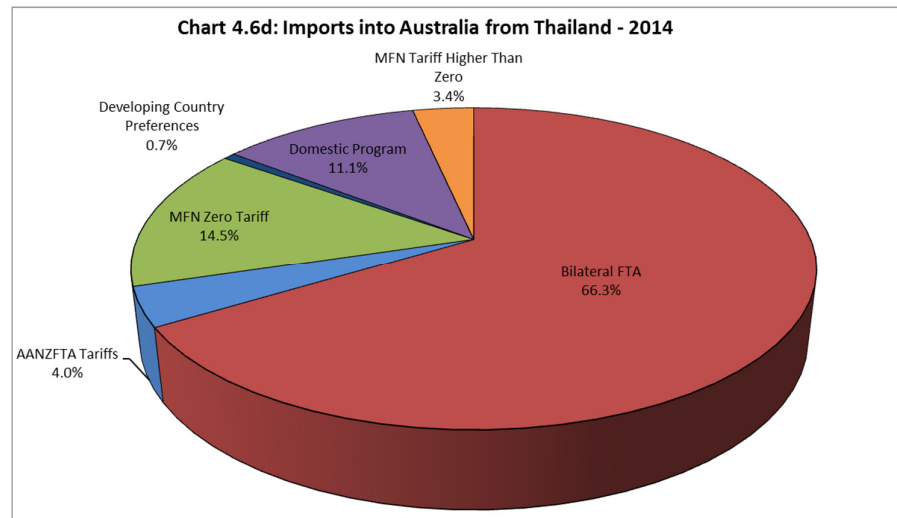
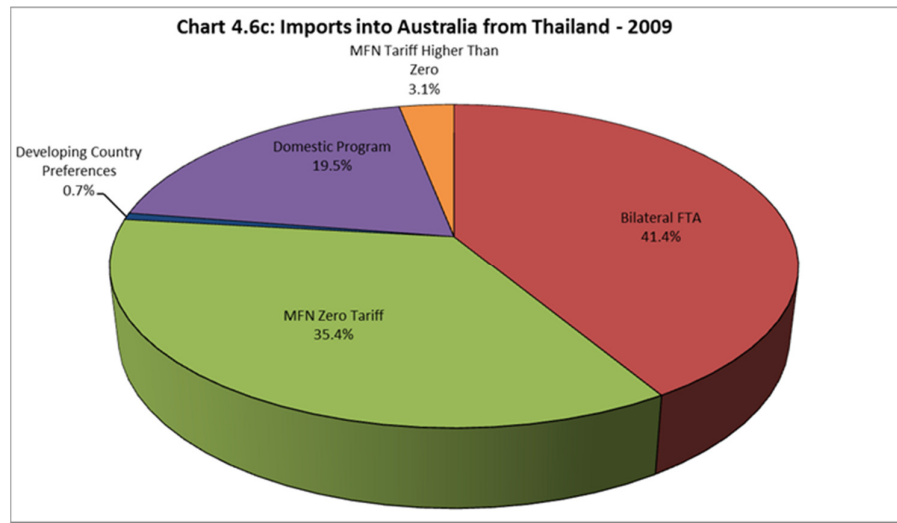
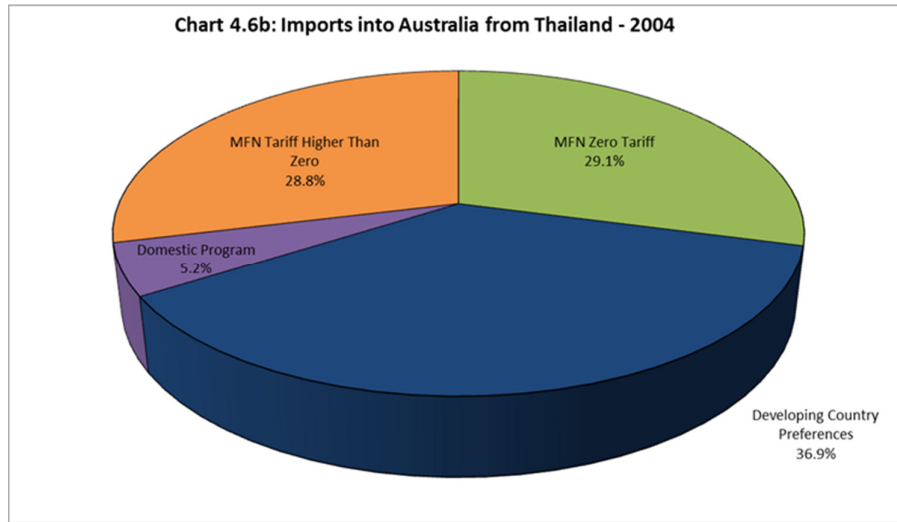
- a) \$1.6 billion in imports under MFN 0% tariffs (14.5 per cent of total imports).
- b) \$7.6 billion in imports under 0% tariffs in FTAs (70.1 per cent).
- c) \$1.2 billion in imports under 0% tariffs due to domestic tariff concession arrangements (11.1 per cent)
- d) \$71 million in imports under 0% tariffs due to developing country preferences (0.7 per cent).

137. In 2014, 5.6% of imports from Thailand using an FTA made use of AANZFTA (\$430 million), and 94.4% made use of the bilateral FTA (\$7.2 billion). These are surprising figures as a majority of the imports from Thailand making use of FTA tariffs are in the automotive sector, which is generally seen as a sector with significant use of supply chains, so that one might have expected a greater level of use of AANZFTA vis-à-vis the bilateral FTA. However, for some tariff lines – including a number of automotive lines – tariffs into Australia have been eliminated under TAFTA but not yet under AANZFTA. Interestingly, imports using AANZFTA have been increasing at a faster rate each year (from \$25 million in 2010, \$79 million in 2011, \$192 million in 2012, and \$335 million in 2013, but obviously from a very low base) – so as with SAFTA this may partly be a story of a time-lag before business recognizes AANZFTA's added potential as a regional FTA.

**Chart 4.6a provides a breakdown of total Thailand imports into Australia over the period 1997-2014 comparing duty-free versus dutiable lines**



Charts 4.6b, 4.6c, and 4.6d provide a breakdown of total Thailand imports into Australia over 2004, 2009, and 2014

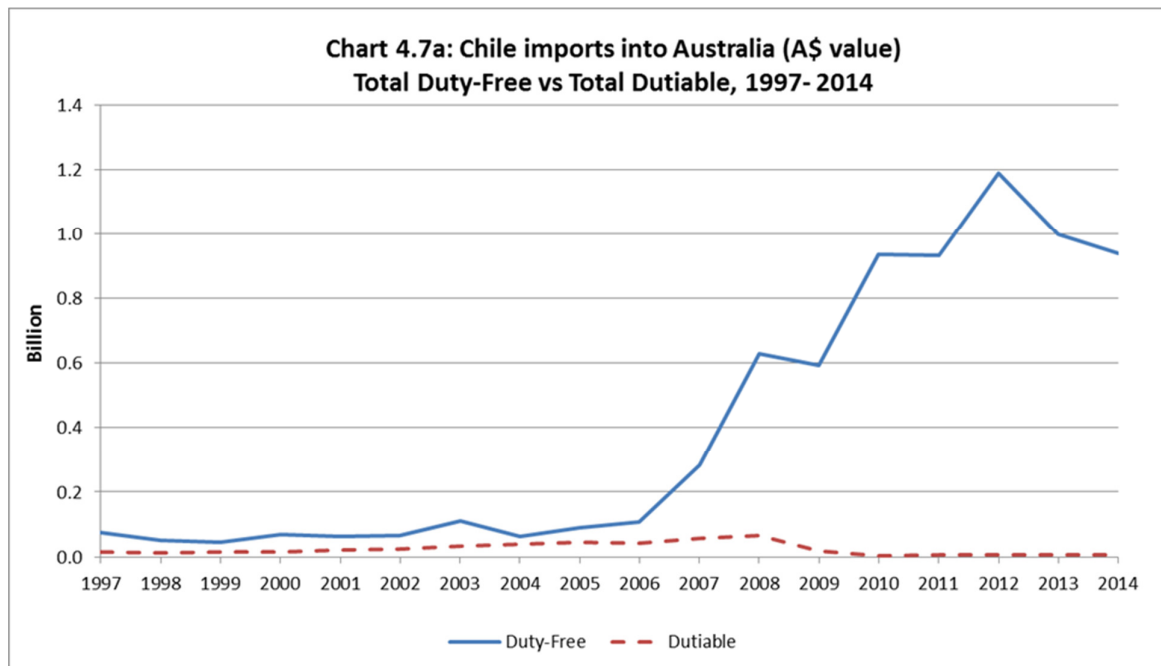


## Section 4.7: ACIFTA

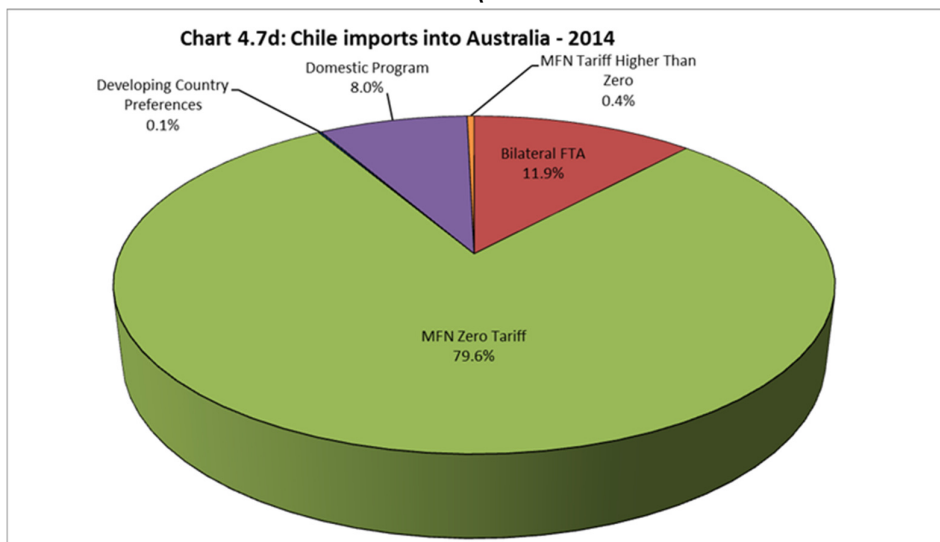
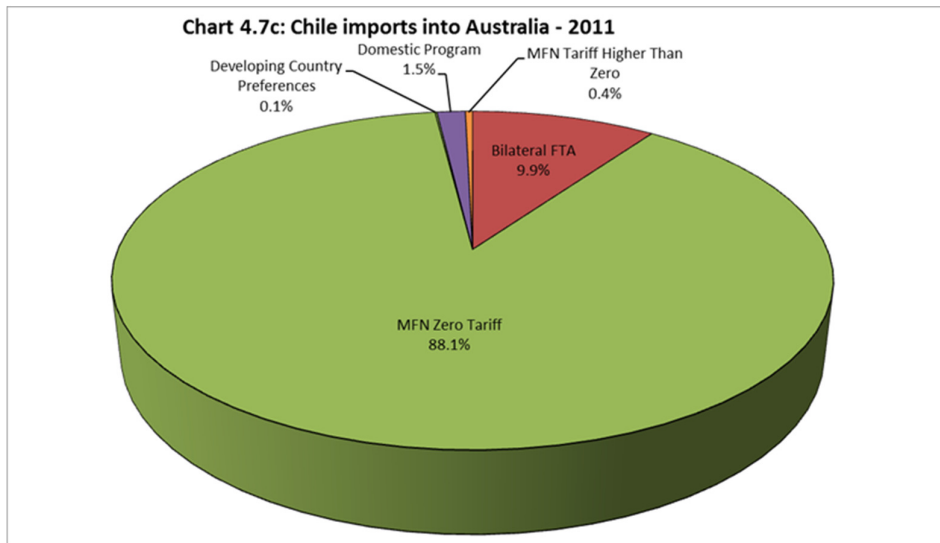
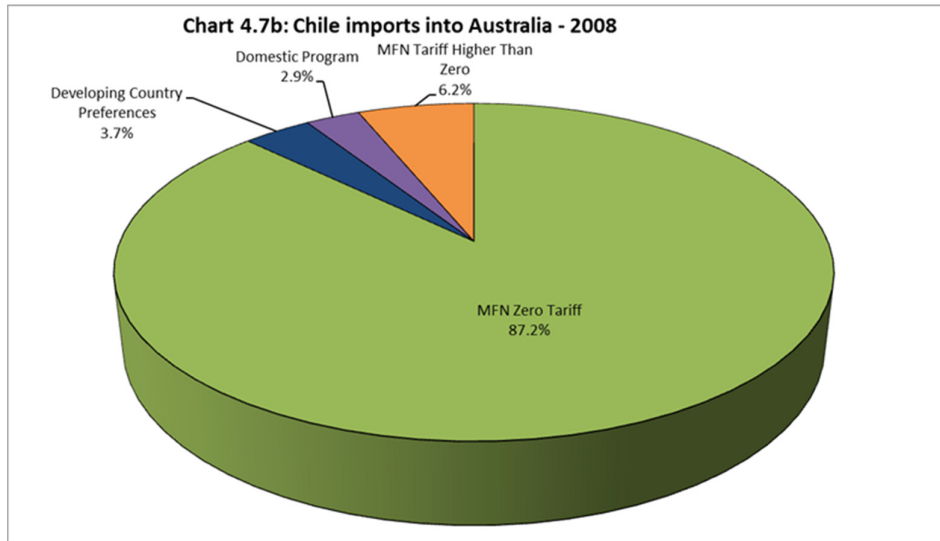
138. ACIFTA entered into force on 6 March 2009. Most imports from Chile were already entering Australia tariff-free – in 2008 \$628 million or 90.5 per cent of all imports entered duty-free, with 87.2 per cent using 0% MFN tariffs and 2.9 per cent using 0% tariffs under domestic tariff concession arrangements, and 0.4 per cent using 0% tariffs under developing country preferences. In 2014, 99.4 per cent of imports from Chile (\$938 million) were tariff free with:

- a) \$751 million in imports under MFN 0% tariffs (79.6 per cent of total imports).
- b) \$111 million in imports at 0% tariffs under ACIFTA (11.8 per cent).
- c) \$75 million in imports at 0% tariffs under domestic tariff concession arrangements (8 per cent).

**Chart 4.7a provides a breakdown of total Chile imports into Australia over the period 1997-2014 comparing duty-free versus dutiable lines**



Charts 4.7b, 4.7c, and 4.7d provide a breakdown of total Chile imports into Australia over 2008, 2011, and 2014



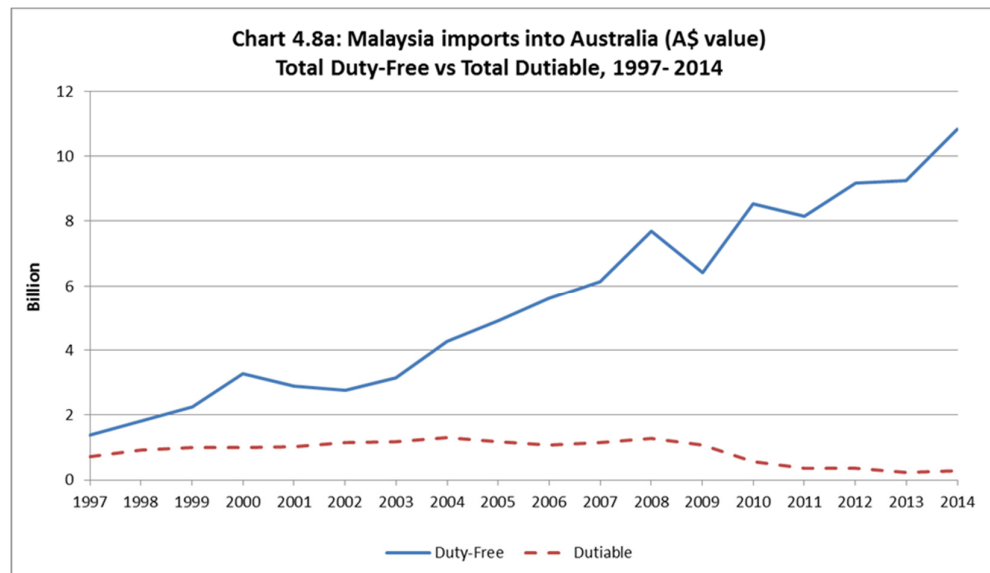
## Section 4.8: MAFTA

139. The bilateral FTAs Australia has with New Zealand, Singapore and Thailand all entered-into-force before the regional FTA – AANZFTA – that Australia also has with these countries. By contrast, MAFTA entered-into-force on 1 January 2013, three years after AANZFTA. In 2009, prior to the entry-into-force of AANZFTA, most imports from Malaysia (\$6.4 billion) – 85.6 per cent – already entered tariff-free, 60.4 per cent under MFN 0% tariffs and 23.7 per cent under domestic tariff concessions. In 2014, 97.6 per cent of imports (\$10.8 billion) entered tariff-free:

- a) \$7.7 billion in imports under existing 0% tariffs (69.4 per cent of total imports).
- b) \$1.5 billion in imports at 0% tariffs under FTAs (13.6 per cent).
- c) \$1.6 billion in imports at 0% tariffs under domestic tariff concession arrangements (14 per cent)
- d) \$62 million in imports at 0% tariffs under developing country preferences (0.6 per cent).

140. In 2013 – the year when the bilateral FTA entered-into-force – 70.5% of imports from Malaysia using an FTA made use of AANZFTA, and 29.5% made use of the bilateral FTA. In 2014 the figures were 65.9% for AANZFTA and 34.1% for the bilateral FTA. Figures for two years are not sufficient to draw firm conclusions as to why Malaysia's situation is different compared to the situations with Thailand and New Zealand. While it may be an indication that regional supply chains may be significantly more important for Malaysia's trade – at least with Australia – than it is for Thailand and New Zealand, it could also primarily be a reflection of the fact that AANZFTA was in force for three years prior to the bilateral FTA, so that business were first using that Agreement and continued using that to a large extent in 2013 and 2014.

**Chart 4.8a provides a breakdown of total Malaysia imports into Australia over the period 1997-2014 comparing duty-free versus dutiable lines**



Charts 4.8b, 4.8c, and 4.8d provide a breakdown of total Malaysia imports into Australia over 2009, 2012, and 2014

