



Export Council of Australia
The Voice for Australia's Exporters

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Joint Standing Committee on Foreign Affairs,
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**Submission to the Joint Standing Committee on Foreign Affairs, Defence and Trade Inquiry
into *Australia's trade and investment relationship with the United Kingdom.***

The Export Council of Australia ('ECA') welcomes the opportunity to provide a submission to the Joint Standing Committee on Foreign Affairs, Defence and Trade to the Inquiry into Australia's trade and investment relationship with the United Kingdom ('UK').

The ECA is the peak industry body for Australia's exporters and importers, particularly Small to Medium Enterprises ('SMEs'). With a membership base of around 1,000 and a reach of over 15,000, the ECA represents companies of all sizes and across a wide range of industries.

The ECA's core activities include research, advocacy, skills development and events. The ECA collaborates with a number of government agencies, both Commonwealth and state, to advance the interests of its members and support SMEs. These agencies include the Department of Foreign Affairs and Trade, Austrade, Efic, the Department of Immigration and Border Protection, the Department of Industry, Innovation and Science, and the Department of Agriculture.

Summary

The UK is an important trading partner for Australia, our second largest source of investment, second largest destination for investment and our third largest services market. The decision of 52% of UK voters to leave the European Union (EU) has major implications for UK trade. It also creates opportunities and challenges for Australia's trade. All else being equal, as a result of Brexit trade in consumer goods between Australia and the UK will likely grow.

However, Brexit's impact on trade in intermediate and capital goods will be more complicated, depending on how much the supply chains of British importers and exporters are impacted by its exit terms with the EU. Services will also be complicated, and will also depend on the terms of Brexit (for market access and travel).

Brexit will also have implication for Australia's trade with other markets, particularly for goods and services where we directly compete with British companies. Brexit may create opportunities for Australia in European markets if British competitors lose their competitive advantages, or if

European consumers are put off by the British brand. Should British businesses lose certain advantages in Europe, they are likely to more aggressively target other markets, leading to more intensive competition with Australia.

It is the best interests of both countries to conclude a high quality free trade agreement (FTA) as soon as possible after the UK formally leaves the European Union (EU).

It is also in the best interests of Australia to quickly secure a high-quality FTA with the EU.

Recommendations

The ECA recommends the Joint Standing Committee on Foreign Affairs, Defence and Trade recommend to the Australian Government:

1. Conclude a high-quality, comprehensive FTA with the UK as soon as practicable after it formally leaves the EU.
2. As part of a bilateral FTA with the UK, Australia negotiate zero tariffs on all goods and promote market access for goods.
3. Implement provisions into an FTA with the UK that promote market access into the British market, with a particular focus on provisions concerning trade in services.
4. Negotiate visa terms and working rights to promote easier access for Australian professionals seeking to work in the UK.
5. Negotiate investment terms in the bilateral FTA with the UK to remove barriers to and increase two-way investment.



Background

Post-Brexit scenarios for the UK

Australia's future trading relationship with the UK will be influenced by the terms of Brexit. There are three broad scenarios:

1. UK stays in the single market

This is the business as usual scenario, involving the least amount of change to current circumstances. However, as it would involve retaining many of the aspects of the UK-EU relationship that voters rejected in the referendum, this scenario is unlikely.

2. UK leaves with a trade agreement with the EU

This is probably the best-case scenario for the British Government, but it too will be unlikely. What Canada accomplished in eight years of negotiations over its FTA with the EU, the UK would be looking to do in two. At the same time, it would be negotiating other terms of Brexit as well as building up its institutional trade negotiation capacity from virtually nothing. The main hope for achieving this outcome would involve all 27 remaining EU member states agreeing to an extension to the two-year process for the UK exiting the EU.

3. UK falls back on WTO rules

Under this scenario, there would be no preferential access to the EU market for the UK. Tariffs facing UK exporters to the EU would be determined by the EU's tariff schedules. These would be the same schedules for all countries not covered by an FTA with the EU.

Scenarios two and three would introduce major complications to UK-EU trade. Tariffs may increase under scenario two, and would very likely increase under scenario three. Non-tariff measures – government policies other than tariffs that intentionally or unintentionally distort trade – will increase. Trade in services are less free under the single market than trade in goods, but there will inevitably be more restrictions place upon them. For example, financial services access to the EU market is particularly important for the UK, and may be one of the sectors most impacted by Brexit.

UK-EU trade will become particularly complex when cross-border supply chains are involved. Under scenario two, businesses choosing to access an EU-UK FTA would need to look at their supply chains in ways they hadn't previously. They would need to understand whether their products underwent sufficient transformation domestically to satisfy the rules of origin under the FTA. Under scenario three, businesses with supply chains going back and forth across the Channel may face compounding tariffs and increased transport costs.



Implications of Brexit for Australian trade

The UK, the world's fifth largest economy¹, will remain a critical market for Australia post-Brexit. UK Prime Minister Theresa May has already set the tone for a post-Brexit UK, expressing earlier this year her desire for the UK to 'be a truly global Britain' and one that 'goes out into the world to build relationships with old friends and new allies alike... a great global trading nation respected around the world'².

However, unless the UK remains in the single market, there will be significant changes to the UK's trading relationships with the world. This will have implications for Australian companies in the UK, in the EU, and in the rest of the world.

All else being equal, there is a strong likelihood that trade in final goods and services between Australia and the UK will increase post-Brexit. With tariffs and/or other trade barriers going up between the UK and the EU, Australian exports will become more competitive. Likewise, increased trade barriers between the UK and EU have the potential to increase Australian exports to the EU. But things will become more complicated for Australian exporters of intermediate goods and services, and exporters of capital goods. For these businesses, the impact will depend on how integrated the importer's supply chains are with the EU.

Recommendation 1: A comprehensive, high-quality FTA

While 'Brexit' may still take up to two years to negotiate, the UK government has now backed the *EU (Notification of Withdrawal) Bill*, permitting Prime Minister May to commence formal negotiations with the EU to affect the formal exit of the UK from the bloc³. Australia must now focus on reforming its trade and investment relationship with the UK as an independent trading nation.

A key step in initiating these processes has been undertaken with the recent conclusion of the Australia-EU joint scoping exercise on a future FTA. While setting an optimistic timeframe for formal negotiations between Australia and the EU, and accounting for the fact that the ECA would welcome a high-quality and comprehensive agreement, we recognise that realistically negotiations may not realistically proceed as quickly as envisioned. This would be for three reasons:

- the UK has more pressing priorities for trade negotiations, particularly with the EU. This trading relationship is critically important to the UK economy, and will likely be the UK's primary focus. The US is also a major prize for the UK Government, and negotiators could

¹ http://www.freeenterprise.org.uk/wp-content/uploads/2017/01/FEG_Commonwealth-Trade_web-1.pdf

² 'A Global Britain' speech, Theresa May 17 January 2017 via BBC

³ 'Brexit vote: Theresa May wins Commons approval to trigger Article 50 as Labour's Clive Lewis resigns', *The Telegraph* 9 February 2017 <http://www.telegraph.co.uk/news/2017/02/08/brexit-debate-vote-live-theresa-may-pmqs/>



seek to pursue an agreement as quickly as possible. This may not leave much bandwidth for negotiations with Australia;

- the UK will likely initially take more time to conclude agreements than other countries, who may be more experienced with trade negotiations. The negotiators themselves will face a steep learning curve on the job, and will need to establish formal processes for interagency consultations and Cabinet approval, as well as processes and networks for consultation with industry;
- the UK's negotiating position for many industries may not be known until the terms of its withdrawal from the EU are finalised. This is particularly the case for service sectors. For example, the UK might not know how Brexit will affect its financial services sector until the late stages of withdrawal negotiations.

For these reasons, the ECA considers it best for the two governments to accept that some chapters may take longer to negotiate than others. They should therefore seek to achieve quick wins where possible.

The ECA supports the resolution of the goods and investment chapters as an initial goal. To avoid the unnecessary complexities of goods chapters in FTAs that can often stall negotiations, the ECA advocates that Australian and British negotiators should seek to reach a consensus on tariff-free, quota-free access for all goods. To reduce NTMs and maximise the benefits of an FTA between the UK and Australia, negotiations should also focus on streamlining regulatory systems and harmonising standards.

Resolving the goods and investment chapters early in the negotiations should free up resources to expedite an agreement on the remaining chapters.

Settling the terms of technical chapters will no doubt be a longer process. Services chapters involve negotiations around standards, qualifications and licensing. The complexity in formulating these terms in the agreement will be compounded by the UK's need to renegotiate trading terms with the remaining EU countries, as well as amending its policies and legislation following Brexit.

Recommendation 2: Tariff reductions on all goods and market access

Tariff Reductions

In a bilateral FTA with the UK, the ECA calls for the incremental elimination of tariffs on all goods, as well as renegotiated tariff quotas, particularly in relation to agricultural exports.

In 2014, the UK was Australia's eighth largest export market with canola, wine, fruit and nuts, wool and beef comprising the majority of Australian exports⁴. In 2015, Australian agricultural exports to

⁴ DFAT



the UK only accounted for 1.5% of Australia's total agricultural exports⁵. This can be attributed, to some extent, to comparatively high out-of-quota tariffs in the agricultural sector, disadvantaging agricultural exports to the UK. These include tariffs on beef, sheepmeat and sugar, all key Australian export commodities.

Many commentators submit that agricultural exports to the UK are unlikely to significantly increase post-Brexit⁶. However, the ECA opines that there are likely to be opportunities for Australian agricultural exporters to increase their competitiveness in the UK market post-Brexit, over EU agricultural exports. The UK will have an opportunity to reduce agricultural tariff barriers after its formal withdrawal from the EU as the EU WTO schedules will no longer cover the UK and will need to be renegotiated. Further, as the UK will no longer reap the benefits of the agricultural subsidies granted to it under the EU Common Agricultural Policy (CAP), the advantages formally afforded to the UK through free tariffs will be cut.

This may result in the diversion of agricultural exports to other markets including Australia. However, in order to harness the opportunities arising from Brexit, it is necessary to negotiate tariff reductions for Australian importers and exporters.

Any negotiations around an FTA with the UK requires input from key industry representatives. The cooperation of Australian and UK industry bodies is necessary to ensure proper modelling is undertaken prior to the development of a UK-Australian FTA. This would require the establishment of a similar body to the *Export Council of Australia* in the UK, as well as the consultation and cooperation of these bodies.

Recommendation 3: Market access for the services sector

Trade in services is central to the Australia-UK trade relationship. In 2015-16, the UK was Australia's third largest services export market with "Australia's services exports to the UK valued at \$4.9 billion and services imports from the UK valued at \$7.3 billion⁷". Financial services and other professional services continue to comprise the majority of services exports to the UK.

In order to advance the established services trade relationship Australia has built with the UK, the ECA calls for national treatment of services and the removal of market access restrictions on service suppliers. The primary service exports and corresponding recommendations to improve market access are considered below:

Financial services:

- Liberalisation in the banking, insurance and securities markets.

⁵ DFAT

⁶ <http://www.bordermail.com.au/story/4423334/joyce-australia-keen-to-open-the-batting-on-uk-and-eu-trade/>

⁷ <http://dfat.gov.au/geo/united-kingdom/pages/united-kingdom-country-brief.aspx>



- Gradual easing of restrictions on the number of wholesale banking licenses available to Australian banks.

Legal services:

- Easing of conditions regarding the establishment of joint ventures in the UK involving Australian law firms.
- Increasing the number of Australian universities whose law degrees are recognised in the UK.
- Liberal access conditions for Australian law firms and lawyers to practice Australian law, third country law, and international law.

Professional services:

- Removal or easing of residency requirements for Australian professionals, such as architects, engineers, accountants and auditors.
- Establishment of a framework for Australian professional bodies to negotiate mutual recognition agreements (MRAs) with their counterpart bodies in the UK.

Education:

- Full national treatment and market access commitments for Australian university, adult and vocational and technical education providers in the UK, with a few limited exceptions.

Environmental and other services:

- Open to Australian businesses apart from some restrictions in the areas of waste water and hazardous waste.

Full market access and national treatment commitments in a range of other sectors of interest to Australian exporters, such as construction, sporting services, computer and related services, and auxiliary transport services.

Recommendation 4: Visas and the movement of people

Not to be overlooked when increasing trade in services and investment flows is the movement of professional persons. To ease cross-border professional movement, the ECA recommends:

- Short-term entry for Australian business people to the UK is extended;
- Long-term business residents working for Australian companies in the UK are granted multi-year stays, with the possibility of extension;
- Spouses of business people are allowed to work in managerial, specialist and professional occupations, and in office administration in the UK.

Recommendation 5: Boosting two-way trade and investment through negotiated investment terms

The UK was Australia's fifth highest ranked two-way trading partner in 2015-2016, valued at \$20,971,000,000⁸. In terms of foreign investment, the UK's position is even higher, representing the second largest source of total foreign investment in Australia⁹. The British infrastructure, pharmaceutical, energy and travel industries have invested in Australia and set up regional bases. Similarly, many Australian companies, including Macquarie, ANZ, Westpac and Wesfarmers are based in the UK.

By removing remaining barriers to market access and obstacles to investment, Australia can deepen our important trade and investment ties with the UK and foster new opportunities for Australian companies, including SMEs, in the UK market.

The ECA recommends negotiating investment provisions in a UK-Australia FTA which permit:

- Australian investors to receive national treatment placing them on a par with local competitors, except in areas specifically exempted;
- Greater transparency in relation to investment restrictions in the UK's government linked companies;
- Increasing the threshold for Foreign Investment Review Board review of inbound investment to the level accorded our largest trading partners through our recent FTAs;
- Protection for Australian Investors against expropriation and entitlement to compensation should expropriation or other loss occur.

⁸ Department of Foreign Affairs and Trade, Australia's trade in goods and services 2015-16 via: <http://dfat.gov.au/about-us/publications/trade-investment/australias-trade-in-goods-and-services/Pages/australias-trade-in-goods-and-services-2015-16.aspx>

⁹ Department of Foreign Affairs and Trade, United Kingdom snapshot: <http://dfat.gov.au/geo/united-kingdom/pages/united-kingdom-country-brief.aspx>