MINERALS COUNCIL OF AUSTRALIA

SUBMISSION TO JOINT STANDING COMMITTEE ON FOREIGN AFFAIRS, DEFENCE AND TRADE TRADE SUB-COMMITTEE INQUIRY INTO AUSTRALIA'S TRADE & INVESTMENT RELATIONSHIP WITH THE UNITED KINGDOM

30 MARCH 2017

TABLE OF CONTENTS

EXECUTIVE SUMMARY

Australian mining – economic contribution and export focus

Australia's resources sector makes a major contribution to Australia's economic prosperity. The sector dominates Australia's trade, accounts for a major part of inward and outward direct investment flows and has underpinned the regionalization of Australia's trade over the past three or four decades. Mining is one of Australia's most export-oriented industries. Exports of minerals, fuels and non-monetary gold were valued at $144.6 billion in 2015-16, making up 46.3 per cent of Australia's total exports of goods and services and 59.2 per cent of Australia's merchandise exports.

Mining and trade with the United Kingdom

Australia's two-way trade with the United Kingdom (UK) was worth $26.97 billion in 2015-16, making it our fifth largest trading partner. Australia's exports to the UK were worth $12.07 billion. Exports of all minerals and energy commodities to the UK were worth $4.94 billion in 2015-16, representing 69 per cent of all Australian merchandise exports to the UK and 41 per cent of goods and services exports to the UK. However, the UK accounted for just 3.6 per cent of Australia's total exports of these minerals, energy and metals manufactures.

UK's role in investment, capital and commodities markets

The UK has been a major source of foreign investment for Australia. In terms of stocks of foreign investment in Australia, the UK is the second largest source country, accounting for investments valued at $499.9 billion in 2015.

While the UK is not a major export destination for most Australian minerals and resources commodities, it is nonetheless highly important to Australia's mineral and resources exporters because of its role as a global trading hub for gold and metals. The London bullion market facilitates wholesale over-the-counter trading of gold and silver while the London Metal Exchange is one of the world's major centres for trading in industrial metals.

Beyond these minerals commodity trading hubs, the City of London is one of the world's most significant financial centres, providing capital market activities and other services which are important for globally-focussed businesses such as Australian mining companies. Brexit is creating uncertainties about the future role of the City of London and the UK's financial services sector. These uncertainties have the potential to disadvantage Australian businesses with exposure to UK financial services, capital markets and broader business law and regulation.

Importance of trade and investment liberalisation

Trade and investment boost growth, support jobs, improve living standards and forge more competitive industries. Australia has strong interests in maintaining an open global trading system, in achieving further access to export markets and in reducing the costs of moving goods and services across international borders. This requires pursuing trade liberalisation across a range of fronts.

Australia should continue negotiations for bilateral free trade agreements (FTAs). The negotiations with India and Indonesia should be given particular priority. The MCA also supports moves by Australia and the European Union (EU) to complete a scoping study and launch formal negotiations for an Australia-EU FTA. The MCA also supports moves to negotiate a UK-Australia FTA following the UK's departure from the EU. However, the MCA believes close consideration needs to be given to the timing of any move for an FTA with the UK.

Implications of Brexit for Australia's trade and investment relationships

Arrangements that will apply between the UK and its trading partners following the completion of Brexit are uncertain. However, the UK Government's plans include the following key elements:

- Establish UK World Trade Organization (WTO) commitments, based on EU commitments.

- Negotiate an FTA with the EU.
- Negotiate arrangements for continuity in the UK's trading relationships with third countries covered by existing EU FTAs or preferential arrangements.
- Negotiate FTAs with third countries not covered by existing EU agreements.

This is an ambitious agenda which will see the UK engaged in several complex negotiations during the lead-up to and after Brexit.

Where does Australia fit in the post-Brexit environment?

Australia needs to consider where it fits in this crowded policy space and to assess the potential gains that would come from an FTA with the UK compared to the trade and investment arrangements that will prevail immediately following Brexit. It also needs to consider how entering negotiations for an FTA with the UK would impact on other Australian trade priorities.

In addition to considering an FTA with the UK, the Australian Government needs to devise a strategy for ensuring continuity and certainty for Australian businesses with interests in the UK and the EU. A two-stage approach could be adopted with the first stage involving immediate issues for Australian businesses that need to be resolved due to Brexit. These priorities could include:

- Working in the WTO to facilitate establishment of UK most favoured nation (MFN) tariff schedules and other commitments on terms that do not disadvantage Australian exporters.
- Resolving uncertainties about migration regulation which could affect Australian businesses and Australian citizens working in the UK.
- Supporting policies to allow the UK to continue functioning as a global financial hub.
- Ensuring Australian businesses have access to well-regulated capital markets, financial services and commodities trading platforms in both the UK and the EU in the post-Brexit era.

The second stage would involve launching negotiations for an FTA with the UK. Such an FTA should improve market access for Australian goods and services and ensure Australian exporters are not at a competitive disadvantage under any new trading arrangements the UK enters with third countries.

Market access for minerals and energy

The UK Government's intention is to replicate the EU's existing MFN commitments in the form of UK schedules to WTO agreements. Market access barriers for minerals and energy products are relatively low under the EU's existing common external tariff. The EU applies zero tariffs on imports of many major minerals commodities which Australia produces such as iron ore, coal and gold. However, there are a number of minerals products where the EU imposes tariffs ranging from around 2 to around 10 per cent. Those at the higher end of this range are on basic metals manufactures such as aluminium, ferro-alloys and a number of base metals such as titanium, zirconium and antinomy. The Australian Government should seek the removal of these tariffs in FTAs with the EU and the UK.

Movement of people

The Australian Government should take steps to maintain existing flexibilities for movement of people between Australia and the UK and between the UK and the EU following Brexit so that Australian businesses in the UK and the EU are not adversely impacted by changes to migration rules.

Investment

Given the UK's importance as a source of investment capital for Australia, the monetary threshold which triggers Foreign Investment Review Board (FIRB) screening for proposed business investments from the UK should be increased from its present level of $252 million to the $1,094 million screening threshold applying to investors from FTA partner countries. Lifting the threshold for UK investors would be good public policy in any circumstances. It is all the more desirable given the possibility that Brexit-related uncertainties may weigh on UK capital outflows.

AUSTRALIAN MINING – ECONOMIC CONTRIBUTION AND EXPORT FOCUS

Mining's economic contribution to Australia

Australia's resources sector makes a major contribution to Australia's economic growth and prosperity. Over the last decade Australia's annual merchandise exports have grown by $91.5 billion, with resources exports contributing 80 per cent of this growth. The sector dominates Australia's trade, accounts for a major part of inward and outward direct investment flows and has underpinned the regionalization of Australia's trade over the past three or four decades.

Value added in mining is appreciably larger than in manufacturing and is over three times larger than in agriculture.[1] And resources-related activity spanning sectors like construction, manufacturing, transport, wholesale trade, business services, and gas, water, waste and rehabilitation services adds substantially to other areas of the economy and even more than mining directly in the case of employment opportunities. A recent study by Deloitte Access Economics found that the Australian mining, and mining equipment, technology and services (METS), sectors contributed $236.8 billion to the Australian economy in 2015-16, representing around 15 per cent of the Australian economy.[2]

Mining is a significant source of employment. Data from the Australian Bureau of Statistics (ABS) Labour Force Survey – the key source of information on employment in Australia – suggest that the mining sector employed some 232,000 persons as at November 2016, with the broader mineral resources sector (including some basic manufacturing of minerals) adding another 105,000.[3] The Deloitte Access Economics study found that the mining and METS sectors directly and indirectly supported as total of 1.14 million full-time equivalent jobs across Australia. Importantly, most of the mining industry's labour force is employed full time. Jobs in the mining sector are well-paid, reflecting the high labour productivity of the industry.

More than 60 per cent of mining jobs are located in regional Australia. In some regional centres, mining accounts for 50 per cent of total employment. The workforce is also younger, better paid, better trained and has a much higher share of Indigenous Australians and apprentices than the all-industry average. While the commodity sector downturn has seen job losses in the sector, the decade long trend has been positive. Today's mining workforce is nearly triple what it was before the boom. Importantly, the mining investment boom has delivered a much larger mining industry and a much larger workforce delivering benefits across regional and remote Australia.

The minerals industry contributes strongly to taxes in Australia. According to a detailed study released in December 2016, taxes paid (including royalties) accounted for more than half of mining industry profits in 2014-15.[4] Rio Tinto alone paid over $4.2 billion in tax in Australia in 2015, with corporate income tax (almost $2 billion) and royalties to the Western Australian Government (nearly $1.4 billion) the biggest items.[5] Local authorities also receive mining industry taxes. BHP Billiton, for example, paid around $32 million to various local authorities in 2015-16, with the biggest payments to the Isaac Regional Council in Queensland and the Town of Port Hedland in Western Australia.

Mining's export focus

Mining is one of Australia's most export-oriented industries. Almost all of output from the iron ore and coal mining industries is exported. With iron ore, exports made up over 90 per cent of Australian production in 2013-14, while for coal mining, the share was over 80 per cent. Oil and gas extraction

[1] Mining accounts directly for about 11 per cent of the total value added by most major industries in Australia (excluding the finance and general government sectors). Adding in the broader mineral resources sector takes this share to over 12 per cent.
[2] Deloitte Access Economics, *Mining and METS: engines of economic growth and prosperity for Australians*, Report prepared for the Minerals Council of Australia, 2017.
[3] Australian Bureau of Statistics, 'Labour Force, Australia, Detailed, Quarterly, November 2016' (Catalogue 6291.0.55.003). Unlike mining, the broader resources sector is not defined in ABS publications. The total here is obtained by adding to mining: petroleum and coal product manufacturing; primary metal and metal product manufacturing; and non-metallic mineral product manufacturing. Given the breadth of these additional categories, these data need to be interpreted with caution.
[4] Deloitte Access Economics, *Minerals industry tax survey 2016*, 4 December 2016, p v.
[5] Rio also paid employee payroll taxes of nearly $1.1 billion, which is not included in the above.

contributed about 55 per cent of its gross output to exports, though this share is likely to change significantly as new projects come on stream.

Exports of minerals, fuels and non-monetary gold make up a high proportion of Australia's total exports of goods and services. Exports of these commodities were valued at $144.6 billion in 2015-16, making up 46.3 per cent of Australia's total exports of goods and services and 59.2 per cent of Australia's merchandise exports. Iron ore alone constituted 15 per cent of total exports in that year. Four of Australia's top five exports in 2015-16 – iron ore, coal, gold and natural gas – are part of the broader minerals and energy sector. Simply transformed manufactures, which includes some resource-based manufactures, made up approximately another 5 per cent of total exports of goods and services.[6] Exports of resources and energy commodities as defined by the Department of Industry, Innovation and Science were valued at $160.4 billion in 2015-16.[7]

Largest export markets are in East Asia

Exports of iron ore and coal and many other minerals and basic metal manufactures are directed principally to East Asia – especially North-East Asia. Table 1 compares the value of some key mineral and mineral manufactures exports directed to East Asia and European markets in 2015-16. The high value of iron ore exports to East Asia reflects China's importance as a market, while Japan is the biggest market for coal. India is also a significant market for Australian coal: partly for this reason, exports of coal to East Asia comprised just under 74 per cent of total exports of that commodity in 2015-16. By comparison, the value of exports of these commodities to the United Kingdom (UK) and the EU27 – the current 28 member countries of the European Union (EU) minus the UK – is relatively small, with the exception of gold and, to a lesser extent, lead.

Table 1: Selected Australian commodity exports to East Asia and Europe, 2015-16, A$ millions

SITC	Commodity	East Asia	UK	EU27	Total Australian Exports
281	Iron ore and conc.	47,751	0	0	47,758
283	Copper ore and conc.	4,047	0	97	4,654
289	Precious metals and conc. excluding gold	1,365	8	213	1,621
321	Coal	25,343	119	2,193	34,442
682	Copper	3,483	0.5	0.5	3,567
684	Aluminium	3,126	1	8	3,419
685	Lead	337	482	33	1,062
971	Gold	10,927	3,938	67	16,583

Source: Based on Department of Foreign Affairs and Trade *Composition of Trade 2015-16* and associated pivot tables. East Asia consists of ASEAN, Timor Leste, China, Japan, the Republic of Korea, North Korea, Hong Kong SAR, Macau and Mongolia. EU27 is the current 28 members of the EU less the UK.

[6] Department of Foreign Affairs and Trade, *Composition of Trade Australia 2015-16*, January 2017.
[7] Department of Industry, Innovation and Science, Office of the Chief Economist, *Resources and Energy Quarterly*, Historic data, Table 2, February 2017.

ROLE OF MINING IN AUSTRALIAN TRADE WITH THE UNITED KINGDOM

Australia's two-way trade in goods and services with the UK was worth $26.97 billion in 2015-16, making it our fifth largest trading partner. Australia's exports to the UK were worth $12.07 billion with goods exports comprising $7.16 billion and services exports worth $4.91 billion.[8] Australia's largest merchandise export to the UK was gold (valued at $3.94 billion in 2015-16). In terms of minerals and resources exports, Australia also exported lead ($481.8 million), pearls and gems ($365 million) and coal ($119.3 million) to the UK. These four commodities all ranked amongst Australia's top 10 merchandise exports to the UK.

Exports of all minerals and energy commodities – minerals and fuels together with gold and basic metals manufactures such as lead, nickel and aluminium – to the UK were worth $4.94 billion in 2015-16.[9] This represented 69 per cent of all Australian merchandise exports to the UK and 41 per cent of goods and services exports to the UK. However, the UK accounted for just 3.6 per cent of Australia's total exports of these minerals, energy and metals manufactures. Table 2 gives details of the top 10 Australian minerals and energy commodity exports to the UK in 2015-16 along with all minerals, energy and basic metals manufactures.

Table 2: Australian minerals and energy exports to the UK, 2015-16

SITC	Commodity	A$'000	Share of Australia's total merchandise exports to UK (per cent)	Exports to UK as share of total Australian exports of commodity (per cent)
971	Gold	3,938,604	55.0	23.7
685	Lead	481,776	6.8	45.8
667	Pearls and gems	364,983	5.1	43.7
321	Coal	119,309	1.7	0.3
288	Non-ferrous waste and scrap	14,609	0.2	1.5
289	Precious metal ores and conc.	7,584	0.1	0.5
282	Ferrous waste and scrap	1,891	0.03	0.3
683	Nickel	1,873	0.03	11.0
684	Aluminium	1,414	0.02	0.04
681	Silver and platinum	1,297	0.02	0.9
	All minerals, energy and basic metals manufactures[10]	4,941,622	40.9	3.6

Source: Based on Department of Foreign Affairs and Trade Composition of Trade 2015-16 and associated pivot tables.

While the UK is a significant market for gold, lead, and pearls and gems (accounting for 23.7 per cent, 45.8 per cent and 43.7 per cent, respectively, of Australia's total exports of these commodities in 2015-16), it is not a major export destination for most other Australian minerals and energy exports, especially by comparison with the major economies of North and South-East Asia. Table 3 compares

[8] Department of Foreign Affairs and Trade, *Composition of Trade 2015-16*. Note that DFAT's trade statistics report goods trade on a recorded trade basis and services trade on a balance of payments basis.
[9] This excludes natural gas, uranium or thorium ores and concentrates, and confidential mineral ores where Australian Bureau of Statistics confidentiality policies mean values for exports to individual countries are not reported.
[10] SITC commodities: 272 Crude fertilisers; 273 Stone, sand & gravel; 274 Sulphur & iron pyrites; 277 Natural abrasives; 278 Crude minerals, nes; 281 Iron ores & conc; 282 Ferrous waste & scrap; 283 Copper ores & conc; 284 Nickel ores & conc; 285 Aluminium ores & conc; 287 Other ores and conc; 288 Non-ferrous waste & scrap; 289 Precious metals ores & conc (exc gold); 321 Coal; 322 Briquettes, lignite & peat; 325 Coke & semi-coke; 333 Crude petroleum; 334 Refined petroleum; 335 Residual petroleum products, nes; 342 Liquefied propane & butane; 344 Petroleum gases; 345 Coal gas, water gas & similar gases; 667 Pearls & gems; 671 Pig iron; 672 Iron or steel ingots; 681 Silver & platinum; 682 Copper; 683 Nickel; 684 Aluminium; 685 Lead; 686 Zinc; 687 Tin; 689 Other non-ferrous metals; 971 Gold.

the shares of Australian exports of minerals and energy exports accounted for by the UK, the EU27 and East Asia.

Table 3: Australian exports of select commodities to UK, EU27 and East Asia as shares of total Australian exports of commodity, 2015-16

SITC	Commodity	UK (per cent)	EU27 (per cent)	East Asia (per cent)
281	Iron ores & conc	0	0	97.8
283	Copper ores & conc	0	2.1	79.8
284	Nickel ores & conc	0	0.2	81.2
285	Aluminium ores & conc	0	0	14.4
287	Other ores & conc	0.03	7.7	63.7
321	Coal	0.4	6.4	66.0
333	Crude petroleum	0	0	73.0
334	Refined petroleum	0.01	0.01	22.6
682	Copper	0.01	0.02	89.7
683	Nickel	11.0	2.5	74.8
684	Aluminium	0.04	0.2	82.2
685	Lead	45.8	3.1	31.7
686	Zinc	0	0	64.3
687	Tin	0	71.5	0
971	Gold	23.7	0.4	32.2

Source: Based on Department of Foreign Affairs and Trade *Composition of Trade 2015-16* and associated pivot tables. East Asia comprises China, Japan, the Republic of Korea and the 10 ASEAN economies.

UK'S ROLE IN INVESTMENT, CAPITAL AND COMMODITIES MARKETS

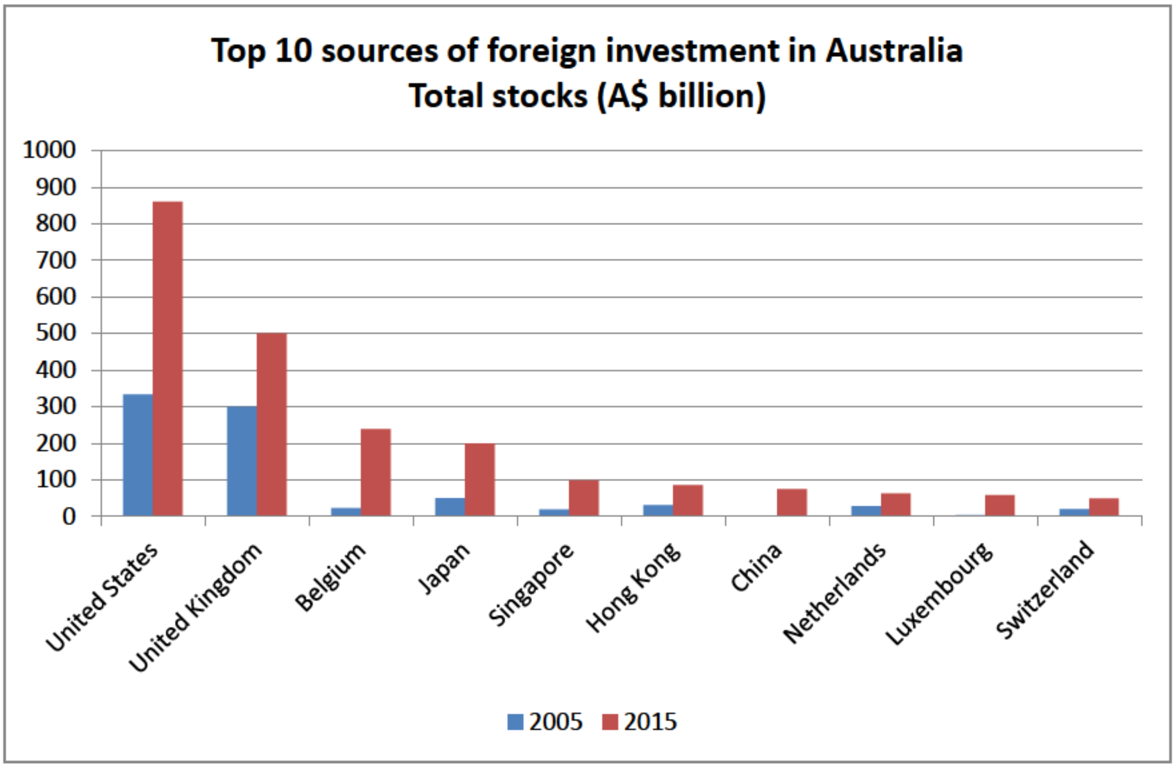
Importance of foreign investment for Australia

Australia's generous endowments of natural resources, its well-educated and skilled workforce, and its stable regulatory and economic policy environment mean there are substantial investment opportunities in this country. Yet with a relatively small population, taking advantage of investment opportunities in Australia has always required supplementing domestic savings with foreign investment.

Over the last four decades, Australia's national savings have fallen short of its investment spending each year by an average of around 4 per cent of GDP.[11] That represents a gap of around $68 billion a year in today's dollars. This shortfall has been met by foreign investment, which has allowed Australia to proceed with investments that could not otherwise be funded – investments which, in turn, lead to higher economic growth and better living standards. Foreign direct investment (FDI) in Australian enterprises and operations also brings additional benefits such as transfers of technology, skills and capabilities and access to global supply chains and export markets.

The UK has been a major source of foreign investment for Australia. In the colonial era and the first half of the 20th century, the UK was the dominant source of capital inflows for the Australian economy. Over recent decades, new sources of foreign investment have emerged, but the UK still remains a significant source of inward investment. In terms of the stocks, or levels, of foreign investment in Australia, the UK is the second largest source country, accounting for investments valued at $499.9 billion in 2015 (figure 1).

Figure 1: Top 10 sources of foreign investment in Australia, 2005, 2015



Source: DFAT, *International Investment Australia 2015*

[11] A. McKissack, A & J. Xu, 'Foreign Investment Into Australia', Treasury Working Paper, 2016-01, January 2016, p 10.

Foreign investment is important for the Australian minerals sector which is capital intensive due to the large scale and technologically advanced nature of mining and resources development projects. Access to funds, technology, know-how and market links through foreign investment, in particular foreign direct investment (FDI), has enabled Australia to tap its vast minerals resources potential and establish arguably the world's most efficient mining sector. In 2015, 16.4 per cent of the total stock of foreign investment in Australia, and 40 per cent of the total stock of FDI, was in the mining industry.[12]

Australia's openness to foreign investment, together with the quest of East Asian economies for resources security to underwrite their development, has seen Asia, especially Japan, emerge as a major source of FDI alongside traditional sources such as the United States, the UK and other European economies. Analysis by the Department of Foreign Affairs and Trade has shown that there were 3,226 European Union (EU) majority-owned enterprises in Australia in 2013 with 1,232 of these being UK majority-owned. EU majority-owned Australian enterprises in the mining industry had turnover valued at $42.7 billion and employed 39,200 people in 2013.[13]

Importance of Australian investment abroad

Australia also has significant outward flows of investment. The level of Australian investment abroad was valued at $2.08 trillion in 2015, compared with the $3.02 trillion stock of foreign investment in Australia. The United States and the UK were the two biggest destinations for Australian investment abroad. Australian investments in the UK were worth $353.2 billion in 2015, representing 17 per cent of total Australian investment abroad. Australia's mining industry has significant interests in mining overseas. In 2015, 15.2 per cent of Australian direct investment abroad was in mining.[14]

Two-way investment relationships

While international economic relationships have traditionally been assessed through the prism of trade, investment flows are now increasingly also recognised as an important facet of these relationships.

Recent analysis by the Department of Foreign Affairs and Trade showed that 743 of Australia's top 2000 companies were majority foreign owned in 2013-14. These foreign owned companies had sales of $629.3 billion and employed 696,700 Australians.[15] On the other side of the ledger, 653 of Australia's top 2000 companies had direct investments abroad in 7,632 foreign companies in 2015.[16] The UK was amongst the top five locations for these Australian direct investments abroad, along with New Zealand, the United States, Singapore and Hong Kong.

Further analysis by DFAT based on partner countries' foreign affiliates trade statistics found that there were 474 majority Australian-owned businesses in the UK with sales totalling $21.3 billion and 44,300 employees. In Australia, there were 1,232 majority UK-owned businesses with sales totalling $91.8 billion and 152,100 employees. This data suggests that for both Australia and the UK, sales by foreign affiliates in each other's country were worth considerably more than bilateral exports of goods and services.

[12] Department of Foreign Affairs and Trade (DFAT), *International Investment Australia 2015*; ABS 'International Investment Position, Australia, Supplementary Statistics, 2015' (Catalogue 5352.0).
[13] DFAT *International Investment Australia 2015*, pp 24-5.
[14] DFAT *International Investment Australia 2015,* p 38, 45, 74.
[15] DFAT *International Investment Australia* 2015, pp 22-7.
[16] DFAT, *Composition of Trade 2015-16*, pp 9-15.

Importance of the UK as a global trading and financial hub

While the UK is not a major export destination for most Australian minerals and resources commodities, it is nonetheless highly important to Australia's mineral and resources exporters because of its role as a global trading hub for gold and metals.

The London bullion market facilitates wholesale over-the-counter trading of gold and silver among members of the London Bullion Market Association (LBMA). LBMA members include most gold-holding central banks, private sector investors, mining companies, producers, refiners and fabricators. London remains the largest global centre for over-the-counter gold transactions, although they are also conducted in other centres such as New York, Zurich and Tokyo and there is some exchange-based trading. A key activity of the LBMA is maintenance of the Good Delivery List, which includes accreditation of new refiners and regular testing of listed refiners.

The UK is also home to the London Metal Exchange (LME), one of the world's major centres for trading in industrial metals. LME provides trading platforms for both physical commodities and financial products such as options and futures contracts on base and other metals. Through its trading activities the LME plays an important role in price discovery. LME prices are typically used as reference prices for key metals commodities. Its metal futures are important vehicles for risk management and hedging by users, traders and producers. LME provides futures and options contracts for aluminium, copper, lead, nickel, tin, zinc, gold and silver, cobalt and molybdenum.[17] LME is owned by Hong Kong Exchanges and Clearing Limited.

Beyond these minerals trading hubs, the City of London is one of the world's most significant financial centres. Capital market activities and other services provided by UK-based banks, financial firms and financial market institutions are important for globally-focussed businesses such as Australian mining companies. These services include capital raisings and debt issuance and listing on the London Stock Exchange.

The UK's membership of the European Union has meant that both its own financial services firms and foreign financial services firms based in the UK have been able to provide services and access to the wider European market. This has been through the 'passporting' regime whereby financial institutions in an EU member are issued with a 'passport' by their home country regulators which authorises them to provide cross-border services or establish branches in other EU member states.[18] With the UK's decision to leave the EU, the future of these arrangements remains to be negotiated between the UK Government and the EU as part of the Brexit process. This has created significant uncertainty about the future role of the City of London with some analysts predicting that Brexit may deprive UK-based financial institutions of free access to EU clients and markets, leading these financial services firms to relocate operations from the UK to EU countries.[19]

The Brexit decision also creates broader uncertainty about the future of the UK's commercial law regime. As the submission to this inquiry by Dr Remy Davison notes, Brexit raises questions about the UK's application of the EU's common market legal regime which ensures harmonized commercial policies in areas such as competition law, resulting in a period of commercial uncertainty particularly in relation to cross-border or international transactions.[20] These issues and uncertainties have the potential to disadvantage Australian businesses with direct or indirect exposure to UK financial services, capital markets and broader business law and regulation.

[17] LME, 'Guide to the London Metal Exchange: Setting the Global Standard', https://www.lme.com/~/media/Files/Brochures/A%20Guide%20to%20the%20LME.pdf
[18] Bank of England, 'EU membership and the Bank of England', October 2015, pp 23-5.
[19] Simeon Djankov, 'The City of London after Brexit', Peterson Institute for International Economics, Policy Brief 17-9, February 2017. Andre Sapir, Dirk Schoenmaker and Nicolas Veron, 'Making the Best of Brexit for the EU-27 Financial System', Peterson Institute for International Economics, Policy Brief 17-8, February 2017.
[20] Remy Davison, Submission No. 17, Inquiry into Australia's trade and investment relationship with the United Kingdom, pp 2-3.

Australian mining company presence in the UK

Australia’s two largest mining companies have direct presences in the UK.

Rio Tinto has joint head offices in London and Melbourne. It is listed on the London Stock Exchange and the Australian Securities Exchange. Rio Tinto plc’s London head office includes staff responsible for a range of functions and operations, including corporate, investor and media relations, procurement, marketing, technology and innovation, marine operations and for the Rio group’s copper business. In addition Rio has a procurement office in Paris and aluminium interests in northern France.

BHP Billiton Limited is registered in Australia and has a primary listing on the Australian Securities Exchange, while BHP Billiton plc is registered in the UK and has a primary listing on the London Stock Exchange. BHP Billiton has a corporate office in London in addition to its global headquarters in Melbourne. BHP Billiton also has financial interests in North Sea oil and gas production operations in the UK. Its global petroleum assets include a 16 per cent non-operating interest in the Bruce oil and gas field and a 31.83 per cent non-operating interest in the Keith oil and gas field.

Glencore, one of the world’s largest mining companies, which has significant operations in Australia has a corporate office in London and refined lead and silver production operations in the UK. Glencore’s head office is in Baar in Switzerland and it also has numerous offices and operational facilities in EU countries including Spain, France, Germany, Italy and Poland.

POSSIBLE FREE TRADE AGREEMENT WITH THE UNITED KINGDOM

Importance of trade and investment liberalisation

The Minerals Council of Australia is a strong supporter of international trade and investment. This reflects the fact that the Australian mining industry's economic success relies fundamentally on access to international markets for exporting its products and for the capital needed to undertake major investments in Australia. It also reflects a recognition that trade and investment are major contributors to Australia's prosperity, boosting growth, supporting jobs, improving living standards and forging more competitive industries. By trading with the rest of the world Australia:

- Boosts economic growth and supports jobs.
- Generates export income.
- Gives consumers lower prices and more choice.
- Forges more competitive industries and a more efficient economy.
- Gives our manufacturers access to global supply chains.
- Helps lift millions of people in developing countries out of poverty.

As a middle-sized advanced economy in proximity to growing and maturing regional markets, Australia has strong interests in maintaining an open, rules-based global trading system, in achieving further access to export markets and in reducing the costs of moving goods and services across international borders. This requires resisting protectionist tendencies and actively pursuing trade liberalisation across a range of fronts. The Minerals Council supports continued efforts by Australia to liberalise trade and investment through the full array of bilateral, plurilateral, regional and multilateral negotiations.

Free trade agreements (FTAs) are important avenues for reducing barriers to goods trade, such as tariffs and quotas, and for deepening economic integration in areas such as services and investment. The Minerals Council's view is that Australia should continue its current program of negotiations for bilateral FTAs. The negotiations with India and Indonesia should be given particular priority. India is an important trading partner and one of the major emerging markets that is reshaping the global economy. Indonesia is the largest economy in ASEAN. As Australia's fourth largest trading partner in ASEAN there is considerable scope to boost the bilateral trade and investment relationship with Indonesia.

The Minerals Council welcomes the recent moves by Australia and the EU to complete a scoping study and launch formal negotiations for an Australia-EU FTA. The Council also supports moves to negotiate a UK-Australia FTA following the UK's departure from the EU. However, close consideration needs to be given to the timing of any move for an FTA with the UK. This consideration should involve assessing the impact of launching new FTA negotiations on existing FTA and other trade negotiations. It should also involve assessing whether there are adverse Brexit-related impacts on Australia's existing trade, business and investment relationship with the UK which should be addressed before commencing an FTA negotiation.

Implications of Brexit for Australia's trade and investment relationships

The EU's member states form a customs union which means there are no tariffs or quotas on trade between member states but all members must apply a common external tariff on goods imported from outside the EU. That means goods imported to the UK at present are subject to relevant EU tariffs and quotas. These include general non-preferential duty rates ('most favoured nation' or MFN rates), which the EU has set out in its World Trade Organization (WTO) commitments, and any preferential rates negotiated by the EU with non-EU trading partners. While the UK remains a member of the EU it must continue applying the common external tariff and cannot negotiate bilateral trade agreements with third countries to reduce or remove these market access barriers.

The arrangements that will apply between the UK and its trading partners following the completion of Brexit are uncertain because they are subject to negotiation with the EU, with the UK's non-EU trading partners and in WTO forums. However, based on the UK Government's statements, its plans include the following key elements:

- Establish the UK's own schedules of WTO commitments, based on existing EU commitments.
- Negotiate an FTA with the EU.
- Negotiate arrangements for continuity in the UK's trading relationships with third countries covered by existing EU FTAs or preferential arrangements.
- Negotiate FTAs with third countries not covered by existing EU agreements.

As part of the Brexit process, the UK Government has said it will leave the EU single market and customs union. In their place, it will aim to secure 'the freest and most frictionless trade possible' between the EU and the UK through an 'ambitious and comprehensive' free trade agreement and a new customs agreement.[21] After the UK leaves the EU, the UK Government has said it will also seek to negotiate its own preferential trade agreements around the world and will aim to 'increase significantly UK trade with the fastest growing and most dynamic export markets in the world.'[22]

The UK Government's White Paper on withdrawing from the EU says that following Brexit it will deploy a range of trade policy instruments, including bilateral FTAs, participation in multilateral and plurilateral negotiations, market access and dispute resolution through the WTO, unilateral liberalisation, and trade preferences for developing countries. It will seek to achieve continuity in its trade relationships with third countries, including those covered by existing EU FTAs or EU preferential arrangements.

The UK Government says the UK's WTO membership will 'form the bedrock on which we build our future trading relationships.' As part of leaving the EU, the UK Government plans to establish its own schedules to WTO agreements, including the General Agreement on Tariffs and Trade. Its aim is for these schedules to replicate, as far as possible, the UK's current position as an EU member state in terms of WTO trade commitments and obligations. These WTO commitments will provide the UK with 'a clear basis for negotiating new trade agreements, not just with the EU, but with old friends and new allies from outside Europe too.'

The UK's Secretary of State for International Trade, Dr Liam Fox, told the House of Commons in December 2016 that the Government had begun preparing draft WTO schedules. He explained the process as follows:

> The UK's WTO commitments currently form part of the European Union's schedules. When we leave the EU we will need UK-specific schedules. In order to minimise disruption to global trade as we leave the EU, over the coming period the Government will prepare the necessary draft schedules which replicate as far as possible our current obligations. The Government will undertake this process in dialogue with the WTO membership. This work is a necessary part of our leaving the EU. It does not prejudge the outcome of the eventual UK-EU trading arrangements.[23]

It is clear that the Brexit process will involve the UK and its officials in a large number of complex negotiations over the coming period, not just in trade but across a wide range of policy and regulatory areas. In trade, in addition to the WTO schedule unbundling process, and the negotiation of a UK-EU FTA, the UK Government has said it will look to establish continuity with countries covered by *existing*

[21] UK Government White Paper, *The United Kingdom's exit from and new partnership with the European Union*, February 2017, p 35.
[22] UK White Paper, p 46,52
[23] House of Commons, 'Written Statement: UK's Commitments at the World Trade Organization', 5 December 2016, HCWS316.

EU FTAs or preferential arrangements. The EU has an existing network of some 35 bilateral and regional trade agreements covering some 50 countries. It has been pointed out that where such third countries consider Brexit has diminished the value of their negotiated commitments they will have the opportunity to seek compensation from the UK in sectoral commitments or changes to the text of agreements.[24] The UK will also look to negotiate its own FTAs with countries that do not currently have trade agreements with the EU. The British Prime Minister, Theresa May, has mentioned the possibility of new UK trade agreements with China, Brazil, the Gulf states, Australia, New Zealand, India and the United States.[25]

Where does Australia fit in the post-Brexit environment?

Given the complexity of the UK Government's Brexit-related policy considerations and negotiations, and the pressures it will face in seeking to conclude these processes within Brexit's two-year timeframe, Australia needs to consider where it fits in this crowded policy space, what interests it is seeking to advance, and how best to advance those interests. The Australian Government needs to assess the potential gains that would come from an FTA with the UK compared to the trade and investment arrangements that will prevail immediately following Brexit. It also needs to consider how entering negotiations for an FTA with the UK would impact on other Australian trade priorities, including the negotiation of an FTA with the EU. For the Australian mining industry, finalising FTAs which are currently under negotiation with India and Indonesia are a higher priority than FTA negotiations with the UK. This is because the opportunities for boosting mining and mining services exports to Asian economies are significantly greater than they are with respect to the UK.

In addition to considering an FTA with the UK, the Australian Government needs to devise a strategy for ensuring stability, continuity and certainty in the short term for Australian businesses which have interests in both the UK and the EU. The Minerals Council's view is that given that the UK already has relatively open markets, low barriers to trade in many if not most sectors, and a long-established trading and investment relationship with Australia, a two-stage approach might be preferable to early commencement of formal FTA negotiations.

The first stage would involve identifying immediate priorities for Australian business links with the UK that need to be resolved due to Brexit. These priorities could include:

- Working in the WTO to facilitate that body's agreement to UK requests to establish its own schedules of MFN tariffs and other commitments on terms that do not disadvantage Australian exporters.
- Resolving Brexit-induced uncertainties about migration regulation which could affect Australian businesses operating or investing in the UK and Australian citizens working or living in the UK.
- Supporting policies which allow London and the UK more broadly to continue functioning as an important global financial hub and commercial and business centre.
- Ensuring Australian businesses have access to well-regulated capital markets, financial services and commodities trading platforms in both the UK and the EU in the post-Brexit era.

The goal of this first stage would seek to avoid or minimise any Brexit-related instability or negative impacts on Australian business and people to people links with the UK.

In the case of the WTO, for instance, the separation of the UK's obligations from the current EU schedules of commitments and concessions will require the consensus of interested WTO members

[24] Martin Molinuevo, 'Brexit: Trade Governance and Legal Implications for Third Countries', World Bank Policy Research Working Paper No 8010, March 2017.
[25] Theresa May, 'The government's negotiating objectives for exiting the EU', Speech, 17 January 2017.

and may become the subject of negotiations beyond any required between the UK and the EU.[26] Australia has a broad interest in facilitating the UK's unbundling of its WTO commitments to avoid uncertainty about its tariff arrangements and any potential disruption to the rules-based multilateral trading system. However, the Australian Government will also need to ensure that this process does not disadvantage Australian exporters compared to current arrangements. There may also be opportunities here for improving Australia's market access to the UK. The allocation of quotas and subsidies which are currently set on an EU-wide basis, for instance, is likely to be an issue of interest to Australia's agriculture sector.

There are other issues and uncertainties created by Brexit which have the potential to impact Australian businesses, including mining companies, directly or indirectly. These include any tightening of migration provisions or work rights in the UK for EU citizens or citizens of third countries in the UK. Any adverse impacts of Brexit on the UK's role as a financial and trading hub role would also disadvantage Australian companies which rely on access to European and global financial markets.

The second stage would involve launching formal negotiations for an FTA with the UK. Such an FTA should seek to boost economic and investment links by improving market access for Australian goods and services and ensuring Australian exporters are not at a competitive disadvantage in the UK under any new trading arrangements it enters with third countries. Prior to launching negotiations, the Australian Government should follow its normal processes of consultation with business.

The Minerals Council's preliminary views on market access, movement of people, and investment are set out in the remainder of this submission.

Market access for minerals and energy

As noted above, the arrangements that will apply for accessing the UK market following Brexit are uncertain, but the UK Government's intention is to replicate the EU's existing MFN commitments in the form of UK schedules to relevant WTO agreements. Given Australia does not yet have an FTA with the EU, the EU's MFN tariff commitments are the most likely starting point for any Australia-UK FTA negotiation. However, if Australia and the EU finalise an FTA before Brexit, this could set a new benchmark given the UK Government's desire for continuity in trading relationships with third countries covered by EU preferential arrangements.

Market access barriers for minerals and energy products are relatively low under the EU's existing common external tariff. The EU applies zero tariffs on imports of many of the major minerals commodities which Australia produces. The EU's MFN applied tariffs on iron ores and concentrates, coal, gold, liquefied natural gas, aluminium ores and concentrates, crude petroleum, copper ores and concentrates, and pearls, for example, are zero. However, there are a number of minerals products where the EU does impose tariffs ranging from around 2 to around 10 per cent. Tariffs at the higher end of this range are imposed on basic metals manufactures such as aluminium, ferro-alloys and a number of base metals such as titanium, zirconium and antinomy.

Table 4 below provides details of EU tariffs on selected minerals and metals products, based on the EU's most recently available notifications to the WTO. While most of these products are not sizeable Australian exports to European countries, the Australian Government should seek the removal of these tariffs in FTAs with the EU and the UK. The EU has cut tariffs on these products to zero in the vast majority of tariff lines in almost all of its FTAs and other preferential trading arrangements with partner countries such as South Africa, Chile, Peru, Mexico, Korea and Turkey.

[26] Martin Molinuevo, 'Brexit: Trade Governance and Legal Implications for Third Countries', World Bank Policy Research Working Paper No 8010, March 2017. See also House of Lords, Library Note, 'Leaving the European Union: World Trade Organization', 28 March 2017.

Table 4: European Union MFN applied tariffs on selected minerals products, 2016

HS code	Product	Number of tariff lines	Average ad valorem duties (per cent)	Maximum ad valorem duty (per cent)	Duty free tariff lines (per cent)
7202	Ferro-alloys	22	2.8	7	28.9
7407	Copper bars, rods and profiles	4	4.8	4.8	0
7505	Nickel bars, rods and profiles	4	1.5	2.9	50
7506	Nickel plates, sheets, strip and foil	2	1.7	3.3	50
7601	Unwrought aluminium	3	4.5	6	0
7603	Aluminium powders and flakes	2	5	5	0
7604	Aluminium bars, rods and profiles	5	7.5	7.5	0
7606	Aluminium plates, sheets and strips	10	7.5	7.5	0
7801	Unwrought lead	4	2.1	2.5	16.7
7804	Lead plates, sheets, strip and foil; lead powders and flakes	3	3.3	5	33.3
7901	Unwrought zinc	5	2.5	2.5	0
7904	Zinc bars, rods, profiles and wire	1	5	5	0
8101	Tungsten and articles thereof	6	4.5	7	20
8102	Molybdenum and articles thereof	6	4.2	7	16.7
8105	Cobalt mattes and other intermediate products	3	1	3	66.7
8107	Cadmium and articles thereof	3	2.3	4	0
8108	Titanium and articles thereof	6	5.7	7	0
8109	Zirconium and articles thereof	3	4.7	9	33.3
8110	Antinomy and articles thereof	3	4.7	7	33.3
8111	Manganese and articles thereof	3	1.7	5	66.7

Source: World Trade Organization tariff download facility, accessed March 2017

Movement of people

As noted above, Australian mining companies have direct presences in the UK both in terms of corporate offices and interests in operational facilities. The ability to engage or transfer Australian employees and, indeed, employees of other nationalities to those UK-based operations is important, particularly in the case of senior executives and employees with specialised skills and qualifications. So is the ability to engage UK employees who can be transferred or assigned to work in other EU nations and EU nationals who can work in the UK.

Australia's High Commissioner to the UK, the Hon. Alexander Downer AC, has indicated that Australia wishes to see greater access for its business executives to the UK.[27] The Minerals Council agrees that streamlined migration arrangements and better access for key Australian personnel to work in the UK should be part of any Australia-UK FTA negotiation. In the immediate period, it is also important that the Australian Government take steps to ensure that existing arrangements and flexibilities, not only for movement of people between Australia and the UK but also between the UK and the EU, are retained following Brexit so Australian businesses and investors in the UK and the EU are not adversely impacted by changes to migration rules.

[27] 'Britain must relax immigration rules for Australians if it wants a free trade deal, says high commissioner to UK', *The Independent*, 21 January 2017, http://www.independent.co.uk/news/world/australasia/australia-brexit-theresa-may-alexander-downer-free-trade-deal-immigration-rules-a7539071.html

Investment

The Australia-UK investment relationship has been underpinned by the strong track records of both countries in openness to inward and outward capital flows and in providing stable investment climates. Australia needs to maintain its attractiveness as an investment destination through domestic policies such as competitive business taxation arrangements and flexible and productive workplace relations regulation. It should also ensure that Foreign Investment Review Board (FIRB) screening requirements do not impose unnecessary costs or deter inward investment. Given the UK’s importance as a source of investment capital for Australia, the monetary threshold which triggers FIRB screening for proposed business investments in non-sensitive sectors should be increased from its present level of $252 million for UK investors to the $1,094 million screening threshold for investors from FTA partner countries such as the United States, Japan, Korea, China and New Zealand. Lifting the FIRB screening threshold for UK investors would be good public policy in any circumstances. It is all the more desirable given the possibility that Brexit-related uncertainties may weigh on UK capital outflows.[28]

[28] Remy Davison, Submission No. 17, Inquiry into Australia’s trade and investment relationship with the United Kingdom, pp 6-8.