



Australian Government
**Department of Industry,
Innovation and Science**

Submission to the Joint Standing Committee on Foreign Affairs, Defence and Trade

Inquiry into Australia's trade and investment
relationship with the United Kingdom

10 March 2017

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Inquiry terms of reference

The Committee shall examine Australia's trade and investment relationship with the United Kingdom (UK). The Committee shall have particular regard to:

- the nature of Australia's current trade and investment relationship with the UK;
- possible implications for Australia's trade and investment relationships with the UK and the European Union consequent to the UK's exit from the European Union;
- barriers and impediments to trade and investment with the UK;
- opportunities to expand trade and investment links;
- the merits and risks of a possible bilateral free trade agreement with the UK, and potential features of such an agreement;
- the role of Australian governments (State, Territory and Federal) in identifying trade and investment opportunities in the UK, and assisting Australian exporters to access these opportunities; and
- any other related matters.

Introduction

Departmental Vision

The Department of Industry, Innovation and Science's (the Department's) vision is to enable growth and productivity for globally competitive industries. To help realise this vision, the Department supports a range of industry, innovation and science-focused programmes that support science and commercialisation, growing business investment, improving business capability, and streamlining regulation.

The Department's programmes:

- support businesses to collaborate with scientists and researchers in universities and other institutions to maximise commercial returns from the Government's significant annual investment in science and research and development;
- promote the growth of internationally competitive industries by facilitating nationwide action on regulation reform, collaboration, commercialisation and international engagement;
- facilitate competitive market places and business innovation to assist with business and industry transition;
- support regulatory frameworks to sustainably expand Australia's resource base and underpin its international competitiveness;
- contribute to unlocking the potential of Northern Australia; and
- reduce business costs through the delivery of simple, easy to access services and information and streamlined regulation and government to business interactions.

Bilateral Relationship

The Australia-United Kingdom (UK) relationship is one of Australia's most important bilateral relationships, underpinned by our shared heritage, common values, and closely aligned strategic outlook and interests. We are like-minded on pressing global issues, including international security, multilateral cooperation and economic issues on the G20 agenda and share an extensive economic, trade and investment relationship.

This close economic partnership extends to investment and trade in goods, and services. In 2015 Australian goods exports to the UK were valued at A\$3.7 billion, making the UK Australia's 12th largest market for goods exports. In the same year Australian exports of services to the UK were A\$5 billion, making the UK Australia's third largest services export market. The Annual Foreign Review Board Report indicated the UK was the sixth largest Foreign Direct Investor in Australia in 2014-2015.

This Submission

The Department's submission provides an overview of Australia's industrial goods and resources trade with the UK, highlighting the importance of industrial goods trade and areas of potential growth.

The submission further outlines the programme of engagement being undertaken with the UK across multilateral and bilateral trade and science fora. The Department is committed to stronger ties and greater economic integration between the two countries which will, in turn, provide greater opportunities and benefits for Australian industry.

Australia-UK international engagement

International trade policy and international science policy are key areas of international engagement where the Department is working to strengthen Australia's trade relations and investment linkages with the UK.

Trade policy

The Government is committed to trade liberalisation through multilateral, regional and bilateral trade agreements where they are high quality and provide business with commercially meaningful outcomes. Multilateral agreements offer the largest benefits and the Department is committed to furthering Australia's trade interests through negotiations in the World Trade Organisation (WTO). The Government pursues regional and bilateral trade agreements which are genuinely liberalising and substantially reduce barriers to trade.

As part of a whole-of-government approach, the Department plays a role in the development, negotiation and implementation of Australia's trade policy, both in the multilateral trading system and in free trade agreements (FTAs). The Department advises on issues such as varied as tariffs, trade in goods and goods market access, rules of origin, technical barriers to trade, and trade remedies. IP Australia, one of the Department's portfolio agencies, contributes advice on intellectual property arrangements.

The Department seeks to achieve a positive outcome for Australian industry in multilateral, regional and bilateral trade agreements, including negotiating reciprocal industrial tariff elimination with appropriate transitional arrangements. It also seeks to deliver consistent product specific rules of origin based on a Change of Tariff Classification or equivalent regional value content, mechanisms to deal with non-tariff and other technical barriers to trade, and commitments on trade remedies which maintains the integrity of Australia's domestic anti-dumping, countervailing and global safeguard regimes. The Department endeavours to consult broadly with industries impacted by removing barriers to trade to provide considered and appropriate advice.

Free trade agreements

The Department seeks positive outcomes for Australian industry through multilateral, regional and bilateral trade negotiations. The Department is involved in all current FTA negotiations. Recognising that certain sectors of Australian industry are sensitive with respect to trade liberalisation, the Department works to manage these challenges to ensure Australian industry is able to capitalise on the benefits of trade liberalisation.

Australia - European Union (EU) FTA

Prime Minister Turnbull together with the President of the European Council and the President of the European Commission agreed in a joint statement on 15 November 2015 to start the process towards a comprehensive and high-quality FTA.

Australia and the EU are currently undertaking a scoping study in preparation for entering into FTA negotiations. The Australian Government has identified the following key objectives for the agreement:

- negotiate a comprehensive, high-quality Australia-EU FTA that helps to ensure our trade and investment relationship reaches its full potential;
- the removal of barriers to trade in goods;
- the expansion of services linkages and investment ties; and,
- the facilitation of enhanced regulatory cooperation in specific sectors of interest to business.

The UK will be a party to the negotiations until the exit process from the EU is complete.

UK-Australia FTA

The UK is Australia's largest export market within the EU. A UK-Australia FTA would be an opportunity to tailor outcomes to the interests of both parties and facilitate ongoing trade.

In September 2016, the UK Secretary of State for International Trade and the Australian Minister for Trade, Tourism and Investment announced the establishment of a bilateral Trade Working group that will focus on scoping the parameters of a future FTA, with the intent of expediting a high quality outcome once the UK's withdrawal from the EU is finalised. The Department is supportive of this approach.

EU-Australia Mutual Recognition Agreement

The UK leaving the EU may have trade implications between Australia and the UK, whereby exporters from both countries could face increased costs in getting their goods assessed to meet the relevant standards.

Australia currently has a Mutual Recognition Agreement with the EU, the European Community-Australia Mutual Recognition Agreement (EC MRA), which helps to reduce barriers to trade by providing mutual recognition of conformity assessment.

Australia also has a Mutual Recognition Agreement with the European Free Trade Area (EFTA MRA), which extends the EC MRA to all countries which form the European Economic Area.

Following its formal exit from the EU, it is possible that the UK will remain a party to the existing EC MRA. Alternatively, a new Mutual Recognition Agreement between Australia and the UK could be developed, however an analysis of the costs and benefits of such an agreement should first be undertaken. In our practical experience we have found that the benefits of mutual recognition of conformity assessment can be offset if administrative processes are unduly complex.

Before committing to a Mutual Recognition Agreement, Australia would need to wait until the final arrangements for the UK's withdrawal from the EU are fully understood.

Tariff barriers to trade

Australia does not currently have a trade agreement with the EU which means Australian exporters face tariff barriers when exporting to the UK. The average applied tariff rate for non-agricultural imports into the EU was 4.3 per cent¹ in 2014. Stakeholders have indicated in submissions to the Australia-EU FTA consultations that the reduction and removal of tariff barriers will be of benefit to industry.

Non-tariff barriers to trade

The Department has oversight of Australia's standards and conformance bodies who undertake much of the technical interactions with their counterparts from the UK. The standards and conformance bodies include: Standards Australia, the National Association of Testing Authorities (NATA), the Joint Accreditation System of Australia and New Zealand (JAS-ANZ), and the National Measurement Institute (NMI).

Outcomes from the recent decision of the UK to leave the EU are not likely to raise any significant challenges for Australia's standards and conformance infrastructure. Since Brexit, UK standards and conformance bodies have expressed greater intent to cooperate further with Australia's standards and conformance infrastructure.

Trends in trade

Trade is vitally important to the growth of the Australian economy. More than 65,000 Australian businesses are identified as exporters in any given year. Goods feature prominently in Australia's export basket and over a third of exporters are concentrated in just four industry divisions – mining, manufacturing, wholesale trade, and information media and

¹ World Trade Organization, *Trade Policy Review, Report by the Secretariat: The European Union (2015)* https://www.wto.org/english/tratop_e/tpr_e/s317_e.pdf

telecommunications. Exporters account for 8-14 per cent of all businesses in these industries.²

Trade in goods³

Australia's exports to the UK

Australia's export figures for 2015 show that the UK continues to be Australia's top export market for goods within the EU.

In 2015, Australia's exports to the UK were valued at A\$3.7 billion, representing 1.5 per cent of Australia's total exports to the world, and 29.1 per cent of Australia's total exports to the EU. The UK is Australia's 12th largest export market in the world and largest export market in Europe, ahead of the Netherlands (A\$2.3 billion), Germany (A\$1.9 billion), Belgium (A\$1.2 billion) and France (A\$1.1 billion).

Of Australia's total exports to the UK in 2015, exports of *industrial* goods⁴ accounted for A\$3 billion or 81 per cent, with exports of *agricultural* goods⁵ making up the remaining A\$700 million or 19 per cent.

Since 2008, the value of industrial goods exported to the UK has declined year on year from a peak of A\$8.3 billion in 2008, or 88.5 per cent of Australia's total exports to the UK (see figure 1). This decline has been driven by a decrease in Australian gold, lead and coal exports to the UK, caused by a reduction in UK domestic demand.

² Department of Industry, Innovation and Science, *Australian Industry Report (2016)*

<https://industry.gov.au/Office-of-the-Chief-Economist/Publications/AustralianIndustryReport/assets/Australian-Industry-Report-2016.pdf>

³ All industry goods sectors referred to under this heading are based on groupings identified through internal consultations within the Department of Industry, Innovation and Science and may not necessarily match *Australia New Zealand Standard Industry Classification (ANZIC)* codes.

⁴ Chapters 25 to 99 of the Harmonized Commodity Description and Coding System (HS).

⁵ Chapters 1 to 24 of the HS.



Source: Based on ABS data, [International Trade in Goods and Services, Australia](#), Jun 2016 (cat no. 5368.0)

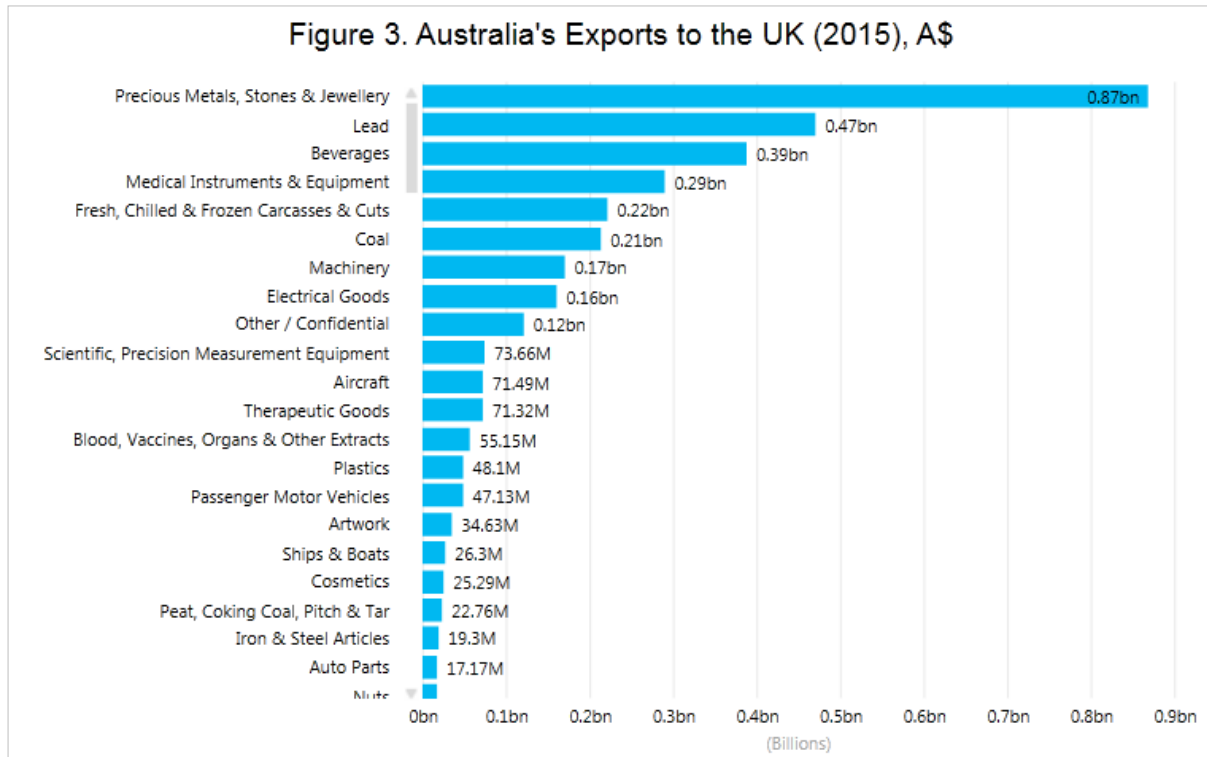
Despite the decline, the UK remains an important market for industrial exports. In 2015, the UK was Australia's 11th largest market for industrial exports, accounting for 1.4 per cent of Australia's total industrial goods exports (see figure 2).



Source: Based on ABS data, [International Trade in Goods and Services, Australia](#), Jun 2016 (cat no. 5368.0)

Current composition of Australia's industrial exports to the UK

In 2015, major Australian industrial exports to the UK were precious metals, stones and jewellery (A\$867.7 million); lead (A\$469.4 million); medical instruments and equipment (A\$289.7 million); coal (A\$212 million); and machinery (A\$170.3 million) (see figure 3).



Source: Based on ABS data, [International Trade in Goods and Services, Australia](#), Jun 2016 (cat no. 5368.0)

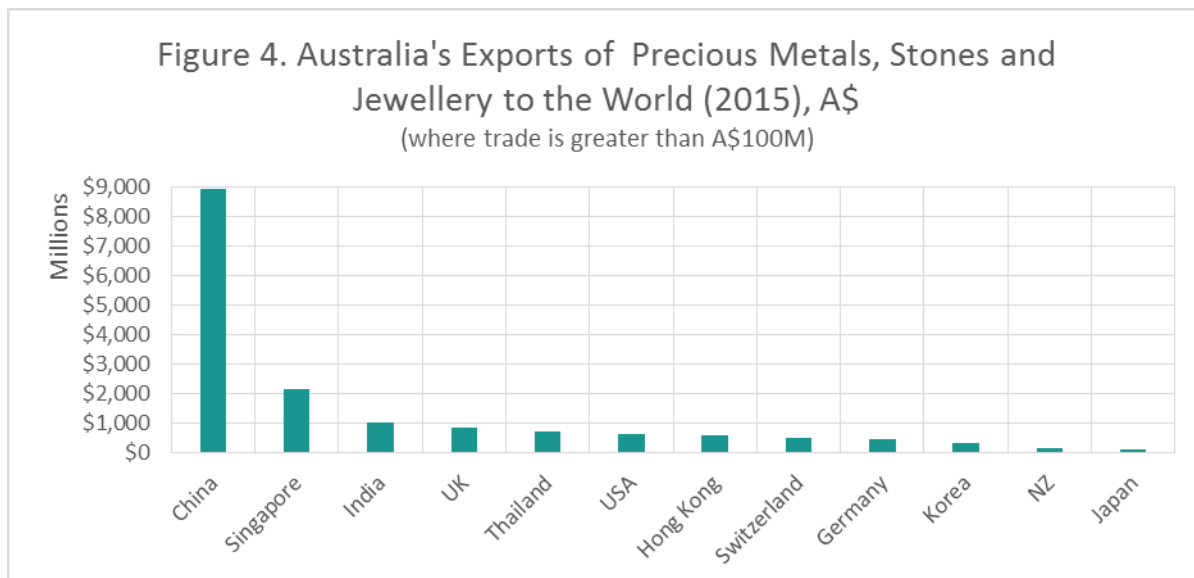
Key Australian industrial exports to the UK

Precious Metals, Stones and Jewellery

In 2015, Australia exported A\$16.8 billion worth of precious metals, stones and jewellery to the world, representing 6.7 per cent of total exports. This was Australia's fourth highest exported commodity behind iron and steel (A\$49.1 billion), coal (A\$37.0 billion) and liquefied gases (A\$17.1 billion).

Exports of precious metals, stones and jewellery to the UK accounted for A\$867.7 million, or 5.2 per cent of Australia's total precious metals, stones and jewellery exports. In 2015, the UK ranked as Australia's fourth largest export market for precious metals, stones and jewellery, behind China, Singapore and India (see figure 4).

The major types of precious metals, stones and jewellery exported to the UK in 2015 were gold (A\$424.4 million), diamonds (A\$358.3 million), and silver (A\$51.4 million).



Source: Based on ABS data, [International Trade in Goods and Services, Australia](#), Jun 2016 (cat no. 5368.0)

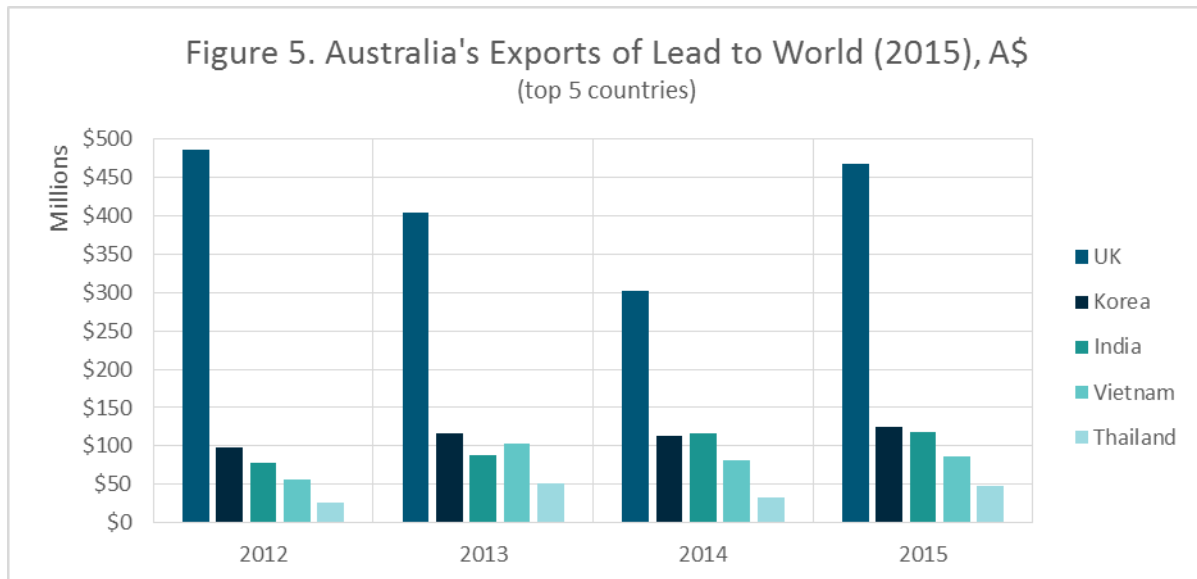
Lead

Australia is the world's largest exporter of lead and is at the forefront of technological development in lead mining and processing. In 2015, Australia exported A\$1.1 billion of lead to the world, representing 0.43 per cent of Australia's total exports. Lead was Australia's 20th highest exported commodity.

In 2015, exports of lead to the UK accounted for A\$467.2 million, or 43.6 per cent of Australia's total lead exports. The UK has consistently ranked as Australia's largest export market for lead (see figure 5).

Currently, lead ranks after aluminium, copper and zinc in terms of usage with the largest application being in batteries for transport vehicles and communications. Other uses include cable sheathing, solder, casting alloys, chemical compounds, ammunition, in ceramics and in glass for TV and computer screens for radiation protection. New uses for lead could be in large storage batteries used for load-levelling of electrical power and in electric vehicles.⁶

⁶ Australian Atlas of Minerals Resources, Mines and Processing Centres, *Lead Fact Sheet* http://www.australianminesatlas.gov.au/education/fact_sheets/lead.html



Source: Based on ABS data, [International Trade in Goods and Services, Australia](#), Jun 2016 (cat no. 5368.0)

Australia's imports from the UK

In 2015, Australia imported A\$7 billion of goods from the UK, representing 2.7 per cent of Australia's total imports from the world, and 15.4 per cent of Australia's total imports from the EU. The UK is Australia's 10th largest source of imported goods in the world, and second largest source of imports in Europe, in between Germany (A\$12.3 billion) and Italy (A\$5.8 billion). In 2015, A\$864.5 million in duty was collected on imports from the UK, representing 31.5 per cent of all duty collected on imports from the EU.

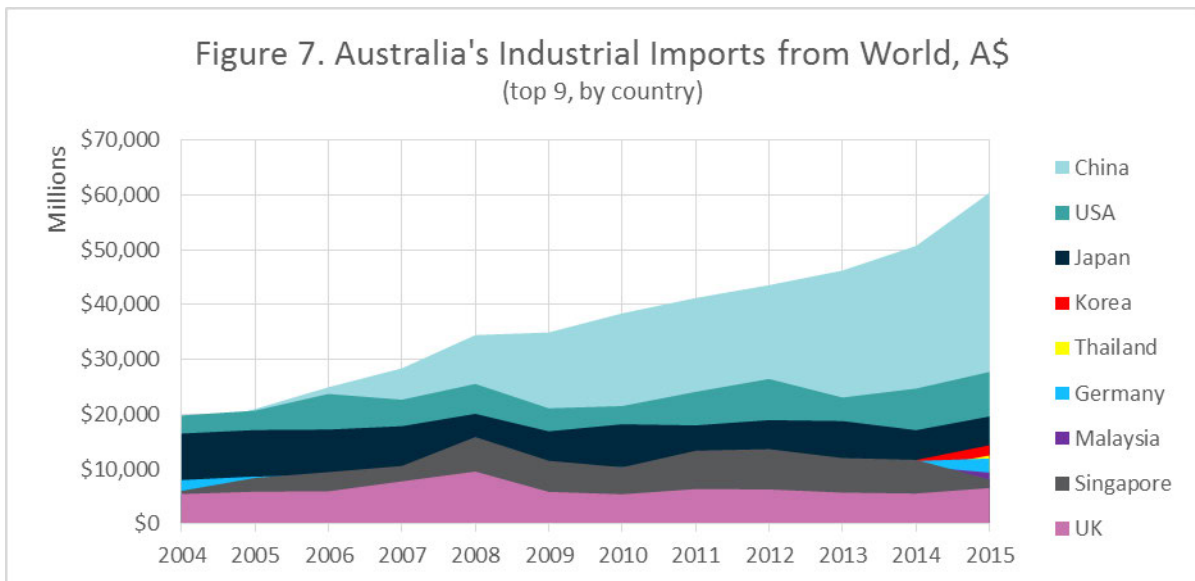
Of Australia's total imports from the UK in 2015, imports of industrial goods accounted for A\$6.5 billion or 92.8 per cent, with imports of agricultural goods making up the remaining A\$508.5 million or 7.2 per cent.

Since 2005, the value of industrial goods imported from the UK has fluctuated, hitting a peak in 2008 with a value of A\$9.5 billion or 96.7 per cent of Australia's total imports from the UK (see figure 6).



Source: Based on ABS data, [International Trade in Goods and Services, Australia](#), Jun 2016 (cat no. 5368.0)

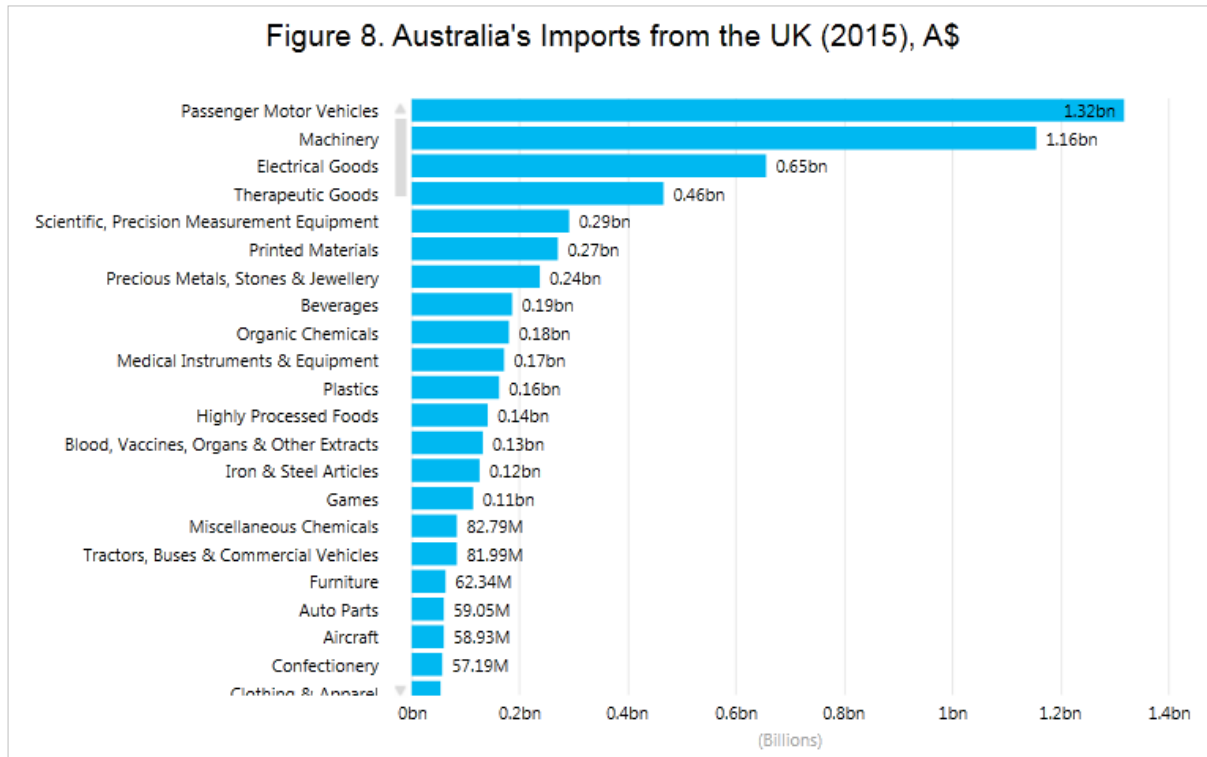
Compared to the rest of the world, in 2015, the UK was Australia's ninth largest source of imported industrial goods, accounting for 2.6 per cent of Australia's total imported industrial goods (see figure 7).



Source: Based on ABS data, [International Trade in Goods and Services, Australia](#), Jun 2016 (cat no. 5368.0)

Composition of Australia's industrial imports from the UK

In 2015, the major Australian industrial goods imported from the UK were passenger motor vehicles (A\$1.3 billion), machinery (A\$1.2 billion), electrical goods (A\$653.7 million), therapeutic goods (A\$463.9 million), and scientific/precision measuring equipment (A\$290 million) (see figure 8).



Source: Based on ABS data, [International Trade in Goods and Services, Australia](#), Jun 2016 (cat no. 5368.0)

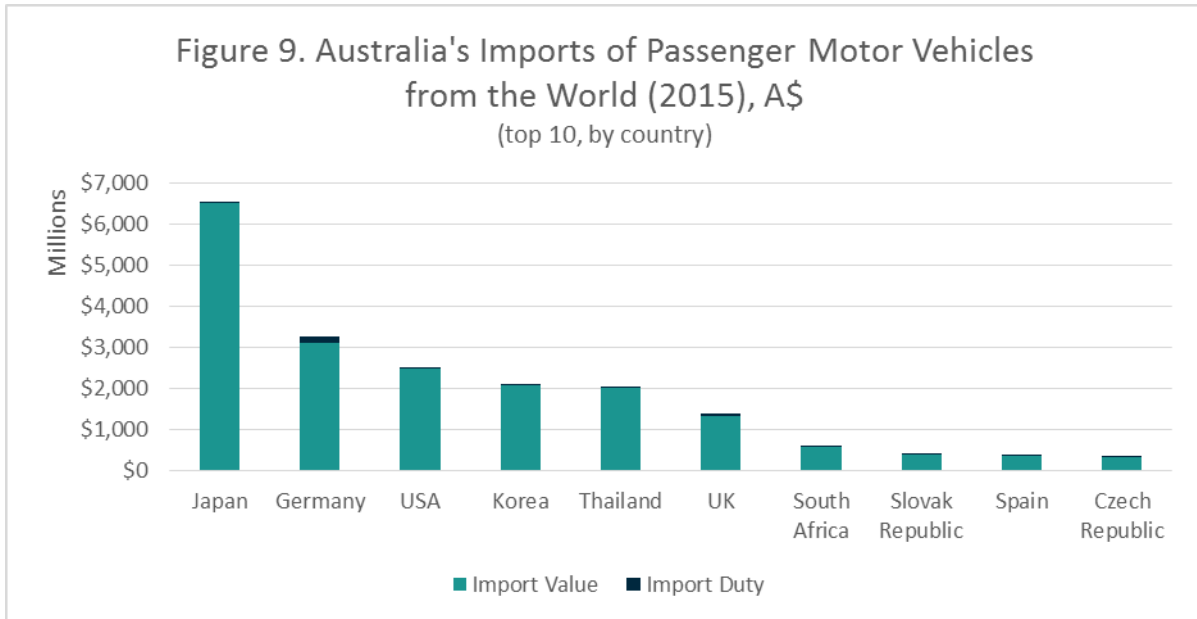
Key Australian industrial imports from the UK

Passenger Motor Vehicles

In 2015, Australia imported A\$20.4 billion worth of passenger motor vehicles from the world. Imports from the EU accounted for A\$6.3 billion, or 31 per cent, and imports from the UK accounted for A\$1.3 billion, or 6.5 per cent.

In 2015, the total duty collected on passenger motor vehicle imports from the world was A\$422.4 million, of which A\$315.2 million, or 74.6 per cent came from imports from the EU. The duty collected on passenger motor vehicle imports from the UK was A\$65.5 million or 15.5 per cent of the total duty collected.

Compared to the rest of the world, in 2015, the UK ranked as Australia's sixth largest source of imported passenger motor vehicles in the world, and second largest source of imported passenger motor vehicles in Europe, behind Germany (A\$3.1 billion) (see figure 9).



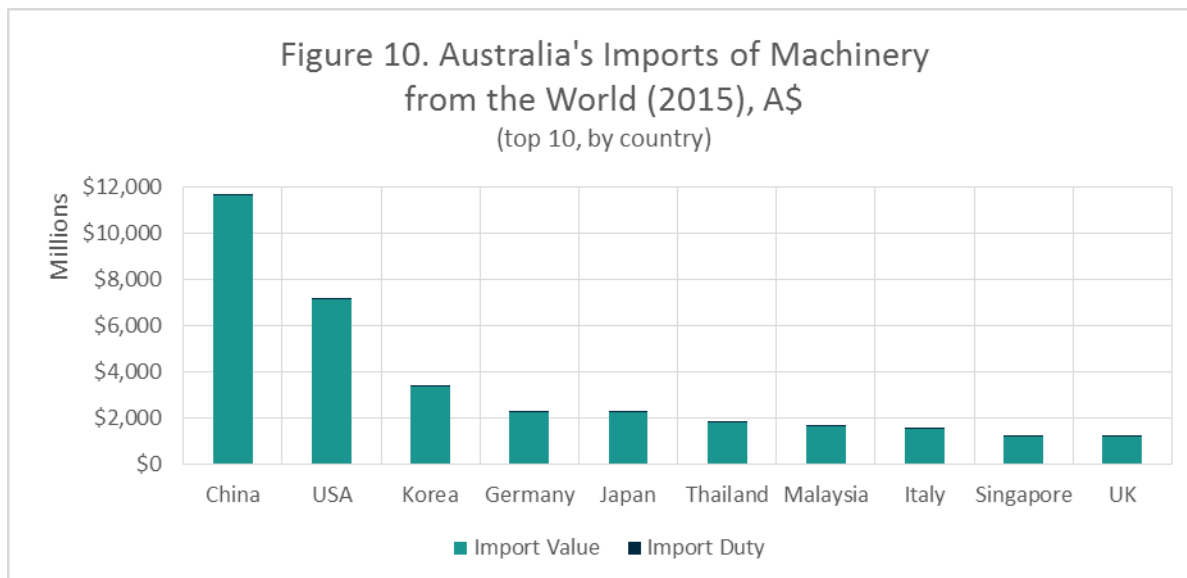
Source: Based on ABS data, [International Trade in Goods and Services, Australia](#), Jun 2016 (cat no. 5368.0)

Machinery

In 2015, Australia imported A\$42.3 billion worth of machinery from the world. Imports from the EU accounted for A\$8.2 billion, or 19.4 per cent, and imports from the UK accounted for A\$1.2 billion, or 2.7 per cent.

In 2015, the total duty collected on machinery imports from the world was A\$267.6 million, of which A\$103 million, or 38.5 per cent came from imports from the EU. The duty collected on machinery imports from the UK was A\$12.9 million or 4.8 per cent of the total machinery duty collected.

Compared to the rest of the world, in 2015, the UK ranked as Australia's 10th largest source of imported machinery, behind Germany and Italy (see figure 10).



Source: Based on ABS data, [International Trade in Goods and Services, Australia](#), Jun 2016 (cat no. 5368.0)

Trade in services and investment

Services are becoming increasingly important in trade and investment globally. In 2015-16, services continued to be the largest part of the Australian economy, representing just over 60 per cent of GDP with output of A\$1,015 billion. Services sectors were also the largest employers, averaging 9.4 million employees in 2015-16.⁷

The UK was Australia's second largest two-way services partner in 2015, accounting for A\$12.3 billion or 8.6 per cent of total services trade. In 2015, services exports to the UK were valued at A\$5.0 billion – up 8.8 per cent from 2014, while services imports from the UK was valued at A\$7.3 billion – up 10.5 per cent from 2014.⁸ Tourism is Australia's key services export to the UK at A\$1.9 billion, and is also Australia's main services import from the UK at A\$2.9 billion.

In 2015, the UK was the second largest source of total foreign investment in Australia. Two-way investment between Australia and the UK was valued at \$853.1 billion, with Australian investment in the UK at A\$353.2 billion and UK investment in Australia at A\$499.9 billion.

British businesses have traditionally viewed Australia as an attractive base for regional operations and have invested in a wide range of industries, including the infrastructure, pharmaceuticals, resources, energy and travel industries. Similarly, approximately 1,500 Australian companies are active in the UK, often seeing it as a base for continental Europe.

⁷ Department of Industry, Innovation and Science, *Australian Industry Report (2016)*
<https://industry.gov.au/Office-of-the-Chief-Economist/Publications/AustralianIndustryReport/assets/Australian-Industry-Report-2016.pdf>

⁸ Department of Foreign Affairs and Trade, *Trade in Services Australia (2015)*
<http://dfat.gov.au/about-us/publications/Documents/trade-in-services-australia-2015.pdf>

Key Australian trade in services and investment sectors

UK investment in Australian major mining projects

The Australian minerals and energy resource sector is of high importance to the Australian economy. Australia is home to an innovative mining equipment, technology and services sector and hosts some of the world's leading mining, oil and gas conglomerates. During the recent 'mining boom', domestic and foreign sourced investment has facilitated the rapid growth of Australia's diverse resources and energy sectors.

Of particular importance to the Australian economy are the 26 major projects worth A\$2 billion or above that are either currently underway or in the design and engineering stages. Many of these major mining projects are joint ventures involving both Australian and foreign investors.

The Foreign Investment Review Board has reported that the UK has provided the highest level of foreign investment in Australia's major projects, with UK incorporated companies being responsible for 27 per cent of major project investment costs.⁹

Science and Research Collaboration

Through its international science engagement function, the Department and its Portfolio agencies are responsible for leading intergovernmental relationships across the whole spectrum of science and research.

Australia and the UK have a longstanding and productive science and research relationship. While Australia does not have a science and technology treaty with the UK, the UK remains Australia's second highest science and technology collaborator and is Australia's main collaborator in Europe. In the period from 2011 to 2015 there were over 31,000 joint Australia-UK science and technology publications, with 6 per cent of these being in the top 1 per cent globally in their field by citation impact.

In 2016 the Department launched the Global Connections Fund programme, an initiative of the Global Innovation Strategy that provides funding to help Australian businesses and researchers to collaborate with international partners, including researchers from the UK, on research and development projects. The programme is supported by the Department through the National Innovation and Science Agenda and administered by the Australian Academy of Technology and Engineering (ATSE). The programme comprises A\$4.9 million to support global SME-to-researcher collaborations to enable viable projects to grow and test commercialisation in industries of strategic growth in Australia.

⁹ The Treasury, *Foreign Investment Into Australia – Treasury Working Paper (2016)*
http://treasury.gov.au/~media/Treasury/Publications%20and%20Media/Publications/2016/Foreign%20Investment%20into%20Australia/Downloads/PDF/TWP_201601_Foreign_Investment.ashx

Under the National Innovation and Science Agenda, the Department is also supporting the Global Innovation Linkages programme. This \$16.5 million programme supports Australian industry and research organisations with grants, up to \$1 million per grant over a maximum period of four years, to engage with international partners, including the UK, to undertake research and development projects.

Also under the National Innovation and Science Agenda, the Government's Global Innovation Strategy outlines existing and new initiatives and support for international innovation and science engagement. The programmes under the strategy will link Australian industry to major Australian and international projects. Through the Global Innovation Strategy, the Department is funding initiatives that will assist Australian companies to gain access to international science and research partnerships and to regional supply chain opportunities in overseas markets.

Conclusions

The Department is working to support the Trade Minister's initiative to establish a bilateral Trade Working group by engaging with the Department of Foreign Affairs and Trade to provide advice on industry interests.

Despite structural changes to the Australian economy, particularly the manufacturing sector, Australia still has substantial industrial goods export interests. While declines in certain sectors have led to decreased industrial goods exports to the UK, given open trade settings, including a focus on removing barriers to trade, there are still considerable export opportunities for Australian businesses. A focus on strengthening services exports and the investment relationship between the two countries will provide ongoing benefits to the Australian economy. The Department has a range of relevant programmes and initiatives to assist business to take advantage of the opportunities which would come from more open trade with the UK.