MINERALS COUNCIL OF AUSTRALIA

INQUIRY INTO BUSINESS EXPERIENCE IN UTILISING AUSTRALIA'S FREE TRADE AGREEMENTS

SUBMISSION TO THE JOINT SELECT COMMITTEE ON TRADE AND INVESTMENT GROWTH

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World Trade Organization data show that the number of free trade and similar arrangements has grown exponentially since the early 1990s, with approximately 300 agreements now in force. Since 1983 Australia has completed 9 bilateral agreements and one multi-party agreement and is currently negotiating 7 new more agreements. Despite the proliferation of free trade agreements, their popularity has not waned. Instead the focus of FTAs has become even more ambitious, especially in the Asia Pacific. This can be demonstrated by the interest in the negotiation of the Trans Pacific Partnership (TPP) agreement, which has 12 negotiating partners and the Regional Comprehensive Economic Partnership (RCEP) which has 16 negotiating partners.

But critics of FTAs claim that the 'utilisation' of the FTAs has been limited

The widespread pursuit of free trade agreements has attracted criticism in some quarters. This critical scrutiny has come from a number of camps. First, there has been criticism from so-called 'staunch multilateralists' who argue that liberalisation that is not undertaken unilaterally or at the global level will invariably divert trade, increase the complexity of commercial transactions (e.g. through complicated rules of origin) and ultimately be under-utilised by the business sectors in respective partner nations. In the Australian context, this group is led by elements within the Productivity Commission and some academic trade economists.

A second group critical of FTAs is comprised of 'free trade sceptics', including certain civil society groups and some trade unions, who express concern about the impact of the free trade agreements on certain domestic constituencies. Although this second group often cites the criticisms of the first group, the logic is not necessarily consistent. For example, the trade sceptics essentially complain about the costs of the agreements that are fully utilised, while the first argues that the FTAs are under-utilised.

Some measures of the benefits of FTAs are simplistic and misleading and fail to adjust for broader trade developments

Measuring the success or failure of FTAs by shifts in bilateral trade flows between signatories to an agreement is crude and simplistic. Such a metric assumes no other substantial influences on a nation's trading profile and is deeply flawed. In Australia's case, it is wrong to consider the impact of trade agreements in isolation from broader trade factors. Two particular influences are worth highlighting.

First, the emergence of China over the past 15 years has driven a profound re-orientation of trade both in Asia and beyond. China's imports from Australia have grown from around one per cent of Australia's GDP in 2000 to almost six per cent in 2013.

Second, Australia's real exchange rate appreciated by almost 80 per cent from late 2000 to early 2013, driven mainly by a massive increase in Australia's terms of trade and tighter monetary policy settings than in other major economies following the Global Financial Crisis.

Some critics of FTA 'utilisation' point to surveys which purport to show that low awareness and exploitation of FTAs by the business community. Business utilisation of FTAs is almost certainly higher than suggested in some business surveys. Australian import data suggest that FTA utilisation is relatively high and that most products from our FTA partners enter at either preferential or zero Most Favoured Nation (MFN) rates.

The broad economic gains from FTAs are substantial

As a mid-sized export economy, more open channels of trade and investment are critical for the Australian economy in general, and the minerals sector in particular. Free trade agreements have contributed to more open trade flows in at least four ways.

First, FTAs have responded to regional trade flows, not caused them. In other words, they reflect a habit of co-operation that developed and grew through pan regional arrangements like Asia-Pacific Economic Co-operation. As such the FTAs are deepening already well-developed linkages, not diverting trade.

Second, many of the gains from FTAs are contained in the certainty of access that they provide by 'binding' tariffs at zero or minimal levels. While these moves do not provide substantial new market opening, they do provide reassurance of the stability of the trade policy environment.

Third, FTAs deliver important benefits to both households and Australia's business sector by reducing the costs of inputs. For example, the recently concluded Japan-Australia Economic Partnership Agreement (JAEPA) will deliver gains across a wide range of consumer products – among them televisions, white goods and automobiles – as well as lower cost capital equipment to the minerals sector. These lower costs, delivered by other FTAs as well, would not have been enjoyed if Australia simply sat on the trade policy sidelines patiently waiting for a resumption in global trade talks.

Fourth, FTAs have helped to maintain the momentum for domestic reform by focusing the trade debate on liberalisation rather than attempts to wind back tariff reform. The bicycle theory of protectionism articulated by the eminent American trade economist Fred Bergsten suggests – with some validity – that a failure to keep moving forward on liberalisation will lead to the 'bicycle' falling over, with consequent backsliding on protection.

Australia's FTAs have delivered real and practical gains for the minerals sector…

Australia's free trade agreements have delivered meaningful and practical gains to Australian minerals commodity exporters and mining services providers. Examples include:

- The China-Australia Free Trade Agreement (ChAFTA) will eliminate tariffs which add nearly $600 million to bilateral minerals and energy trade, including about $380 million for exporters of thermal and metallurgical coal
- The Japan Australia Economic Partnership Agreement has, or will, eliminate tariffs on a number of commodities which generated $310 million in export income in 2013.
- The Korea-Australia Free Trade Agreement (KAFTA) has, or will, abolish tariffs ranging between 1.5 and 8 per cent on a range of minerals commodities
- The Thailand-Australia Free Trade Agreement (TAFTA) resulted in a number of gains for non-ferrous metals, with tariffs on unwrought lead and zinc of 10 per cent either reduced to zero on entry into force in 2005, or halved and eliminated by 2007
- The ASEAN-Australia-New Zealand Free Trade Agreement (AANZFTA) and the Malaysia-Australia Free Trade Agreement (MAFTA) led to useful gains in market access in Malaysia for iron and steel, with tariffs on over 96 per cent of these products imported from Australia to be eliminated by 2016 and 100 per cent by 2020
- In the case of investment, higher thresholds for FIRB scrutiny in Australia for the United States, China, Japan and Korea (as well as New Zealand) provide easier opportunities for investment from these economies in the Australian mining industry.

A range of policy measures could deepen business engagement with FTAs

There are a range of policies, systems changes and international approaches that could potentially lift utilisation rates in Australia and assist firms to extract more value from FTAs. This gets down to the basics of improved targeting of information on what FTAs have to offer, strengthening government systems to better link trade and investment dimensions of the modern international trading system, and engaging with trading partners on ways to boost SME utilisation.

1. THE GROWTH OF FREE TRADE AGREEMENTS IN AN 'INTER-CONNECTED' WORLD

Over the last three or four decades, Australia's international trade has been transformed by the same forces that have transformed global trade – declining border barriers to trade and investment; technological change that has dramatically reduced the cost of doing international business; rapid growth of countries like China and India that has greatly increased opportunities for trade and investment; and the increasing inter-connectedness of trade in goods, services, skills, and inward and outward investment in supply chain trade. More than half of world manufacturing imports are now intermediate goods and more than 70 per cent of world services imports are intermediate services (Kelly & La Cava 2014).

A feature of the global trading environment in recent decades has been the proliferation of free trade agreements in virtually all trading regions. World Trade Organization data show that the number of free trade and similar arrangements has grown exponentially since the early 1990s, with about 300 agreements now in force[1]. Since 1983 Australia has complete 9 bilateral agreements and one multi-party agreement and is currently 7 new agreements. Despite the proliferation of deals, their popularity has not waned. Instead the focus of FTAs has become even more ambitious, especially in the Asia Pacific. This can be demonstrated by the interest in the negotiation of the Trans Pacific Partnership (TPP) agreement, which has 12 negotiating partners and the Regional Comprehensive Economic Partnership (RCEP) which has 16 negotiating partners.

These free trade agreements (FTAs) – or at least the high quality FTAs - seek to grapple with this inter-connectedness at the border (through, for example, tariff reduction and elimination, liberalising quotas and import licensing arrangements, and streamlining customs administration) and behind-the-border (through, for example, mutual recognition of standards and professional qualifications, establishing commercial presence, and liberalising arrangements for the movement of skilled professionals).

This inevitably makes FTAs complex instruments, particularly in the case of multi-party agreements that have been designed to reduce overlap and conflict between bilateral arrangements. Links to economic policy and foreign policy add to that complexity. And further links between these policies and economic growth, technological change and job creation and destruction add both new layers of complexity and sometimes considerable controversy. It is little wonder therefore that some business surveys, particularly of small and medium sized enterprises (SMEs), report a significant lack of understanding about the aims and accessibility of FTAs. Business utilisation of FTAs is almost certainly higher than suggested in some business surveys. Australian import data suggest that FTA utilisation is relatively high and that most products from our FTA partners enter at either preferential or zero Most Favoured Nation (MFN) rates.

Free trade agreements and their critics

The spread of FTAs has attracted critical comment in some quarters (e.g. Productivity Commission 2010; 2015, Ch. 4). This criticism has suggested that liberalisation is better and more effectively undertaken at the multilateral level and that FTAs can lead to trade diversion. While the latter point has some validity, its risk is low in Australia's case given the substantial reductions in applied MFN tariffs over the past couple of decades. The WTO (2011, pp.9-14) argues that the potential for trade diversion depends on the nature of trading relationships, the quality of trade agreements and the extent to which liberalisation is embedded in regulatory changes that apply to all parties – a situation that is the norm in services trade. A second criticism is that FTAs produce a tangle of rules and processes that add to the cost of trade. According to these critics, this complexity means that the free

[1] As at April 2015, the World Trade Organization reported that 612 regional trade agreements (RTAs) between two or more parties had been notified to the GATT/WTO. Of these, 449 were 'physical' agreements counting goods and services agreements between the same economies as one FTA: 262 of these were currently in force. The WTO (2011, p.56) estimated that around 100 recent RTAs among developing economies had not been notified to the Organization.

trade agreements are not utilised to any significant extent by commercial sectors in partner economies.

A second group critical of FTAs is comprised of 'free trade sceptics', including certain civil society groups and trade unions who express concern about the impact of the free trade agreements on certain domestic constituencies. Although this second group often cites the criticisms of the first group, the logic is not necessarily consistent. For example, the trade sceptics essentially warn against the costs of the agreements that are fully utilised, while the first argues that the FTAs are under-utilised.

It is hard to avoid the fact that FTAs have become more popular because of the failure of the Doha Round of Multilateral Trade Negotiations.[2] There is no evidence that the former is the cause of the latter. The opposite is more likely. The reality is that FTAs have delivered market access liberalisation, including to services and investment. FTAs have also helped some governments to implement domestic economic reforms. And mega-regional FTAs offer the prospect of more substantial outcomes for trade and investment. For Australia to have sat on the sidelines would have imposed considerable risks on Australia's trading community:

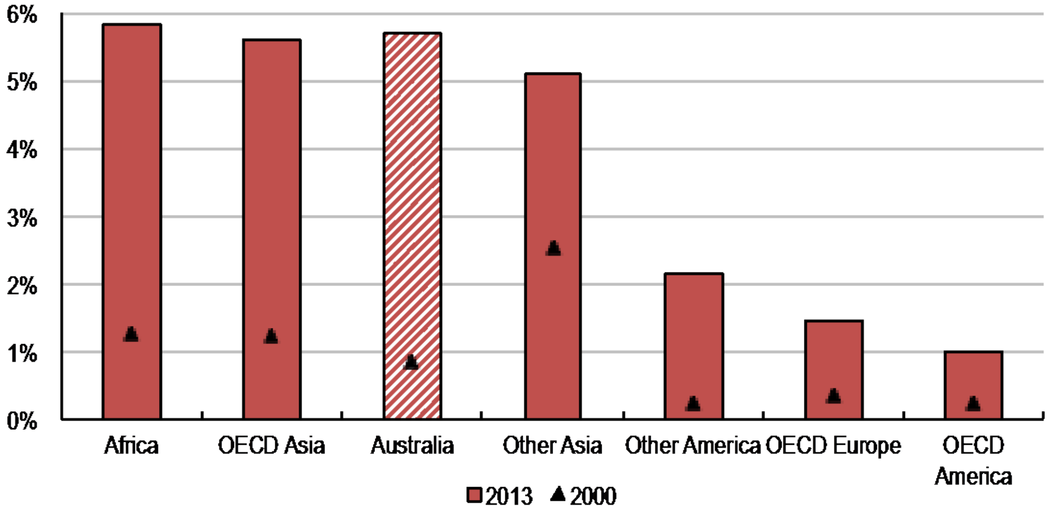
> For Australia to have held aloof from this might have won plaudits for ideological purity but would have done nothing to advance our commercial interests in the region and beyond. Nor would it have done anything to deepen our economic and foreign policy engagement with the region or profit from FTA-related advances in trade policy in areas like government procurement, mutual recognition, services, investment and trade facilitation, or extract whatever productivity and other benefits were available from opening the domestic market to more international competition (Adams, Brown &Wickes 2013, p. 153).

Do free trade agreements deliver and how should we measure success or failure?

Great care is needed in drawing conclusions about the trade and inward and outward direct investment impacts of Australia's FTAs or those of other economies. The jury is still out on the precise magnitude of these impacts, even in the case of FTAs like the Australia-United States FTA (AUSFTA) that entered-into-force a full decade ago. This is because the emergence of China over the past 15 years has driven a profound re-orientation of trade both in Asia and beyond. China's imports from Australia have grown from around one per cent of Australia's GDP in 2000 to almost six per cent in 2013 (Figure 1). Australia's real exchange rate appreciated by almost 80 per cent from late 2000 to early 2013, driven mainly by the mining boom, a massive increase in Australia's terms of trade and tighter monetary policy settings than in other major economies following the Global Financial Crisis (Figure 2).

[2] There is no evidence that FTAs have weakened, or distracted attention from, multilateral trading processes. Concluding Doha negotiations was Australia's principal trade policy objective up to at least the northern summer of 2008, when negotiations stalled over major differences between developed and developing countries (led by China and India) over agricultural subsidies. FTAs have not prevented multilateral agreement on trade facilitation or hindered WTO negotiation on services, where Australia and the United States are joint leaders of a 24 party negotiation. Similarly, in the past, Australia expanded the Closer Economic Relations Agreement with New Zealand (ANZCERTA) to include services in 1988 while simultaneously establishing the Cairns Group of agricultural exporting nations and playing a key role in the Uruguay Round of Multilateral Trade Negotiations.

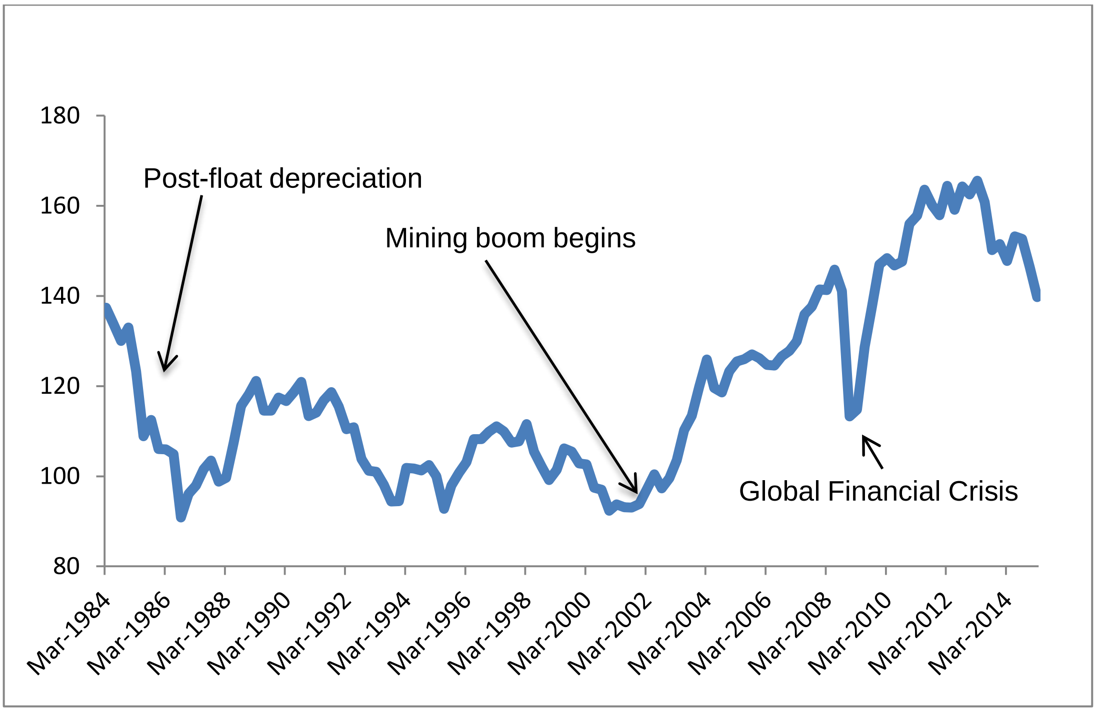
Figure 1: Chinese imports from selected regions as percentages of their GDP



Sources: OECD 2015, p.15, UN Comtrade database

Figure 2: Australia: real exchange rate

March quarter 1995 = 100



Source: Reserve Bank of Australia

These shocks to Australia's economy had a major impact on our bilateral trade flows with major trading partners, making it even more difficult than usual to attribute changes to the conclusion of FTAs. The strength of the Australian dollar over much of the past decade also must be taken into account in any assessments of gains from these agreements.

2. THE BROAD ECONOMIC GAINS FROM FTAS

FTAs are spearheading even closer regional linkages

Australia's long-term prosperity depends on assured and expanding access to markets in the Asia-Pacific region and on the region being as well integrated as possible for trade and investment. Processes like the Asia-Pacific Economic Cooperation (APEC) forum have encouraged unilateral economic reform and continue to foster habits of reform-oriented collaboration among officials and to facilitate close engagement between officials, business and academia on regulatory reform and governance issues. 'Bottom up' business-based approaches have contributed to closer economic integration by focusing on the practical needs of intra-regional trade in electronics and other components. Factors like the 'gravity' effect of large economies on the trade and investment patterns of proximate economies, lower transport costs between proximate economies, and familiarity with 'local' business systems and ways of doing business also have contributed powerfully to regionalism. But at least for the past decade, and arguably longer, regionalism has been spearheaded by FTAs.

More formal 'top-down' government-to-government approaches to East Asian regionalism started to take hold in the aftermath of the Asian Financial Crisis in the late 1990s as governments searched for efficiencies at and behind the border to promote economic growth and create jobs from more efficient value chain trading: in this sense, FTAs were a counter point to protectionism that could so easily have been stoked by the Crisis. China's economic reforms as part of its accession to the World Trade Organization (WTO) in 2001 also created major new opportunities for intra-regional trade (Pomfret 2011, pp. 56, 88) and ultimately for the transformation of global trade and investment. The ASEAN-China FTA (2002) was a key staging point in the shift to 'top down' regionalism because it forced Japan and Korea to shore up their production and market networks through separate regional and bilateral FTAs. It also was a factor in Australia, New Zealand and ASEAN negotiating AANZFTA (signed in 2009), which has resulted in major tariff elimination and reductions in our trading partners, as well as some modest commitments on services and investment and a new focus on regional economic cooperation and capacity building.

In Australia's case, the trend towards regionalism based on FTAs has continued through recent bilateral agreements with Malaysia, Korea, Japan and China. These deals improve market access and have the potential to promote more trade and investment through their cumulative impacts, including through competitive liberalisation in which new baselines for liberalisation stimulate more ambition in subsequent reviews or later agreements. These deals also can promote trade and investment through their built-in agendas for reform that can be developed over time as political and economic circumstances allow.

Australian business has a strong interest in the successful conclusion of Trans Pacific Partnership (TPP) and Regional Comprehensive Economic Partnership (RCEP) negotiations. Besides access opportunities, they offer an avenue for reducing transaction costs, including costs arising from inconsistent and overlapping FTAs. They should become key parts of evolving regional economic architecture. And, over the next decade or two, they could be influential in establishing benchmarks for broader international action that could, in turn, be injected back into the multilateral sphere. Australian business has a long-term interest in regionalism strengthening the global trading system.

FTAs are increasing business certainty

FTAs provide more certainty to business by eliminating, reducing, and binding tariffs and, more generally, by providing a structure within which countries can address issues in their trade and investment relationships. This can be especially valuable in partnerships where different languages and legal codes come into play. And FTAs can play a significant role in services and investment relations with developing and emerging economies. On the whole, Australia's FTAs with developing and emerging economies contain modest services and investment commitments, but they are still valuable. Services trade often requires firms to establish a market presence, which requires investment. Anything that encourages more structured thinking on trade and investment policy, more policy dialogue between trading partners and more security for businesses has to be a good thing that should encourage more trade and more rational investment decisions.

FTAs are delivering consumer benefits and raising real incomes

FTAs deliver important benefits to consumers and families. The recently concluded Japan-Australia Economic Partnership Agreement (JAEPA) will deliver gains across a wide range of consumer products – among them colour televisions, white goods and automobiles. Indeed, Trade Minister Robb noted in January 2015 that the prices of Japanese cars were already flowing through to consumers, with declines of up to $2600 for family-sized cars and $7600 for higher-end models (Robb 2015). The Centre for International Economics estimates that Australia's three North-East Asian FTAs (with China, Korea and Japan) could, all things being equal, lift real wages by 0.4 to 0.5 per cent compared to a scenario in which Australia did not enter into the agreements (Centre for International Economics 2015, p.29).

FTAs are contributing to domestic reform

FTAs have helped to maintain the momentum for domestic reform by focusing the trade debate on liberalisation rather than attempts to wind back tariff reform. The bicycle theory of protectionism articulated by the eminent American trade economist Fred Bergsten suggests – with some validity – that a failure to keep moving forward on liberalisation will lead to the 'bicycle' falling over, with consequent backsliding on protection. Partly as a result of FTAs, the debate on tariff protection has been muted in recent years. Despite this, net tariff assistance to the mining industry is still negative (at -$235 million in 2013-14) reflecting higher input prices paid for manufactured goods as a result of substantial tariff assistance to that sector (Productivity Commission 2015, p.101). Trade agreements are also leading to reform in the area of foreign investment, with higher Foreign Investment Review Board thresholds for the examination of investment now extended from the United States and New Zealand to Japan, Korea and prospectively China. As Section 3 will suggest, this is an important and positive development for the Australian mining industry.

3. ACCESS GAINS AND OTHER BENEFITS FOR THE MINERALS INDUSTRY

FTAs have provided significant new access opportunities for Australian exporters. The opportunities may not always be utilised immediately and may not lead to any immediate increase in trade volumes given the range of other factors such as exchange rates and income growth which affect trade. But by promoting a more open trading environment, they can provide commercial benefits for firms either immediately or further down the track. The principal market access gains of interest to the mining industry vary with each agreement, but there are typically important ones in each case.[3]

As one example, the recently concluded JAEPA has, or will, eliminate tariffs on a number of commodities of interest to the Minerals Council. Table 1 lists five products where the Council has already welcomed the outcome as providing a significant boost to Australia's trading opportunities. They accounted in aggregate for Australian exports of around $310 million in 2013. Elimination of tariffs may have a useful impact on competitiveness relative to other suppliers in these cases. With titanium dioxide, for example, the United States is an important competitor with almost a third of Japan's import market in 2014: JAEPA may help Australia to increase its market share. JAEPA will also eliminate tariffs for many metal manufactures, which could benefit Australian suppliers if they can supply competitively, with flow-on effects for the mining industry.

Table 1: JAEPA: examples of market access gains of interest to the MCA

	Base MFN rates	Phase out under JAEPA
Unwrought nickel, not alloyed	11.7% or 44 yen/kg whichever is less	Phase out over 7 years*
Coke and semi-coke of coal	3.2%	0 on entry into force (eif)
Aluminium hydroxide	3.3%	0 on eif
Ferro manganese	6.3%	Phase out over 7 years*, or 0 on eif depending on the carbon content
Titanium dioxide	3.2%	0 on eif

Source: DFAT 2014, JAEPA. *The phase out over 7 years takes place in eight equal instalments, with the first on entry into force of JAEPA and with subsequent cuts on 1 April of each year until the goods are free.

[3] The notable exception was the Singapore-Australia Free Trade Agreement (SAFTA), where almost all of Singapore's tariffs were zero prior to its entry into force.

Table 2: ChAFTA: examples of market access gains of interest to the MCA

	MFN rate	Elimination
Coal, coking and steaming	3% and 6%	0 and 2 years
Copper, unwrought and alloys	1% and 2%	0 on eif
Aluminium oxide (alumina)	8%	0 on eif
Nickel mattes and oxides	3%	0 on eif
Zinc, unwrought	3%	0 on eif
Copper waste and scrap	1.5%	0 on eif
Aluminium, unwrought	5% and 7%	0 and 4 years
Aluminium waste and scrap	1.5%	0 on eif
Nickel, unwrought	3%	0 on eif
Titanium white and dioxide	6.5% and 10%	4 years

Source: Department of Foreign Affairs and Trade

The China-Australia Free Trade Agreement (ChAFTA), which is now being considered by Parliament, is another example. It will eliminate tariffs which add nearly $600 million to bilateral minerals and energy trade, including about $380 million for exporters of thermal and metallurgical coal. Table 2 lists various mineral commodities and metals where tariffs will be removed under the agreement. The most important from the perspective of the Minerals Council are the three per cent tariff on coking coal and the six per cent tariff on steaming coal. Elimination of the six per cent tariff on steaming coal will address the advantage which Indonesia has because of the zero tariff it faces through the ASEAN-China Free Trade Area. But elimination of other tariffs (for example, on alumina and copper) is also valuable.

Other FTAs have also delivered important access gains, including for the minerals industry. To give a few examples:

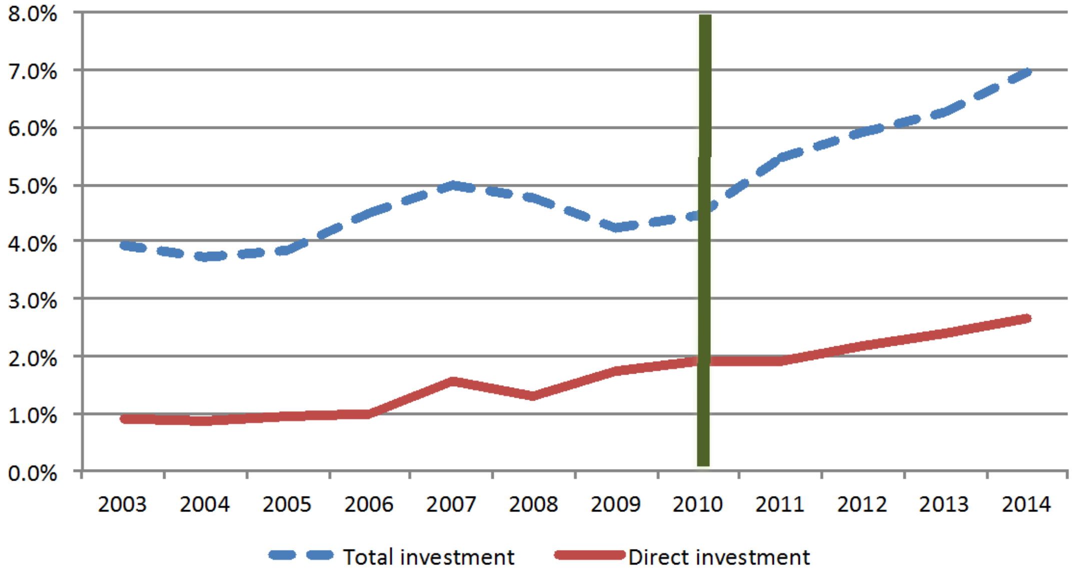
- The Korea-Australia Free Trade Agreement (KAFTA) has recently entered into force and has, or will, abolish tariffs on a range of commodities of interest to the mining industry. For example, tariffs on unwrought aluminium, which forms the bulk of Australia's trade in aluminium products, have gone from 1-3 per cent to zero, while other tariffs on articles of aluminium - with tariffs ranging up to eight per cent - are either being eliminated or phased out over periods of up to seven years. KAFTA has also abolished the tariff on titanium dioxide, which had a base rate of 6.5 per cent.
- The Thailand-Australia Free Trade Agreement (TAFTA) resulted in a number of gains for non-ferrous metals, with tariffs on unwrought lead and zinc of 10 per cent either reduced to zero on entry into force in 2005, or halved and eliminated by 2007. Thailand's imports of these products from Australia were by no means negligible at US$23 million and US$36 million respectively in 2014.
- The ASEAN-Australia-New Zealand Free Trade Agreement (AANZFTA) and the Malaysia-Australia Free Trade Agreement (MAFTA) led to useful gains in market access in Malaysia for iron and steel, with tariffs on over 96 per cent of these products imported from Australia to be eliminated by 2016 and 100 per cent by 2020. Malaysia's imports of iron and steel from Australia were around US$96 million in 2014. Better access for mining services was another outcome from MAFTA, with the agreement providing for 51 per cent ownership by an Australian entity for these services. Mining services can also be expected to benefit in other agreements from general improvements in the conditions under which services are traded.

Even where products enter at zero applied rates already, FTAs can deliver benefits. For example, although virtually all coal and iron ore entered at zero rates before JAEPA and KAFTA entered into force, the agreements provides Japan and Korea with reassurance on energy and resource security that will assist Australia to maintain market share. Agreements can also add value by binding bilaterally rates at below the WTO-bound rates or introducing a binding where the tariff is unbound in the WTO. In the case of Korea, for example, tariffs on anthracite and lead ores and concentrates are unbound in the WTO, but were specified as zero on entry into force in KAFTA. Again in KAFTA, the tariff on unwrought aluminium was specified as zero in entry into force, but is bound at a much higher rate of 5 per cent in the WTO.

In the case of investment, higher thresholds for FIRB scrutiny in Australia for the United States, Japan and Korea (as well as New Zealand) provide easier opportunities for investment from these economies in the Australian mining industry. FIRB data reflect the importance of these countries, with approvals for the three in mineral exploration and development totalling over A$5.2 billion in 2013-14. China is now the largest source of new mining investment in Australia according to FIRB data. While FIRB screening levels will be lifted in ChAFTA, this will not apply to state owned enterprises (SOEs) that are responsible for the bulk of Chinese investment in Australia's minerals sector. The general review of the agreement in three years' time may be important in advancing screening rules for SOEs.

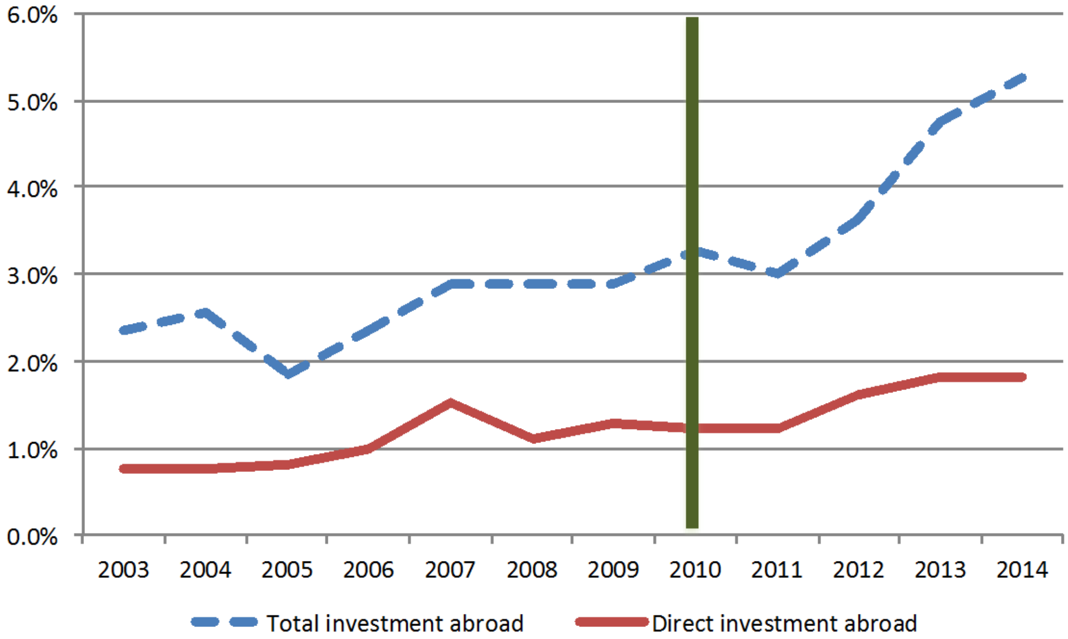
An improved investment climate in other economies is another important benefit from FTAs, particularly for an industry that often operates abroad. In Chile, Australian firms make an important contribution to the mining sector, with Austrade reporting 25 mining companies involved in activities from exploration to production. The FTA with Chile provides useful protections such as national treatment, most favoured nation treatment, limits on performance requirements, and dispute settlement provisions. In the case of the ASEAN economies, which are important investment partners for Australia and where the investment relationship has become more significant since the agreement entered into force (Figures 3 and 4), AANZFTA provides a number of protections for investors. These economies include significant areas of operation for the Australian mining industry. In Indonesia, for example, BHP Billiton owns 75 per cent of the Indomet coal project in Kalimantan, while gold-miner Newcrest owns more than 80 per cent of the Gosowong open-cut mine. In Vietnam, Australia's involvement in the mining industry is small but growing, providing expertise, mining equipment and services to the local industry.

Figure 3: ASEAN FDI levels in Australia: percentage of GDP



Sources ABS 5352.0, ABS 5206.0. Note: AANZFTA entered into force through 2010 (vertical line) and SAFTA entered into force 28 July 2003.

Figure 4: Australian FDI Levels in ASEAN: percentage of GDP



Sources ABS 5352.0, ABS 5206.0. Note: AANZFTA entered into force through 2010 (vertical line) and SAFTA entered into force 28 July 2003.

FTAs typically result in more liberal arrangements for the movement of business personnel. For example, TAFTA led to significant improvements on temporary entry of business people, with visa and work permits for up to five years for intra-company transfers (up from one year). Some red-tape affecting work permits was abolished for Australians in the process. Outcomes such as these are important for the mining industry, which often needs to move executives and skilled personnel to other countries in Australia's region. The industry can also expect to benefit from broader outcomes that facilitate trade and investment, such as agreements on improved customs arrangements.

Cheaper imports of capital equipment into Australia are another benefit, although access at zero tariff rates is already available through Tariff Concession Orders (TCOs) where there are no substitutable goods being produced in Australia and provided the good is not (like passenger motor vehicles) excluded from the programme. Accessing TCOs is, however, a complex process (though once they are in place, they can be used by all importers without a further application unless revoked). FTAs can provide an alternative mechanism for importing where TCO criteria are not satisfied, or where the process involved seems unduly complex. As one example of possible benefit to the mineral industry, TAFTA removed tariffs on entry into force for a wide range of motor vehicles and transport equipment. With JAEPA, the 5 per cent Australian tariff on dumpers has been abolished, as has the tariff on imports of iron and steel and railway construction material.

4. MEASURING AND BUILDING THE UTILISATION OF FTAS

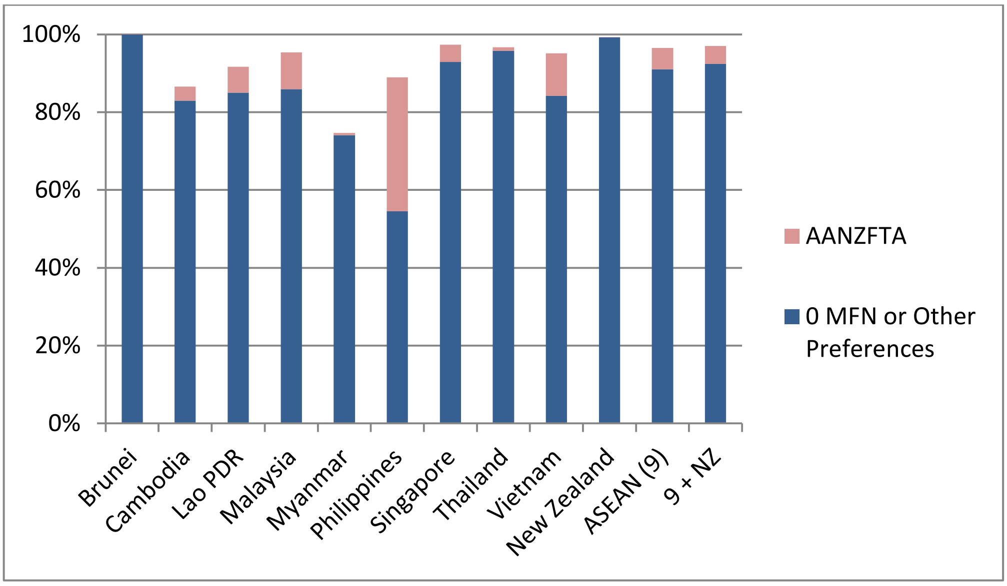
Both international and Australian evidence on the utilisation of FTAs varies widely, partly as a result of the different methodologies used. Ideally, utilisation should be measured using detailed customs data on the entry of commodities which have used the relevant documentation for entry under an agreement. Given the absence of these data in many cases, some assessments have fallen back on other methods, such as 'before and after' evidence on trade and investment flows (which we have already argued is fraught with difficulty) or the use of survey data (which as discussed below has difficulties of its own).

In Australia's case, the most detailed evidence using customs data suggests that there is a high uptake of preferences in Australia's FTAs. Some survey data has suggested that lower utilisation rates apply. For example, survey data by the Economist Intelligence Unit (EIU) in a study for HSBC, and by the Australian Chamber of Commerce and Industry (ACCI) paint a picture of low utilisation of FTAs. In the EIU study, exporters from eight countries across the Asia Pacific were surveyed, with the study finding that only 26 per cent or around one in four exporters, used FTAs. In Australia's case, the figure was even lower, at 19 per cent.

The results need to be treated with caution. The survey for each country was limited to 100 firms and the survey was weighted in favour of SMEs that tend to utilise FTAs less than larger firms. The EIU found that ANZCERTA was the most used of Australia's FTAs (used by 30 per cent of the sample) while the agreement with Chile was the least used at 7 per cent. A more positive finding is that 16 per cent of the Australian firms surveyed thought that FTAs had increased exports significantly and another 59 per cent that they had increased exports moderately (Economist Intelligence Unit 2014, pp.1-6).

Evidence from Australian import data, where information on preference use is available, suggests that traders are a good deal more astute than suggested by the survey data. A 2010 study by University of Adelaide researchers found that the share of imports claiming preferences varied considerably from under three per cent for SAFTA to around 50 per cent for ANZCERTA. Much of the explanation for low rates of utilisation was that many commodities entered at zero MFN rates. The share of imports which entered at either zero MFN or preferential rates in 2009 was quite high at 95-98 per cent for imports from New Zealand, 91 per cent for Singapore, 76-78 per cent for Thailand, 69-83 percent for the United States and 96 per cent for Chile (Pomfret, Kaufmann and Findlay 2010, especially Table 1).

Figure 5: Share of Australian imports using AANZFTA preferences, 2011



Source: Department of Foreign Affairs and Trade data in Adams, Brown & Wickes (2013, p.137). '0 MFN or Other Preferences' do not include goods which received preferences under AANZFTA, but do include goods which entered under Tariff Concession Orders. The data understate somewhat the share of imports entering at zero MFN or preferential rates since some data are confidential. Indonesia is not included because it did not join AANZFTA until 2012.

More recent and more detailed analysis undertaken by the Department of Foreign Affairs and Trade on import clearances into Australia from its AANZFTA partners confirms this broad picture.[4] Although the share of total imports using AANZFTA preferences in 2011 was sometimes low, the main reason for this was the high proportion which entered at zero MFN rates, or under other trade preferences (such as bilateral agreements with New Zealand, Singapore and Thailand, or preferences for least developed economies). Significant shares also entered under domestic tariff concession arrangements of the kind discussed in Section 3. Overall, some 96.5 per cent of imports from the 9 ASEAN economies then participating in AANZFTA came in under zero MFN rates or under preferences of one kind or another. Figure 5 shows these results by AANZFTA partner. The Department calculates an adjusted utilisation rate as the ratio of imports coming in under AANZFTA to the imports which AANZFTA could reasonably cover after taking into account those entering at zero MFN rates or under other preferences.[5] This ratio varies by country, but is around 66 per cent for the ASEAN 9 combined, indicating a reasonably high utilisation rate.

Overall, the data assembled by the University of Adelaide researchers and by the Department of Foreign Affairs and Trade does not support the view that there is a threshold (sometimes said to be about five per cent or more) below which traders will not find it worthwhile to apply for tariff preferences. Rather the picture which emerges is one where traders make use of available instruments for purchasing and marketing products.

As the preceding discussion suggests, much of the debate on utilisation has focused on merchandise trade. The use of other provisions of FTAs (for example, those applying to services and investment) is more difficult to analyse. In the case of investment, it has been argued that there is a 'head turning' effect which encourages bilateral investment flows just before and after an agreement enters into force. This is partly borne out by the time series on investment with ASEAN in Figures 3 and 4, but there are many determinants of investment flows and levels, so it would be rash to generalise from these examples without much more detailed analysis.

[4] The Department's statistical results on this issue were published in Adams, Brown and Wickes (2013, p.137).
[5] Formally, this ratio is calculated as: imports coming in under AANZFTA/(imports under AANZFTA plus imports which did not receive preferences and which had a non-zero MFN rate).

For its part, the Minerals Council is confident that its members do make use of tariff preferences where these are relevant. In the case of the recently signed ChAFTA, for example, we consider that coal exporters would be well aware of the 3 and 6 per cent tariffs on coking and steaming coal in China and that they will be seeking to export products to China under the preferential rates (zero on entry into force for coking coal and within two years for steaming coal). Major mining companies in particular have the resources – especially the skilled professionals - to utilise FTAs in ways that provide them with a competitive edge in accessing markets and, where appropriate, establishing a commercial presence. There may be more of a problem with smaller companies in the sector, including those engaged in providing mining services – such as engineering, construction, mining-related information technology services, and mine site rehabilitation.

Further steps are necessary to simplify and rationalise customs and other administrative border procedures domestically and internationally. In the Asia-Pacific, work by the APEC Policy Support Unit (2012) suggests it could save business several tens of billions of dollars each year.[6] Large performance gaps exist in the efficiency of border processes among regional economies, hindering trade flows even though value chain trading has emerged more strongly in the Asia-Pacific than in any other region (Saslavsky and Shepherd 2013). And at a global level, creating more seamless customs rules and procedures through the multilateral Trade Facilitation Agreement (2013) could, once implemented, add optimistically as much as $1 trillion to the world economy and generate 21 million new jobs (Robb 2014). By reducing the cost of doing international business, these sorts of initiatives could be expected to make international trade more relevant to more businesses.

[6] Work by Hufbauer, Vieiro & Wilson 2012 suggests that trade facilitation can make a big difference to participation in the global economy. Every dollar spent in aid-for-trade recipient countries on reforming trade policy and regulation – improving customs clearance arrangements, lessening technical barriers etc – increases trade by nearly $700 per year.

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