

**The Voice for
Australia's exporters**



Inquiry into the Business Experience in Utilising Australia's Free Trade Agreements

26 June 2015

**Submission by the Export Council of Australia
(Australian Institute of Export)**

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Introduction

About the Export Council of Australia

A not-for-profit, membership based organisation, the Export Council of Australia (ECA) is the peak industry body representing Australia's exporters and importers, particularly SMEs. With a membership base of 1,000 and a reach of 15,000, the ECA represents companies of all sizes and across a wide range of industry sectors, including services exporters. The ECA's core activities include research, advocacy, skills development and events.

The ECA works collaboratively with a number of Federal and State Government Departments to advance the interests of its members and the broader business community; these include Efic, the Department of Foreign Affairs and Trade (DFAT), Austrade, the Australian Customs and Border Protection Service (Customs), Department of Industry and Science, and the Department of Agriculture.

The ECA regularly provides submissions to agencies and government on various reviews, as well as to parliamentary inquiries. These have included submissions relating to the Korea-Australia Free Trade Agreement (KAFTA) and the KAFTA Customs Bills, the Japan-Australia Economic Partnership Agreement (JAEPA) and the JAEPA Customs Bills, the Trade in Services Agreement (TiSA), and more recently the EMDG Review. The ECA also releases annual Trade Policy Recommendations (TPR), and the latest document, TPR 2014/15, includes commentary and recommendations regarding the Government's Free Trade Agreement (FTA) agenda and ways in which Government should work with industry to raise the level of use of FTAs.

In 2014 the ECA launched a longitudinal survey, Australia's International Business Survey (AIBS), with Austrade, Efic and the University of Sydney, designed to capture data on the international business activity of Australian companies. The first survey, conducted in 2014, captured data from over 1,600 Australian exporters, making it the most comprehensive investigation into Australia's international business activity in more than 15 years.

AIBS 2015 resulted in the collection of fully completed and validated responses from 1,237 companies involved in international business. The findings of this report are distinctive and significant because they provide key insights into the nature, needs, concerns and future plans of the overall Australian international business community from the company perspective. The 2015 AIBS results are referred to in this submission.

Overview

The ECA welcomes the opportunity to provide input into the Joint Select Committee on Trade and Investment Growth Inquiry into the Business Experience in Utilising Australia's FTAs.

The ECA supports international agreements that serve to further liberalise trade between Australia and the rest of the world. Trade is a key driver of jobs, innovation and long term prosperity for Australia and FTAs help secure preferential access to the markets of key trade partners. As has been well documented of late, there is significant potential to increase the understanding and utilisation of Australia's FTAs and the ECA is pleased to have the opportunity to provide its insights and recommendations in this submission.

The ECA would like to note that it welcomes the recent announcement in the 2015 Federal Budget that the government is investing in improving business' understanding of the recently concluded trade agreements with China, Japan and Korea and assisting businesses to access and maximise their benefits under these agreements.

FTA Research

Research by the Economist Intelligence Unit found that just 19 per cent of exporters have taken advantage of each of the nine FTAs signed between Australia and other nations since 2005.

The research found that the major reasons Australian companies did not chase the trade opportunities, business expansion and new markets openings offered by FTAs are:

- A poor understanding of FTAs
- The complexity and length FTAs, for example, FTAs can run to 500 pages or more in length and most SME companies do not have the time or resources to dedicate to reading and interpreting the text.
- A sense that the negotiated FTAs are not relevant to their company

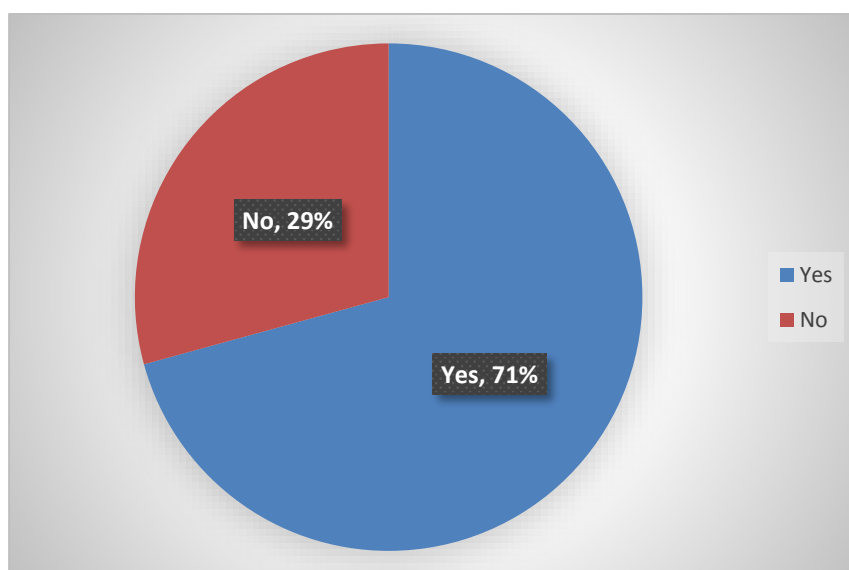
While that may be the case, for the Australian companies who use an FTA, 75 per cent have experienced export growth with key advantages listed as being access to new markets (40 per cent), access to a wider client base (39 per cent) and the creation of new business opportunities (37 per cent).

For the last two years the ECA has been working with its partners, Austrade, Efic and the University of Sydney, to produce the AIBS, which is the largest survey of Australian international business activity. The findings of this report are distinctive and significant because they provide key insights into the nature, needs, concerns and future plans of the overall Australian international business community from the company perspective.

In the following section of the submission the responses to questions in AIBS 2015 regarding the relevance of FTAs and the extent to which they are utilised is explored.

AIBS 2015 respondents were asked to specify whether they had exported to any countries with whom Australia has a FTA within the past year (see Figure 1). At the period of time in which the survey was conducted (commencing October 2014), these countries were New Zealand, Chile, the United States, ASEAN (Brunei, Myanmar, Cambodia, Indonesia, Laos, Malaysia, the Philippines, Singapore, Thailand and Vietnam). Seventy-one per cent of respondents reported that they had exported to one or more of these countries.

Figure 1 Use of FTAs

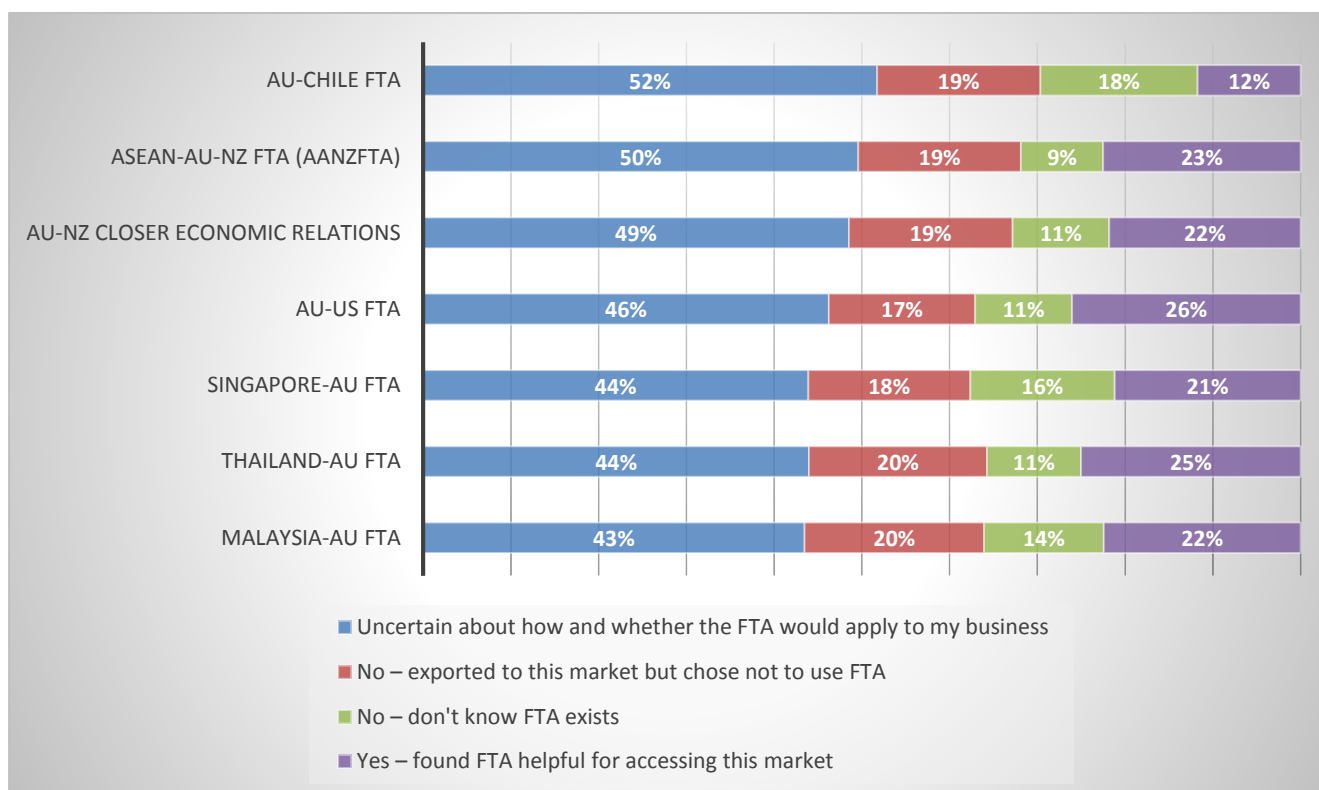


Number of respondents = 1237

Survey respondents whose companies had exported to a market with which Australia has an FTA were asked to comment on their use of the agreement (see Figure 2). There were some differences depending on the export destination: only 12 per cent of respondents exporting to Chile, as compared to 26 per cent of respondents exporting to the United States, reported that they chose to make use of an FTA, with an overall average of around 20 per cent. From 43 to 52 per cent of respondents across the FTAs did not know whether the relevant FTA applied to them, and from 9 to 13 per cent did not know the FTA existed. Seventeen to 20 per cent knew of the FTA but chose not to use it.

The difference between industries was larger than the difference between countries (see Figure 3). Use of an FTA was highest in product-oriented industries (such as manufacturing and agriculture). Use of an FTA was low in service-oriented industries (such as education, ICT and professional services), typically less than 10 per cent. Knowledge of FTAs was higher in product-based industries than in service industries. The highest level of knowledge of FTAs was in mining (a category that includes both miners and mining services), even though mining had a lower take-up of FTAs than the other product-related industries. The lower take-up of FTAs by the mining sector is possibly because the mining industry faces low existing tariff rates through the World Trade Organisation most favoured nation (MFN) arrangements while mining companies' significant knowledge of FTAs may be because mining has a higher than average exposure to sovereign risk, and therefore pays more attention to decisions of governments than other industries.

Figure 2 Use of FTA – by individual FTAs



Number of respondents: ASEAN-AU-NZ FTA = 555, AU-Chile FTA = 172, AU-US FTA = 465, AU-NZ Economic Relations = 468, Thailand-AU FTA = 352, Malaysia-AU FTA = 389, Singapore-AU FTA = 439

Figure 3 Use of FTA – AU-NZ Closer Economic Relations

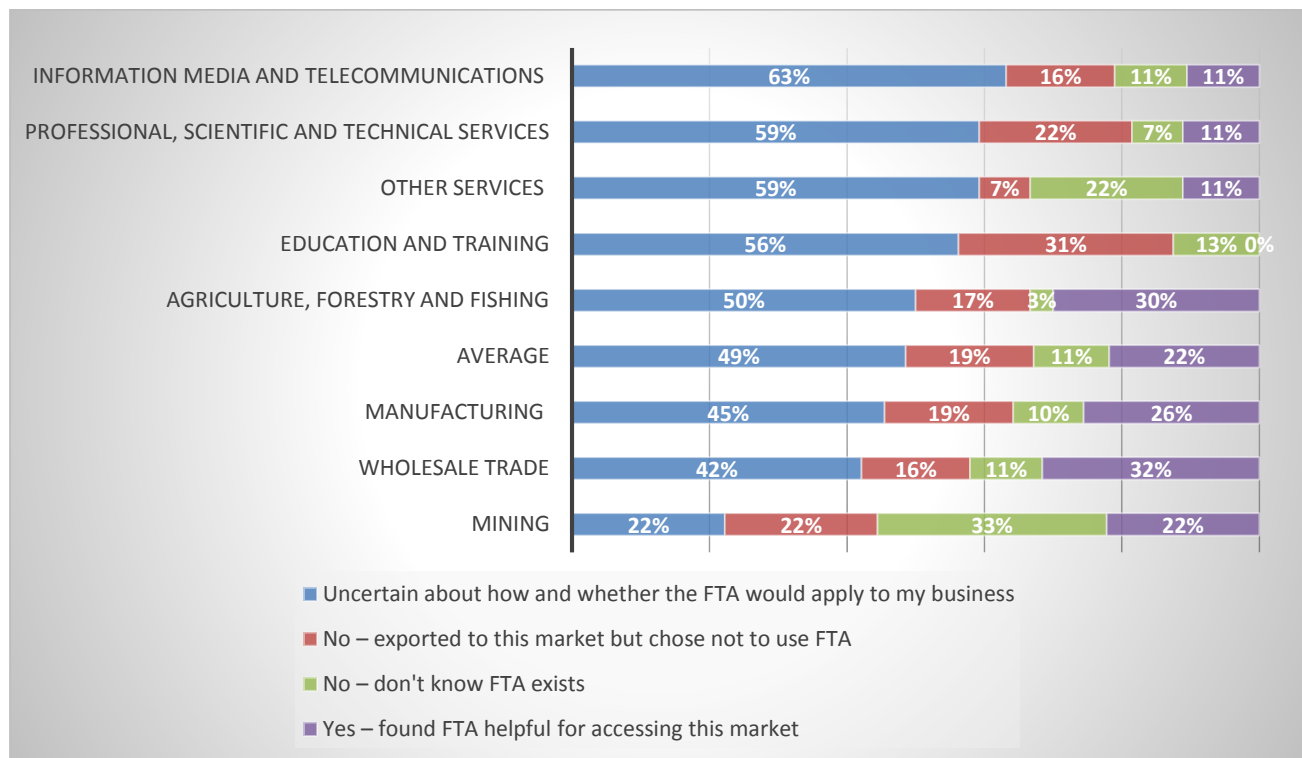


Figure 4 Use of FTA – Singapore-AU FTA

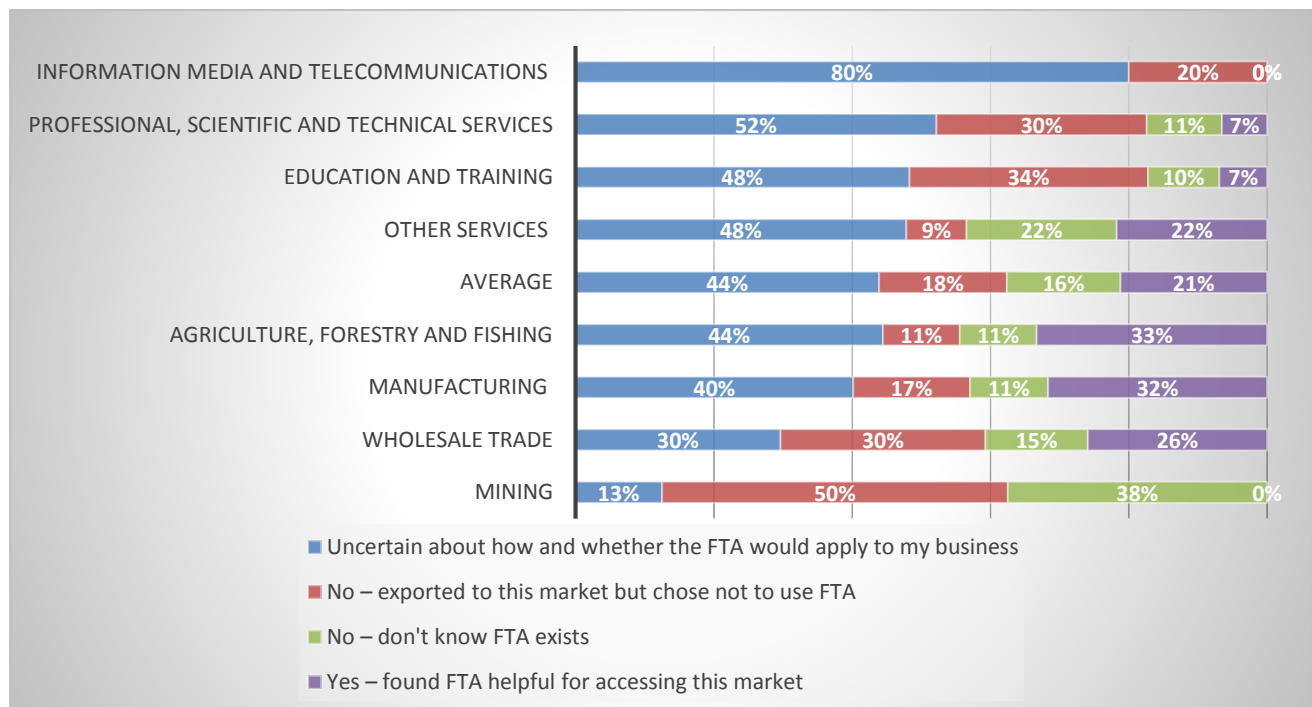


Figure 5 Use of FTA – Thailand-AU FTA

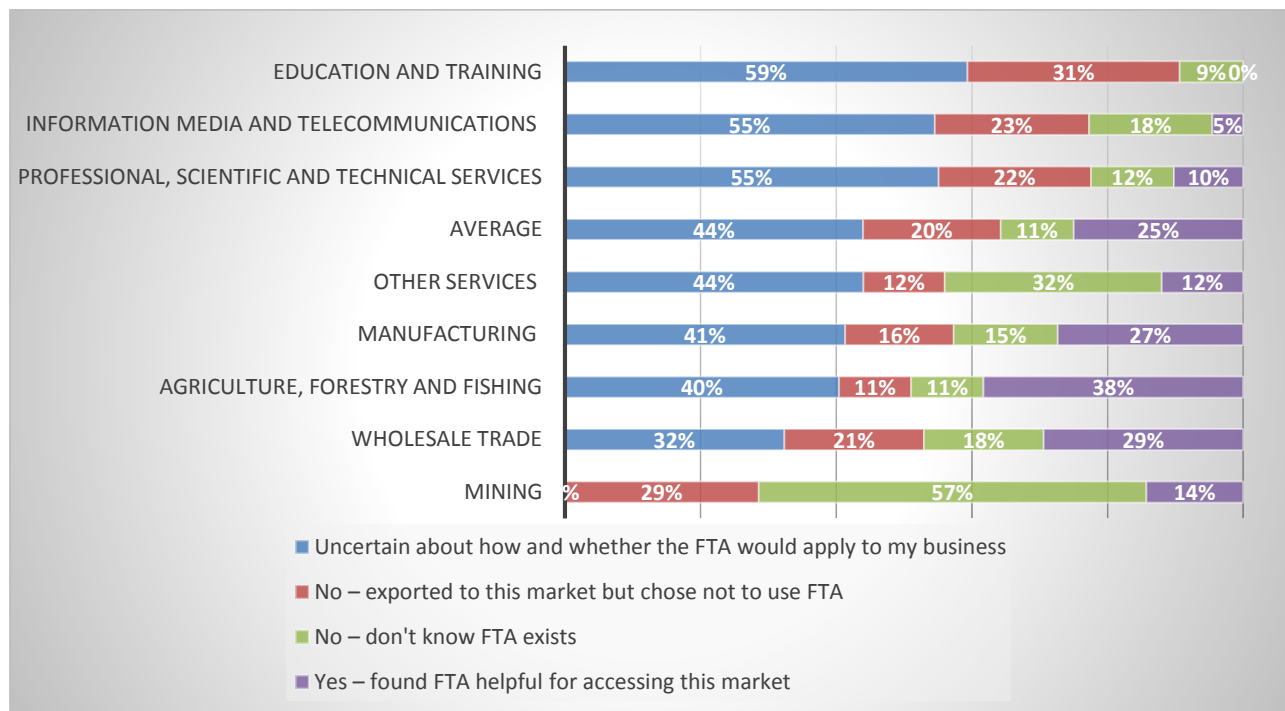


Figure 6 Use of FTA – ASEAN-AU-NZ FTA (AANZFTA)

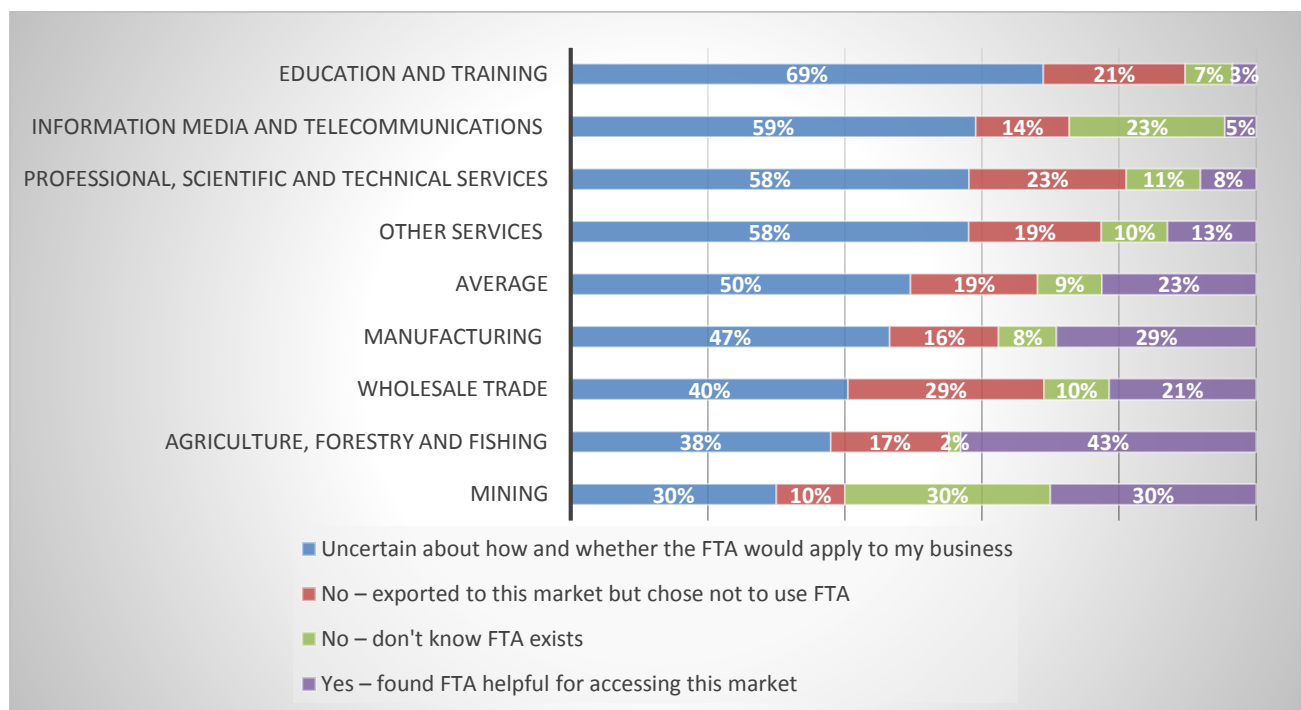


Figure 7 Use of FTA – AU-US FTA

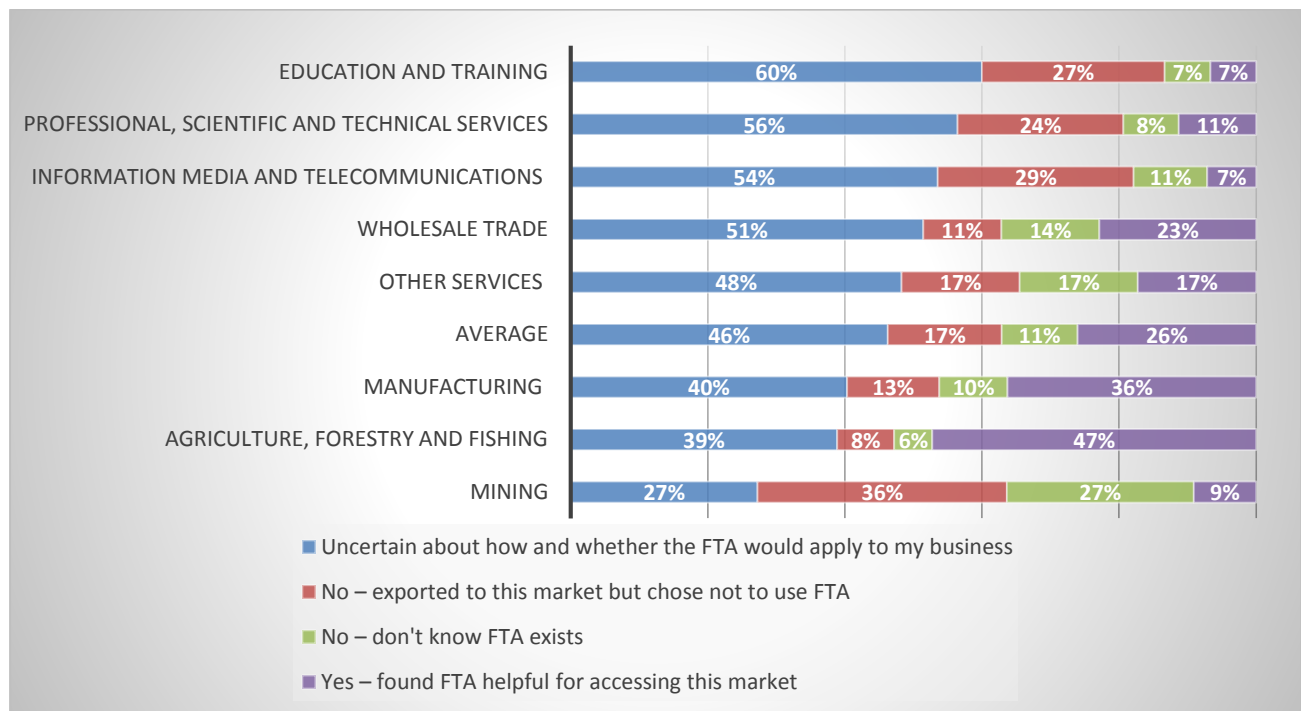


Figure 8 Use of FTA – Malaysia-AU FTA

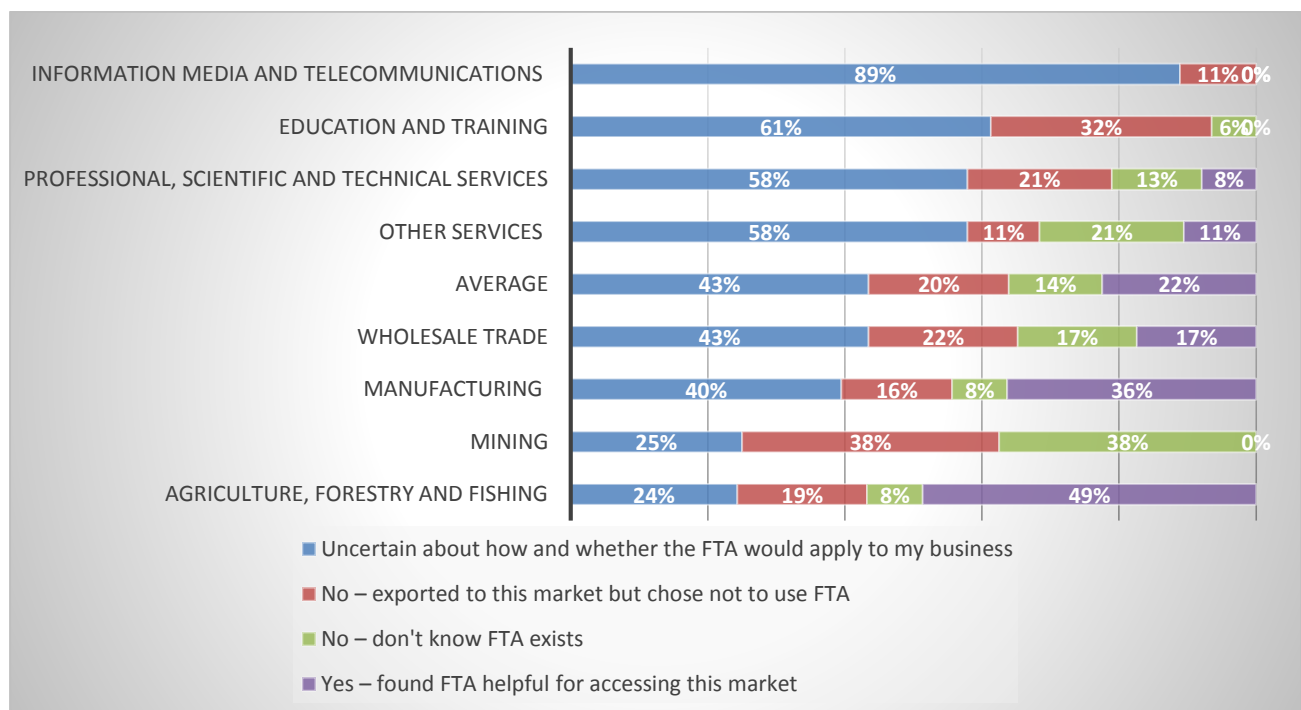
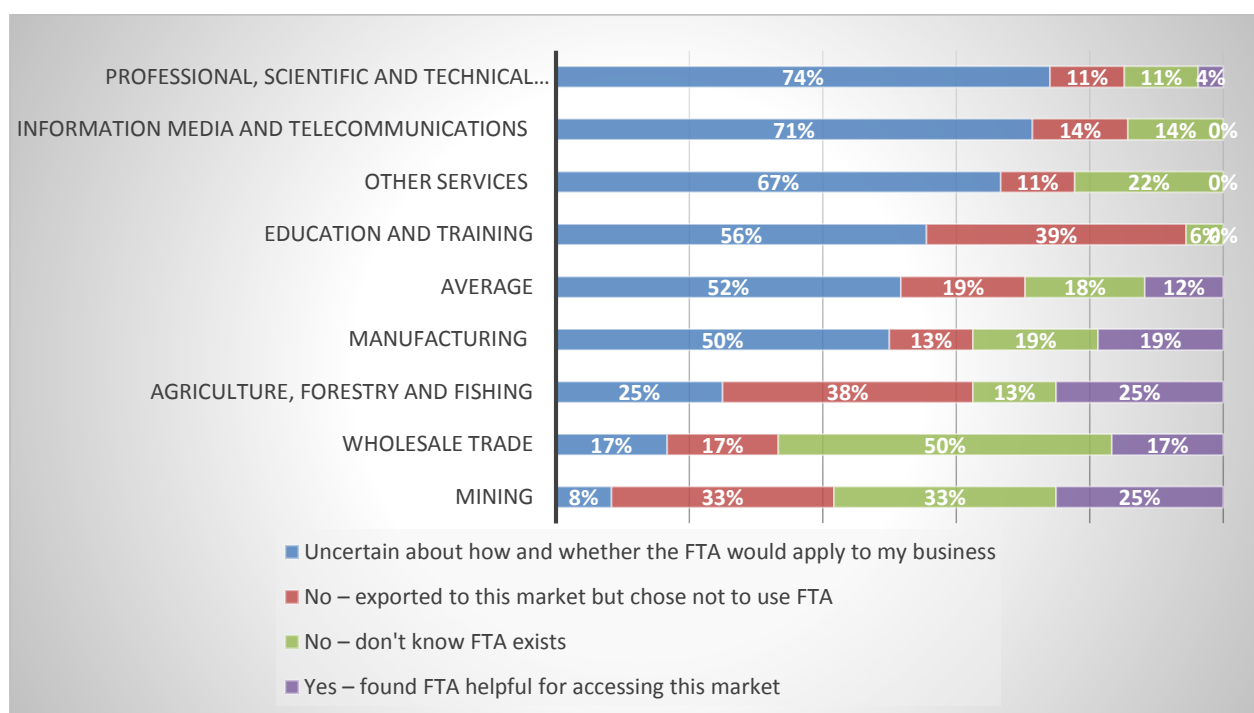


Figure 9 Use of FTA – AU-Chile FTA



Demand for Free Trade Agreements

It can be seen that China is nominated by the highest number of respondents (34 per cent), which is supportive of the recent free trade agreement with China (negotiations concluded 17 November 2014 with implementation expected later in 2015) and to a lesser extent for those with South Korea (effective 12 December 2014) and Japan (economic partnership agreement effective 15 January 2015) (see Table 1). It is also evident that an FTA with India, with negotiations currently in process, is regarded as potentially useful by 16 per cent of companies.

Survey question: In addition to those countries listed, which other countries do you think it would be useful for Australia to have a Free Trade Agreement with?

Table 1 Demand for FTAs (Number of respondents = 755)

Rank	Country	Number of respondents	Share (%)
1	China	254	34%
2	India	121	16%
3	Japan	55	7%
4	South Korea	50	7%
5	European Union	41	5%
6	Brazil	40	5%
7	Indonesia	36	5%
8	United Kingdom	29	4%
9	Canada	22	3%
10	Russia	22	3%
11	United Arab Emirates	20	3%
12	South Africa	18	2%
13	Germany	11	1%

The Export Council of Australia's Position

The ECA's preference is for trade liberalisation to occur on a multilateral basis. However, given that the WTO Doha Round of negotiations has stalled with no conclusion in sight, the ECA sees benefit in continuing to promote greater international trade and investment flows through bilateral, regional and plurilateral free trade agreements.

The ECA acknowledges that many Australian businesses, especially SMEs, do not have a practical understanding of the benefits of FTAs and how to go about accessing them. In that regard, the ECA has long identified that there is a need to address the following:

- A lack of awareness about FTAs in general within the SME community and how engaging with FTAs can provide long term benefits for export growth.
- A lack of knowledge about how to utilise FTAs.
- A lack of 'SME friendly' information on the benefits of FTAs for particular industry sectors.
- A lack of educational resources readily available for SME exporters to know how to practically engage with FTAs.

The ECA supports APEC's view that special consideration must be given and extra effort must be made to enable SMEs to benefit from free trade as they account for the overwhelming majority of businesses and employment in Australia. Consultations with SMEs at the early stages of policy making will help avoid a disproportionate burden being placed on these businesses. Without their full participation, growth cannot be truly inclusive and further progress in trade liberalisation will be difficult if they do not benefit. In this regard, the ECA supports the APEC's Boracay Action Agenda, which provides specific actions to address barriers to their internationalisation.¹

In its 2014/15 Trade Policy Recommendations, the ECA stressed the need for businesses to be able to better leverage FTAs and called for the following:

- Maintain Australia's strong participation in the high-level multilateral trade agenda, with a particular emphasis in advancing discussions regarding the implementation of the TFA.
- During the course of negotiation of an FTA or other international agreement, have DFAT engage in more specific consultations, either based on industry sector or chapters of those agreements. These consultations should be initiated by DFAT with the objective of advancing the level of communication and trust between industry and government.
- Liberalise the Rules of Origin (ROO) requirements as much as possible in FTAs and other trade agreements and adopt a consistent approach to technical issues to help reduce the level of complexity and regulation, while also avoiding specific provisions of particular countries.
- Place greater emphasis and investment in raising the overall awareness of the impact of recent FTAs for particular industries and provide practical, user-friendly information to assist individual businesses, especially SMEs, utilise FTAs. This could be achieved through the creation of an online educational FTA tool, which includes information on where companies can go to access professional advice.
- Ensure that trade outcomes become a greater priority of DFAT and that engagement and cooperation between DFAT and Austrade be improved—particularly in the outreach on FTAs—thereby ensuring a stronger trade voice in economic policy setting.

¹ APEC, Ministerial Statement, May 2015, *Boracay Action Agenda to Globalize MSMEs*,
http://www.apec.org/Meeting-Papers/Ministerial-Statements/Trade/2015_trade/2015_mrt_standalone.aspx

- Have ASIC and DFAT develop an implementation policy for Financial Services Chapters of FTAs to help ensure that market access commitments are enacted and FTAs are fully implemented.
- In addition to implementing the trade agreements Australia recently secured with Korea and Japan, and concluding negotiations with China and the TPP, the next focus should be on securing FTAs with Indonesia, Hong Kong, India, the GCC and the EU. However, in the case of India and the GCC, Australia should not embark on FTA negotiations until it has secured firm commitments from those nations on the expected outcomes from the negotiations in order to ensure that any agreement reached will deliver real benefits.

The following recommendations outline in more detail ways in which the government can further improve business' experience in understanding and utilising Australia's FTAs.

Recommendations:

1. Ensure Australia leverages the benefits from FTAs with its trading partners by placing greater emphasis and investment in raising the overall awareness of their tangible and intangible benefits. There are many exporters or potential exporters who struggle to understand FTAs, therefore, education and simplification of access are important. This includes providing practical, user-friendly information to assist individual businesses, especially services companies, utilise these agreements. Examples of practical information that would assist businesses includes:
 - Understanding how to correctly classify products
 - Understanding Certificates of Origin, including country specific information
 - Understanding how and when to talk to freight forwarders/custom brokers about FTAs and taking advantage of the opportunities

Note: The ECA has developed an FTA Tool to help address some of the above issues, however, it is important that the work being done on DFAT's FTA dashboard and the FTA Tool are complimentary. The ECA is continuing its dialog with DFAT on this matter.

2. Provide access to case studies—developed by the private sector— of exporters that have experienced successfully utilising FTAs as this could improve the understanding of how FTAs might advantage individual businesses. These case studies should not only highlight the positive narrative about utilising FTAs, but where applicable, should take a “warts and all” approach, emphasising the challenges and difficulties and how they were overcome.
3. DFAT should engage in more sector specific consultations to ensure there is a clear understanding of the outcomes industry is seeking from FTAs with a particular country/region. In addition, information circulated about FTAs to the business community should be broken down by sector, including specific services sectors, across all agreements with which Australia has an FTA. This would provide businesses with access to targeted information that they could quickly assess to understand the benefits afforded to their sector across all the relevant FTAs, not only the most recently signed.
4. Promotion around FTAs should not only be focused on recent FTAs but also existing FTAs in order to maintain ongoing awareness about the opportunities that they present to Australian companies.
5. Particular focus should be placed on enabling SMEs to benefit from free trade as they account for the overwhelming majority of businesses and employment in Australia. Consultations with SMEs, and the industry bodies that represent them, should take place at the early stages of FTA negotiations.
6. Ensure the promotion of FTAs after agreements are concluded paints a realistic picture to the business community, highlighting not only the opportunities but also the risks and

challenges of entering and doing business in that particular market. The importance of seeking the right information/advice should also be emphasised and links to sources where companies can receive practical guidance on how to manage the export process should be provided.

7. A large number of SME's rely on third party advice from their bank, lawyer or freight forwarder for example. It is therefore imperative that service providers to the international trade community have the knowledge and skills necessary to be able to offer accurate and practical assistance to exporters. This could assist with furthering the educational outreach to SME's.
8. Education around FTAs should cover not only the direct benefits to exporters but also indirect benefits, such as access to government procurement markets or visa changes.
9. Prioritise the reduction of non-tariff barriers through FTAs negotiations as these barriers can be a significant deterrent to doing business in a country. Government can also play a role in-market by helping companies deal with these non-tariff barriers.

The ECA's Advancing Trade Development report highlights the important role that trade promotion plays in assisting companies expand into new international markets and calls for additional funding for trade promotion in Australia. Further funding to better resource Australian government agencies overseas, such as Austrade, DFAT and Department of Agriculture, could play a critical role in addressing non-tariff barriers in market. Increasing Austrade's international footprint would also benefit companies expanding internationally, especially into markets with which Australia has an FTA.

10. Include trade training as an eligible expense under EMDG. Trade training should include education and awareness raising about FTAs so business can investigate and target countries with which Australia has an FTA as a priority. It should also include education on market regulation and compliance issues.

Conclusion

Trade is a key driver of jobs, innovation and long-term prosperity for Australia. Increasing trade and investment is absolutely crucial to unlocking Australia's future economic growth. While the ECA's preference is for trade liberalisation to occur on a multilateral basis, the ECA supports international agreements that serve to further liberalise trade between Australia and the rest of the world.

Significant resources have been allocated by the Australian Government to conclude trade liberalising agreements with some of Australia's key trade partners. However, there has not been an adequate level of resources deployed to raise awareness of the benefits of FTAs and to help businesses understand how to utilise the agreements. The ECA is pleased to note the government is working hard to rectify this situation through new FTA outreach and advocacy initiatives.

The ECA strongly recommends further actions aimed at increasing the understanding and utilisation of Australia's FTAs by businesses. It is hoped that the information and recommendations provided in this submission will help inform decision making on this important issue.

The ECA is happy to discuss these recommendations further with the Joint Select Committee on Trade and Investment Growth if so desired.

26 June 2015



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