Access to Free Trade Agreements by Small and Medium Sized Enterprises

Consideration of what products and services (e.g. inclusion and prioritisation) are negotiated in free trade agreements

The *Sunshine Coast Regional Economic Development Strategy 2013-2033* identifies seven high value industries (see corresponding ANZIC codes at **Attachment 1**), which amongst other characteristics, have the capacity to respond in a sustained manner to market demand from outside the region. The seven high value industries are health and well-being; education and research; tourism, sport and leisure; knowledge industries and professional services; agribusiness; clean technologies; and aviation and aerospace.

From the Sunshine Coast's perspective, it is the products and services of these seven high value industries that should be negotiated in free trade agreements.

Sunshine Coast Council is strongly supportive of taking advantage of FTAs to enhance service sector exports. The Sunshine Coast is home to many service-based small businesses, start-ups, and innovation hubs that provide services across the broader region. Whilst FTAs have helped service sector exports to some degree, there is considerable scope to grow the services sector exports, especially from a small business perspective.

Awareness of, and accessibility to, free trade agreements

While there is general coverage in national media, the focus and attention on FTAs and the benefits that they can leverage for local businesses in regional centres is not comparable to that of the state capitals. Council contends that further consideration should be given to how this coverage, and associated support for business, can be enhanced. There is a clear opportunity for regionally based businesses to grow their capability and performance and generate new employment by being able to access the markets to which the FTAs apply. However this cannot, and does not, occur when regional level businesses have little to no awareness of the FTAs or how to position themselves to leverage the opportunities that these agreements afford.

Small and medium enterprises (SMEs) would benefit from greater information on the technicalities of free trade and the related FTAs through targeted, relevant information campaigns. Issues including, but not limited to, how small businesses are able to prepare and source relevant documentation and how/when tariff reductions are applied during the export process should be more clearly and consistently communicated to small businesses. Businesses often ignore free trade opportunities because there is not a clear understanding about who bears the tariff burden. At the end of the day, tariff costs are paid by the final consumer. It is therefore important to demonstrate that the removal of tariffs will result in cheaper prices and/or greater exports. Council would welcome all efforts to better inform business operators of the free trade landscape and how they can participate.

One of the most helpful means to increase accessibility and uptake of FTAs is to break down the negative perceptions associated with them. This can be achieved using case studies and testimonials at a local level, which highlight easy to understand solutions for small business owners. The Sunshine Coast would benefit from seminars and workshops promoting FTAs and direct advice and support about market access and market promotion. Previous experience with workshops has been that they are too theoretical and discussion is in the "billions" of dollars or for categories that are too broad or generic such as "dairy". Often the examples provided are not matched to the export profile of the region. There would be greater benefit if Commonwealth Government presentations matched FTA opportunities to the host region and provided case studies/scenarios that resonate with local exporters.

Lessons learnt from attempts at leveraging free trade agreements, including barriers to implementation and success in fast tracking export opportunities.

Regional exporters would be assisted if the compliance cost of administration prior to their first export activity could be better explained and documented. More support is needed to provide guidance and specific information to potential exporters on the FTA documentation, process and costs so they can understand the business costs and impact of entering the new market. An understanding of potential non-tariff barriers in destination markets is also important so that the exporters can understand the potential issues, mitigate these and manage possible costs/issues so that it does not have a material impact on their home business.

The increase in FTA look-up tables has been positive. Sunshine Coast Council would support a continuation and expansion of this resource, as well as better marketing of this facility. In addition, it would be helpful if the look-up feature provided "next steps" to potential exporters so that they know how to go about getting appropriate documentation/certification to meet FTA requirements as well as indicative costs.

Role and effectiveness of support structures and networks in helping leverage free trade agreements. Consideration of what products and services (e.g. inclusion and prioritisation) are negotiated in free trade agreements

Whilst most exports come from regional areas, there are less support structures for exporters in regional areas than in city areas. Exporters outside of major capital cities can struggle to maximise export potential and often fail to understand the FTA environment due to the lack of information or supporting structures for their business.

Economic activity and export capability is underpinned by the quality and accessibility of infrastructure. The movement of physical goods to target markets and the ease of movement of human capital to and from the region is fundamental to ensure local small and medium enterprises have the best possible chance at being globally competitive. It is vital to ensure that localised industry and logistics hubs, as well as new knowledge hubs (such as the new Maroochydore CBD), have reliable, efficient links to major transportation infrastructure. In the context of the Sunshine Coast, this includes reliable heavy passenger and freight rail services along the North Coast Rail Line, as well as a safe and efficient Bruce Highway to Brisbane and to the north of Queensland.

Sunshine Coast Council is also supportive of the recommendation in the Productivity Commission's 2015 *Inquiry into Barriers to Growth in Export Services*, that the Commonwealth Government should provide unrestricted access for foreign airlines flying into Australia's major primary and secondary airports, including the Sunshine Coast Airport. This would greatly facilitate the more effective movement of goods and human capital.

Digital infrastructure is of crucial significance to the growing knowledge-based workforce within the Sunshine Coast region. General connectivity to the National Broadband Network remains a concern for many SMEs within the region. As the digital demands of local businesses continue to grow over time, demand will grow for a range of digital infrastructure solutions including cloud computing, mobile telecommunications, Internet of Things, as well as larger more capable network infrastructure systems including Wi-Fi.

Council considers that there is a compelling need for greater integrated infrastructure support across various regions at a national level. This would allow for greater strategic planning, consultative opportunities and less overlap at a bureaucratic level.

In addition, to assist knowledge-based small and medium enterprises reach the point of internationalisation and be able to leverage FTAs, Council supports the Commonwealth Government continuing the R&D Tax Incentive in its current form.

Ongoing capacity building that will assist in creating opportunities and capturing more value from free trade agreements in the future.

Many of the challenges associated with exporting are based on misinformation, lack of knowledge sharing and ill-informed perceptions around free trade and foreign markets. Sunshine Coast Council accesses the expertise of representative bodies such as the Export Council of Australia, the Australian Chamber of Commerce and Industry, the Australian Institute of Export, and other organisations to provide specialised information and education to SMEs. HSBC has found that more tailored export assistance from government and other intermediary authorities would increase SME export uptake by 64% (*Exporting for growth, the SME perspective*, HSBC).

Fundamental to capturing value from the FTAs are:

- Building the capacity of SMEs to better select international export destinations
- Emphasising the importance of business partner selection,
- Emphasising that the key to success of export operations is not merely exporting to markets, but establishing relationships with both businesses and consumers in the chosen market, where ultimately the transactions are made.

Any educative material or programs for businesses seeking to export should make it clearer that businesses must be prepared to spend funds and time to gain this necessary knowledge and training (*The Institute of Export and International Trade*, 2015).

FTA negotiators typically start with the largest export items and work from there to identify FTA negotiation items. It would be useful if they started from understanding the priority industries of small business and those with the capacity to increase jobs – and then focus on these as the priorities. As important as the big industries (eg, dairy, coal, wheat) are to Australian exports, the Commonwealth Government also has an opportunity to focus on the products/services of SMEs and further contextualise the specific products/services (and companies) that will benefit from an FTA.

In this context, the Sunshine Coast Council would welcome the Commonwealth Government:

- modelling the costs of administering the FTA on SMEs to understand whether the costs could inhibit the companies (and their people) supposed to benefit from actioning the FTA
- providing an FTA look-up tool with key administration details and costs and templates of benefit to exporters
- providing increased resources prior to and post FTA negotiations to ensure regional businesses know how to access and can budget (plan) in advance; and
- recognising that there may be more benefit to a business expanding in an existing market than entering a new FTA market and ensure funding (e.g., export grants) can assist in both scenarios.

Austrade can also provide further support domestically to small start-up and knowledge-based SMEs in Australia who have a desire to travel overseas, before making the initial leap to Austrade's 'Landing Pad' network. Recently Austrade fintech and innovation-specialised trade and investment advisors have been based within start up incubators. This is a very valuable and welcomed initiative.

It is also important that small business is given a voice in government-led trade negotiations. Specifically, an SME export advisory committee would give the government practical, implementable advice when considering or undertaking complex FTA negotiations.

Any other related matters

The Commonwealth Government should consider providing specific financial support (export market development grants) for new FTA markets. As well as considering future FTAs, consideration should be given to whether existing ones have been fully exploited. This is especially the case where there are limited implementation/support resources (funding and human capital) to help exploit an FTA to its full advantage.

The cost of entering a new market is far higher than expanding in an existing market or introducing a new product/category to an existing market. Accordingly, the Commonwealth Government could periodically (every two years) review the FTAs it negotiates and whether the coverage applies to new categories (products/services) that get developed by companies. Beyond introducing new FTAs, analysis could be conducted by the Commonwealth Government on providing export assistance (grants and market intelligence) in existing markets which will face lower entry/expansion barriers to new territories/FTAs.

Intellectual property (IP) concerns continue to play a large-role in the decision-making, or even export aversion, of many businesses. Potential exporters, including small and medium enterprises can be apprehensive about IP-related issues. This apprehension is exacerbated in more complex markets, where many of the lodgement and enforcement mechanisms are vastly different to Australia. Council would welcome the Commonwealth Government providing more tailored solutions for small and medium sized enterprises to help navigate complicated frameworks surrounding IP in overseas markets. This might include more proactive advisory-based assistance from IP Australia, and greater collaboration with industry bodies and relevant IP agencies in Australia, along with additional IP Counsellors located in overseas markets. Organisations including, but not limited to, IP Australia can adopt a more proactive advisory mandate and work closer with relevant industry groups who can help provide member services on IP-related issues for small and medium sized enterprises.

The Export Finance and Insurance Corporation (Efic) is Australia's main export credit agency and whilst many large businesses and established exporters would be familiar with the work of Efic and the financial assistance programs on offer, many small and medium sized businesses would have trouble identifying the organisation or be unfamiliar with its work. For small business, Efic has a Small Business Export Loan. By providing this unsecured government-backed loan to SMEs with a gross turnover of more than $250K, businesses have additional access to credit that they would not have otherwise been able to acquire. A broader understanding of the role that Efic plays within export financing could significantly impact the decision-making of small and medium-sized enterprises, knowing that government-backed loans could alleviate much of the potential cash-flow and financial risks associated with starting export operations. HSBC concluded that amongst surveyed SME's, 75% of the businesses who considered exporting would be further encouraged to do so if they could access additional financial incentives/capital (*Exporting for growth, the SME perspective*, HSBC). Efic could play a greater role working alongside Austrade, as well as establishing closer partnerships with established financial institutions in helping businesses gain the capital required to hedge many of the risks associated with export operations.

Attachment 1: Summary of Employment by Industry

Industry	Component	ANZSIC Code	ANZSIC Sector Name	Sunshine Coast Employment 2014	2017	2023
Health and Well-Being	All	Q	Health Care and Social Assistance	20,844	24,664	28,969
		9111	Health and Fitness Centres and Gymnasia Operation	282	317	364
		9512	Diet and Weight Reduction Centre Operation	16	11	12
Education & Research	All	P	Education and Training	11,773	12,586	13,078
Tourism, Sport & Leisure	Tourism	C	Manufacturing	482	436	409
		G	Retail Trade	2,627	2,598	2,736
		H	Accommodation and Food Services	9,962	11,518	12,658
		I	Transport, Postal and Warehousing	880	820	828
		J	Information, media and telecommunications	109	122	111
		K	Financial and Insurance Services	27	26	27
		L	Rental, Hiring and Real Estate Services	51	54	63
		M	Professional, Scientific and Technical Services	22	24	29
		P	Education and Training	1,025	1,096	1,139
		Q	Health Care and Social Assistance	438	518	608
		R	Arts and Recreation Services	1,235	1,397	1,591
		S	Other Services	323	356	381
	Sport	9112	Sports and Physical Recreation Clubs and Sports Professionals	238	294	338
		9113	Sports and Physical Recreation Venues, Grounds and Facilities Operation	408	490	563
		9114	Sports and Physical Recreation Administrative Service	72	74	85
		4241	Sport and Camping Equipment Retailing	349	322	302
	Leisure	89	Heritage Activities	592	643	795
		90	Creative and Performing Arts Activities	515	578	762
		92	Gambling Activities	60	60	59
		912	Horse and Dog Racing Activities	159	161	164
		913	Amusement and Other Recreation Activities	292	344	243
	All*	C	Manufacturing	482	436	409
		G	Retail Trade	2,923	2,870	2,991
		H	Accommodation and Food Services	9,962	11,518	12,658
		I	Transport, Postal and Warehousing	880	820	828
		J	Information, media and telecommunications	109	122	111
		K	Financial and Insurance Services	27	26	27
		L	Rental, Hiring and Real Estate Services	51	54	63
		M	Professional, Scientific and Technical Services	22	24	29
		P	Education and Training	1,025	1,096	1,139
		Q	Health Care and Social Assistance	438	518	608
		R	Arts and Recreation Services	2,469	2,794	3,180
		S	Other Services	323	356	381
Knowledge Industries and Professional Services	Knowledge Industries	1313	Synthetic Textile Manufacturing	13	7	8
		149	Other Wood Product Manufacturing	607	506	376
		152	Converted Paper Product Manufacturing	19	13	13

		18	Basic Chemical and Chemical Product manufacturing	120	107	136
		19	Polymer Product and Rubber Product Manufacturing	278	237	194
		201	Glass and Glass Product Manufacturing	80	65	50
		2032	Plaster Product Manufacturing	13	4	3
		213	Basic Non-Ferrous Metal Manufacturing	94	110	123
		214	Basic Non-Ferrous Metal Product Manufacturing	78	85	90
		23	Transport Equipment Manufacturing	612	568	544
		24	Machinery and Equipment Manufacturing	528	426	487
		25	Furniture and Other Manufacturing	695	689	653
		J	Information, Media and Telecommunications	1,435	1,606	1,459
	Professional Services	M	Professional, Scientific and Technical Services	7,381	8,106	9,688
		N	Administration and Support Services	5,238	5,266	6,521
		K	Finance and Insurance Services	3,853	3,686	3,875
	All*	1313	Synthetic Textile Manufacturing	13	7	8
		149	Other Wood Product Manufacturing	607	506	376
		152	Converted Paper Product Manufacturing	19	13	13
		18	Basic Chemical and Chemical Product manufacturing	120	107	136
		19	Polymer Product and Rubber Product Manufacturing	278	237	194
		201	Glass and Glass Product Manufacturing	80	65	50
		2032	Plaster Product Manufacturing	13	4	3
		213	Basic Non-Ferrous Metal Manufacturing	94	110	123
		214	Basic Non-Ferrous Metal Product Manufacturing	78	85	90
		23	Transport Equipment Manufacturing	612	568	544
		24	Machinery and Equipment Manufacturing	528	426	487
		25	Furniture and Other Manufacturing	695	689	653
		J	Information, Media and Telecommunications	1,435	1,606	1,459
		M	Professional, Scientific and Technical Services	7,381	8,106	9,688
		N	Administration and Support Services	5,238	5,266	6,521
		K	Finance and Insurance Services	3,853	3,686	3,875
Agribusiness	All	11	Food Product Manufacturing	1,891	1,890	1,723
		12	Beverage and Tobacco Product Manufacturing	97	84	101
		A	Agriculture, Forestry and Fishing	2,452	2,506	2,282
Aviation and Aerospace	All	49	Air and Space Transport	225	241	273
		2394	Aircraft Manufacturing and Repair Services	139	122	114
		522	Airport Operations and other Air Transport Support Services	107	117	142

*The 'All' estimates for Tourism, Sport and Leisure do not equal the aggregate of their respective components as there is some overlap between the sub-sectors.

Source: AEC Group, 2018