



Submission No 17

Inquiry into Australia's trade and investment relationship with Japan and the Republic of Korea

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Inquiry into Australia's Trade and Investment Relationship with Japan and the Republic of Korea

Submitted to:

**The Secretary,
Joint Standing Committee on
Foreign Affairs, Defence and Trade**

Australian Chamber of Commerce in Korea



8th August, 2011

Dear Secretary,

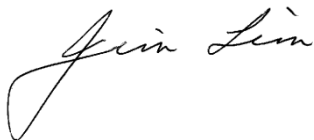
In reference to the Terms of Reference of the Inquiry into Australia's Trade and Investment Relationship with Japan and the Republic of Korea (the **Inquiry**), the Australian Chamber of Commerce in Korea (**AustCham Korea**) welcomes the opportunity to present its views to the Joint Standing Committee on Foreign Affairs, Defence and Trade (**JSC-FADT**) on the economic partnership between Australia and Korea.

AustCham Korea represents the views of more than 200 Australian and Korean businesses from a wide variety of industries. These companies represent a substantial proportion of the AU\$29.5 billion trade partnership between Australia and Korea in addition to the multi-billion investment flows between the two countries.

This submission has been authorised by the Board of Directors of AustCham Korea.

On behalf of the members and Board of AustCham Korea, we would like to thank the JSC-FADT for the opportunity to make this submission. If there are any questions, please do not hesitate to contact the undersigned. We look forward to further discussions on the matters discussed herein.

Yours faithfully



Jim Lim
Chairman



Peter Feltis
Vice Chairman

Australian Chamber of Commerce in Korea

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1. Existing Trade and Investment Relations

The significance of the Australia-Korea Economic Partnership (the **Partnership**) has grown over recent decades as evidenced by the following:

- In 1989/90, Australian exports to Korea were AU\$2.7 billion;
- By 2010/11, Australian exports to Korea had increased to AU\$22.5 billion (+733%);
- In 1989/90, Korean exports to Australia were AU\$1.2 billion;
- By 2010/11, Korean exports to Australia had increased to AU\$7.0 billion (+483%);
- Korea is Australia's 3rd largest export market overall, and one of the leading buyers of Australian iron ore, coal, beef, education services and other Australian exports.

The Partnership has become more sophisticated and deeper, involving more areas of trade and investment flows between the two countries. Of note, Korean companies are becoming increasingly active investors in Australia's resources industry.

Overall, the Partnership is harmonious and complementary. There is little evidence of trade tensions or disputes. Korean companies are able to successfully transform Australian resources into highly value-added industrial products such as steel, cars, ships and electronics and Korean people consume quality Australian primary goods and are educated at Australian schools and universities. Conversely, Korean manufactured goods are becoming increasingly part of the Australian economy via the wide-spread use of motor vehicles, mobile phones, televisions and other goods.

However, AustCham Korea has become aware of a range of issues which reduce business confidence and increase uncertainty and costs of doing business which should be addressed. These are elaborated in later sections.

2. Emerging and Possible Future Trends

Free Trade Agreement

One of the emerging trends in the Partnership is the Free Trade Agreement (FTA) between Australia and Korea. We understand that ratification of the FTA should take place in the near future.

AustCham Korea is eager for the FTA to be completed in an expeditious manner so that the benefits of the FTA can be realised by Australian and Korean companies and consumers. The FTA has generated significant interest in the Korean business and social community and the chamber is frequently requested to provide input or updates on the progress of the negotiation.

The Chamber understands that the completion of the EU-Korea FTA has already resulted in the lowering of prices in the local market for some goods which put Australian products at a competitive disadvantage.

AustCham Korea recommends that the Prime Minister and inter alia the Ministers for Foreign Affairs, Energy and Resources and Trade continue their strong endorsement and support of the FTA process and expedite the ratification of the Australia-Korea FTA.

Energy Security and Resources

AustCham Korea has received regular feedback from senior investment decision-makers at some of Korea's largest companies that there has been a lack of engagement with Korean companies on proposed regulatory changes in Australia, most notably the Resources Super Profits Tax (RSPT) (more recently, the Mineral Resources Rent Tax (MRRT)) and Carbon Tax Policy.

Due to the country's high dependence on imported energy, the Government of Korea has adopted a policy of energy security through off-take commitments linked to equity participation in upstream projects. The current uncertainty with the Carbon Tax Policy is impacting project sanction decisions and AustCham Korea understands that this is potentially deferring or deterring Korean procurement from and investment in the energy sector in Australia.

Similarly, in the resources sector, AustCham Korea understands that several leading Korean investors have delayed or deferred investments due to the uncertainty and impact of the proposed Mineral Resources Rent Tax (MRRT). Furthermore, AustCham Korea has been queried by senior executives of Korean companies whether Australia is still open to foreign investment in the resources sector.

AustCham Korea recommends a speedy resolution to the debate and legislative progress of both the Carbon Tax Policy and the Mineral Resources Rent Tax to reduce uncertainty and improve the confidence of foreign investors in Australia's resources industry.

Clean Food

Korean consumers are becoming increasingly conscious about food quality and Australia is generally recognised as providing high-quality, clean food products.

Korea imports foods from various countries, however, there are growing concerns over food originating from countries which have lower standards or that use higher levels of chemicals, pesticide and other contaminants.

AustCham Korea recommends that the Government work with the various primary industries to capitalise on Australia's positive image in this area.

Korea's Future Growth Industries

In 2009, the Korean government initially identified 17 future growth engine industries to drive the next phase of Korea's economic development. In 2011, the focus was narrowed to ten future growth industries. The identified industries will receive a range of financial support and incentives including up to KRW6.5 trillion (AU\$6 billion) of policy loans, guarantees and other funds.

The identified industries are:

- fourth generation mobile communications
- semiconductors
- healthcare, biotechnology and medicine
- the cultural contents industry
- electric cars and related infrastructure
- offshore wind energy power
- thin film solar cells
- energy efficient buildings
- water treatment technology.

Australian companies or investors which are seeking opportunities in these sectors should be encouraged and their participation facilitated.

AustCham recommends the Government to facilitate Australian businesses in these sectors by contacting AustCham Korea or relevant Korean government agencies and research institutions.

Financial Services

Australia and Korea have substantial pools of pension and superannuation funds under management.

In Australia, the pool of superannuation funds is in excess of AU\$1.2 trillion while in Korea the pension fund pool is approaching a similar size.

Korea Investment Corporation, the sovereign wealth fund, has total assets of US\$37 billion while the National Pension Fund, one of many significant pension funds, has approximately AU\$300 billion in assets and estimates that this will increase to AU\$400 billion by 2015.

Korea has become a significant exporter of capital and this is expected to grow significantly in the medium- and long-term. Korea can become an important source of capital for Australia's infrastructure and industrial needs and Australia can capitalise on its proximity to Korea to attract much needed investment funds.

AustCham Korea recommends the Government to adopt measures to encourage financial services trade and investment between the two countries.

3. Barriers and Impediments to Trade and Investment

AustCham Korea has received feedback from its members of an increasing number of situations which may represent barriers or impediments to trade and investment.

These situations increase the cost of doing business in Korea, reduce confidence and create uncertainty for trade and investment.

Examples include:

- Increasing levels of regulation in areas such as the labour market. This includes restrictions on hiring foreign staff into certain positions if they do not hold local (Korean) licences;
- Australian businesses in Korea have very limited opportunities to have input on regulatory changes before they are enacted;
- Reversal of previous tax rulings or interpretations.

4. **Opportunities to Deepen Commercial Links, Develop New Links**

The following are areas where the Partnership can be deepened or new opportunities developed:

- **Resources Investment:** Korean strategic investors eg. Korea Gas Corporation, as well as special purpose investment funds have been established to invest in resources such as LNG, coal, iron ore and other minerals. Australian companies should seek to directly tap the Korean market for capital to fund investment in resources.
- **Primary Industries:** Opportunities exist to expand on Australia's "clean food" reputation beyond beef to other forms of protein and food products.
- **Education:** According to our member feedback, there is a lack of affordable private education in Korea. A significant opportunity may exist for Australian schools or education providers to establish a campus in Seoul to tap the demand for more reasonably priced private school education from international expatriate and other residents.
- **Venture Capital:** Korea has a successful venture capital industry which seeks high quality investment opportunities. Also, Australian investors can invest directly in Korean venture capital funds.
- **Infrastructure Investment:** Opportunities exist to capitalise on Korea's surplus capital and Australia's capital shortfall, particularly in infrastructure investment. Korean financial investors are familiar with infrastructure investments are seeking new markets offshore to deploy new investment funds.
- **Funds Management:** Opportunities exist to significantly increase the share of Korean pension funds which can be managed directly by Australian fund managers.

5. Role of Government to Identify new Opportunities and assist Australian Companies to access existing and potential Opportunities

AustCham Korea recommends the following actions by the Australian Government to assist development of existing and potential opportunities:

- **Government – AustCham Korea Dialogue**: Establish regular meetings for dialogue between Government representatives (Prime Minister, various Ministers) and AustCham on specific Australia-Korea Partnership issues. Government representatives to meet with AustCham representatives and/or membership during visits to Korea.
- **Australia - Korea Working Group**: Regular contact and information exchange between AustCham Korea and the Secretary / Deputy Secretary levels of the Prime Minister's Office and the Ministries of Resources and Energy, Foreign Affairs, Agriculture, Infrastructure, Broadband & Communications, Tourism, Financial Services, Innovation / Science & Research, Climate Change and Trade to progress and monitor significant business issues relating to the Partnership.
- **Consultation with Korean companies to clearly seek feedback on proposed regulatory changes and to provide assurance to investors**: As a major trade and investment partner, we believe Korean companies should be provided with the same consultation opportunities as other investors and stakeholders. As a high priority, the Government should consider sending a delegation to Korea to specifically and clearly communicate and educate investors on the proposed MRRT and the Carbon Tax Policy and seek ongoing feedback from Korean investors and commodity buyers.
- **Australia - Korea Trade and Investment Conference and Expo**: Annual conference and exhibition to provide Australian and Korean companies with an opportunity to network, interact and develop new business opportunities and leverage the Korea-Australia FTA.