

Joint Standing Committee on Foreign Affairs, Defence and Trade

Report on Australia's free trade agreements with Singapore, Thailand and the United States

Recommendation 1

That, where possible, trade figures identify the items that fall within the scope of an FTA.

Proposed response:

The Government agrees that it is desirable that the Department of Foreign Affairs and Trade provide trade statistics and other relevant information that assist balanced assessments of our trade with the United States, Singapore and Thailand following the implementation of FTAs with those countries.

The Joint Standing Committee will note that the Department has recently produced reports on our bilateral trade with the United States, Thailand and Singapore, including an assessment of the pattern of trade since the implementation of FTAs with those countries. These reports appeared in the Spring Edition (United States) and Summer Edition (Thailand and Singapore) of *Trade Topics – A quarterly review of Australia's international trade*. Copies of these articles are attached.

The reports on our bilateral trade with the United States and Thailand include a statistical annex which sets out trends in trade under selected import and export merchandise items where there have been market access gains under the Australia-United State Free Trade Agreement (AUSFTA) and the Thai-Australia Free Trade Agreement (TAFTA) respectively. Market access gains under the Singapore-Australia Free Trade Agreement (SAFTA) are concentrated in the services sector. The commitments made in these areas generally take the form of qualitative commitments and undertakings to reduce discriminatory treatment which do not lend themselves to statistical concordance.

TRADE TOPICS

A Quarterly Review of
Australia's International Trade

Spring 2006

Department of Foreign Affairs & Trade
September 2006



Australia-United States trade: 1995–2005 and recent trends

Australia's exports to the United States more than doubled between 1995 and 2000, assisted by favourable movements in the exchange rate. From 2001 to 2005, exports declined reflecting falls in crude oil, beef and passenger motor vehicles and the appreciation of the Australian currency against the US dollar. This trend continued, although at a slower pace, in 2005 with exports falling by 0.9 per cent. Data for the 2005-06 financial year show that merchandise exports have started to grow again, notwithstanding the continuing strength of the Australian dollar against the US dollar.

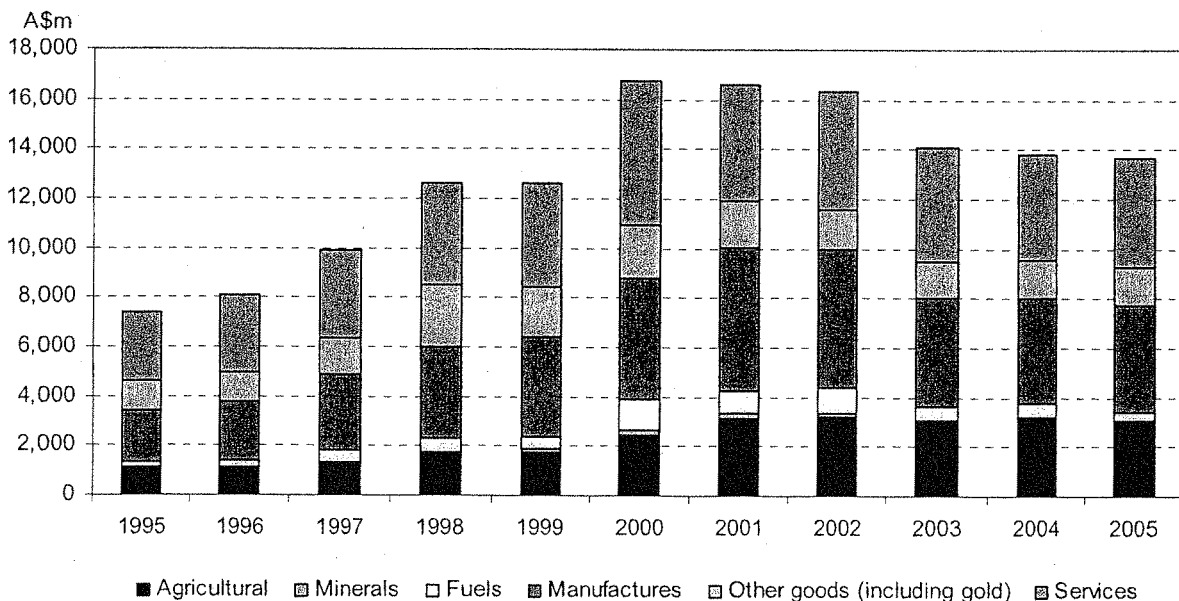
The Australia-United States Free Trade Agreement entered into force on 1 January 2005. The full effect of the AUSFTA will take some years yet to be realised. Nonetheless, positive trends are emerging in some sectors, especially the dairy and sheep meat sectors. Over time, it is expected that exports of agriculture and other goods will rise as Australian exporters take up new commercial opportunities associated with the FTA. Opportunities in services trade and government procurement in each market will have longer lead times.

Australia's exports to the United States

Australia's exports to the United States more than doubled from 1995 to 2000, rising from \$7.4 billion to \$16.7 billion (Figure 1). Export sectors which grew especially strongly were manufactures, agriculture and fuels, while services also showed solid growth. Over this period, Australian exporters were assisted by depreciation in the exchange rate with the Australian dollar falling from an average of US\$0.74 cents in 1995 to US\$0.58 cents in 2000.

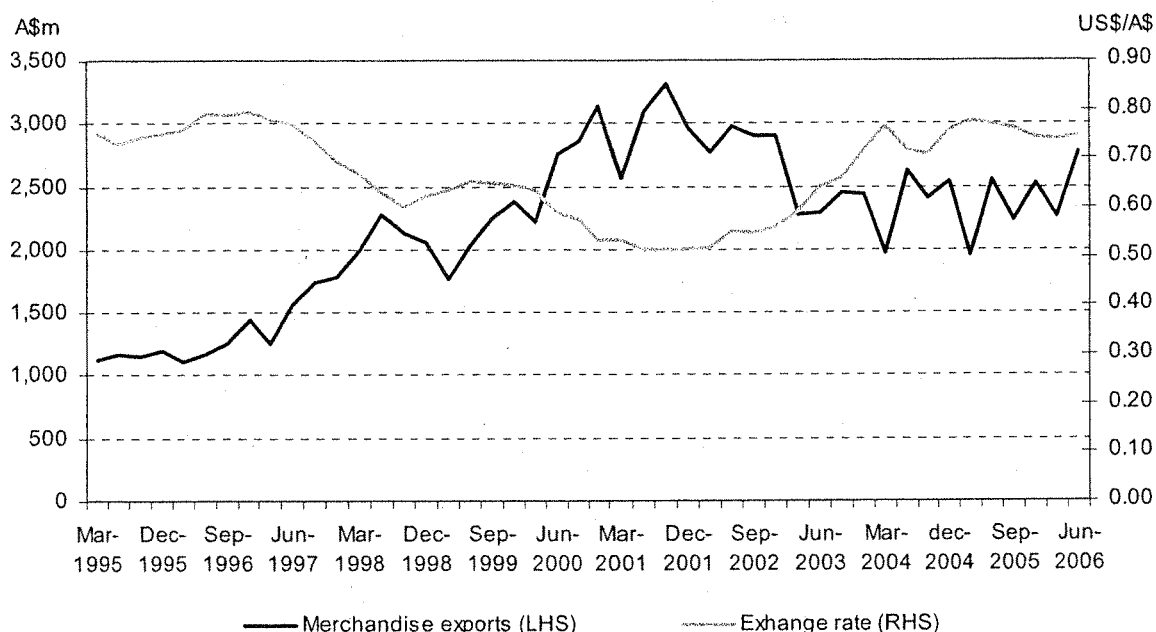
Australia's exports to the United States have fallen since 2000 with the largest fall in 2003 (Figure 2). In part, this has been due to a significant appreciation of the Australian dollar, which rose from an average level of US\$0.52 in 2001 to average levels of US\$0.73 in 2004 and US\$0.76 in 2005. In addition, our merchandise exports were significantly affected by a change in the direction of Australia's oil and beef exports and lower motor vehicle exports.

Figure 1: Australia's exports to the US by sector 1995 to 2005



Source: DFAT STARS database and ABS Catalogue No. 5368.0.

Figure 2: Australia's merchandise exports to the US and exchange rate



Source: DFAT STARS database.

Australia's largest export to the United States is beef. From 2001 to 2005, beef (bovine meat) exports to the United States declined from \$1.7 billion to \$1.2 billion (Table 3). This largely reflected the diversion of meat exports from the United States to the Japanese and South Korean markets from 2003, following the discovery of bovine spongiform encephalopathy (or mad cow disease) in some key suppliers to those markets. Australian suppliers were able to increase their market share to around 90 per cent in Japan and South Korea and secure much higher returns.

Exports of crude petroleum to the US market also declined, from around \$1.2 billion in 2000 to \$285 million in 2005. This reflected Australian light sweet crude oil being diverted to meet rising demand in East Asia. Again, this was a decision made by Australian exporters integrated into global supply chains looking to maximise their export returns.

Table 1: Australia's merchandise exports to the US (A\$ million)

| | 2004-05 | 2005-06 | 2004-05 to 2005-06 | 5 year average growth |
|---|--------------|--------------|-----------------------|-----------------------------|
| | | | % | % |
| - Agricultural | 3,158 | 2,937 | -7.0 | -0.1 |
| - Minerals | 81 | 80 | -1.2 | -15.0 |
| - Fuels | 489 | 220 | -55.0 | -25.3 |
| - Manufactures | 4,337 | 4,619 | 6.5 | -5.5 |
| - STMs | 845 | 831 | -1.7 | -6.1 |
| - ETMs | 3,492 | 3,788 | 8.5 | -5.4 |
| - Other goods (including gold) | 1,395 | 1,926 | 38.1 | -1.7 |
| Total merchandise exports | 9,460 | 9,781 | 3.4 | -4.7 |
| Total merchandise less crude oil, PMV and beef | 7,168 | 8,074 | 12.6 | -3.1 |

Source: DFAT STARS database.

Of our other leading exports to the United States, passenger motor vehicle exports in 2005 were well down from levels achieved earlier in the decade. This was in large part due to the withdrawal of the Mitsubishi Magna from the US market.

Export successes have included alcoholic beverages (predominantly wine) which have increased from \$422 million in 2000 to \$907 million in 2005. Another success story has been non-bovine meat (mainly lamb), exports of which rose by 20 per cent in the year to 2005, reflecting improved access to the US market under the AUSFTA.

Exports of services rose steadily from 1995 to peak in 2000 with a surge in tourism, transportation services and television programs associated with the Sydney Olympics. From 2001, the higher exchange rate has had some adverse impact on services exports, although not to the same extent as merchandise exports (*Figure 3*). Services exports were stronger in 2005 notwithstanding the continued strength of the Australian dollar.

Implementation of the Australia-United States Free Trade Agreement (AUSFTA)

In 2005 (the first full year of AUSFTA), Australia's exports of goods and services to the United States fell by 0.9 per cent, underpinned by a 3 per cent fall in merchandise exports and partly offset by a

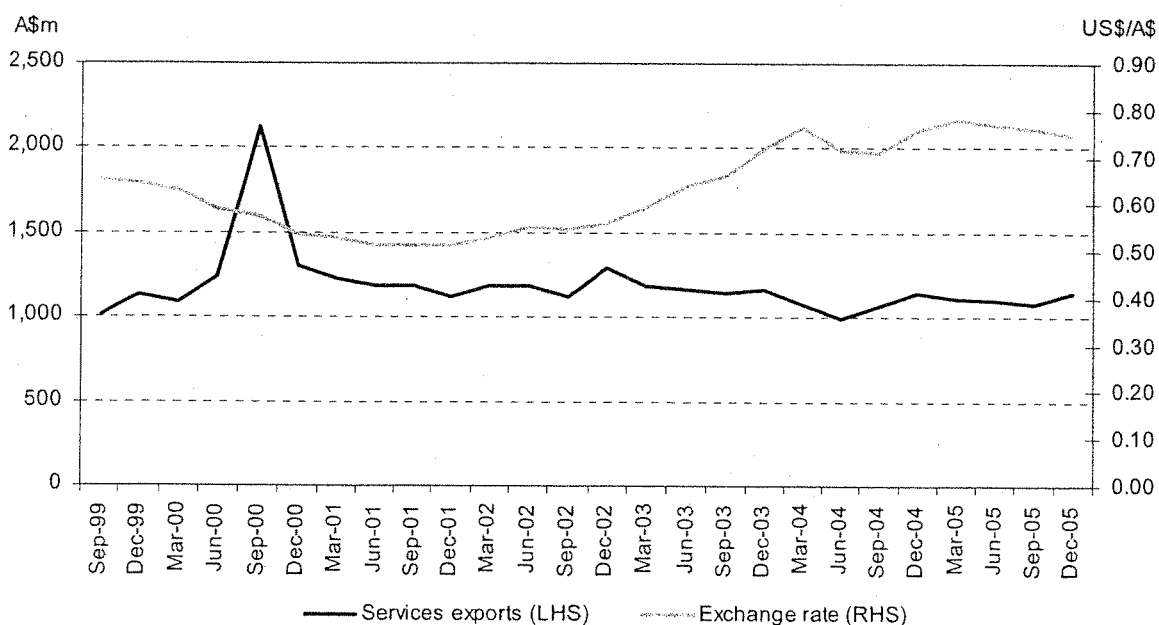
3.6 per cent rise in services exports. This decline reflected the continued falls in exports of beef, oil and motor vehicles for the reasons outlined above. Beef exports to the United States fell from \$1.4 billion in 2004 to \$1.2 billion in 2005; crude oil fell from \$526 million to \$285 million in 2005; and passenger motor vehicles exports fell from \$485 million to \$368 million.

The falls in these items reflect developments unrelated to AUSFTA. When they are excluded from the trade figures, Australia's merchandise exports to the United States rose by 4 per cent in 2005 compared with 2004.

The full effects of the AUSFTA will take many years to be realised. Nonetheless, some positive trends are emerging in some sectors, especially the dairy and sheep meat sectors.

Data now available for 2005-06 financial year show that Australia's merchandise exports to the United States rose by 3 per cent in 2005-06 despite the continued impact of the non-FTA factors affecting crude oil, beef and passenger motor vehicles (services data for 2005-06 are not yet available) (*Table 1*). Growth in merchandise exports was driven by a 21 per cent increase in cheese and curds and a 7 per cent rise in sheep meat. Nickel exports also rose by 98 per cent, while medical instruments and telecommunications equipment rose by 56 per cent and 41 per cent respectively.

Figure 3: Australia's services exports to the US and exchange rate



Note: Quarterly figures are not available prior to September 1999.
Source: ABS special data service.

Table 5 provides a list of selected export items to the United States which benefited from market access gains achieved under AUSFTA during the first year of its implementation. Australia's dairy exports to the United States rose by 47 per cent in the first year of implementation of the AUSFTA, with fresh and unprocessed cheese recording an 83 per cent increase following increased dairy quotas and reduced tariffs. Lamb and mutton exports increased by 17 per cent following the elimination of up to 2.8 cents/kg tariffs.

Australia's dairy industry: benefiting from the AUSFTA

The AUSFTA expands the quota for Australian exports of milk, cream and ice cream to 7.95 million litres and our condensed milk, milk powder, cheese and butter by 3 to 6 per cent. Moreover, dairy quotas will continue to increase in every subsequent year under the Agreement. These gains have delivered some immediate benefits to Australian dairy producers with total dairy exports to the United States growing by 47 per cent in the first year of implementation of the agreement. Australia's cheese exports to the United States recorded a 77 per cent increase following the reduction of tariffs in accordance with the AUSFTA (Australia's cheese exports covered by the AUSFTA grew by 103 per cent). Fresh and unprocessed cheese rose by 90 per cent, while butter rose by 138 per cent.

Services exports (which account for around one-third of Australia's exports to the United States) increased by 3.6 per cent in 2005 (Table 2). This was underpinned by a 25 per cent increase in transportation services, a 21 per cent rise in personal, cultural and recreational services, an 11 per cent rise in communication services and a 5 per cent rise in computer and information services.

The AUSFTA will enable further gains in services exports through its creation of a framework for pursuing improved access to the US market for Australian professionals. It also provides for legal protection (beyond that available under WTO disciplines) to underpin services trade and Australian investment in the United States, principally through a United States commitment not to discriminate against Australian firms. The Agreement therefore ensures that Australian companies can compete on equal terms with United States companies in most services sectors.

Another important non-tariff provision under AUSFTA is the granting of full access for Australian goods and services to the A\$200 billion market for Federal Government procurement in the United States – as well as to the thirty-one US

States that have so far signed on to the Agreement. This has already assisted Australian companies to achieve significant new government procurement contracts in the United States. Australian companies won around A\$95 million of government procurement related contracts in the United States in 2005-06 and are well placed to make further gains, including in the lucrative United States security market.

Sealite Pty Ltd (based in Somerville, VIC): is a manufacturer of marine navigation equipment, such as flashing lights and buoys, using LEDs (light emitting diodes) and non standard bulbs to significantly cut down on maintenance costs. The AUSFTA enables Sealite to be listed on the US Federal Government's General Services Administration (GSA) schedule, which allows it to bid directly for work with US government agencies. Since the AUSFTA came into effect, doors have been opening for the company. Mr Proctor, Sales Director of Sealite, said, "We had no effective market access before the AUSFTA because American government agencies couldn't purchase directly from Australian companies. But that has all changed now for us, thanks to the AUSFTA. The United States is fast becoming a major market for us."

The AUSFTA also raises awareness of Australia's business capabilities and encourages a view of Australia as an important and growing trading partner. There is evidence that the Agreement and the accompanying publicity are encouraging exporters to try the US market. A combined Austrade and Sensis study indicates that, as of February 2006, the United States is now the most popular export destination for Australian small to medium businesses, having overtaken New Zealand and Britain in 2005.

Small business AUSFTA success stories

Powersafe (based in Canberra, ACT): is a small business in the area of manufacturing and government procurement. It has developed a contaminated mail isolation system of particular interest to government agencies. Powersafe has benefited from the elimination of a 5.3 per cent tariff on its products under the AUSFTA, allowing for easier market access and increased competitiveness in the US market. According to Mr Tim Roberts, Managing Director of Powersafe, the company is now looking forward to continued export growth in the US market and expanded research and development of new products.

Small business AUSFTA success stories (continued)

Team Results (based in Melbourne): is a small business specialised in the delivering of motivational workshops and coaching services. Every major book chain in the United States picked up the company's 'Crocodile Charlie and The Holy Grail' book, published by Penguin. The company has benefited from the AUSFTA, particularly its intellectual property provisions. John Kolm, speaker, author and Managing Director of Team Results stated, "The AUSFTA couldn't have come at a better time for my company. The book and the spin-off from its success have been phenomenal. It appears that since the AUSFTA took effect on 1 January 2005, American companies feel a great deal of freedom to engage Australian service providers. I have experienced little or no resistance from them even though my company is not American."

Australia's imports from the United States

Australia's imports of goods and services from the United States trended downward from 2000 to 2005 after rising from \$21.3 billion in 1995 to \$29.9 billion in 2000. The average decline of 1.5 per cent per annum between 2000 and 2005 was underpinned by declines in merchandise exports (services imports remained relatively steady over this period) (*Table 2*).

The fall in merchandise imports was largely driven by a significant fall in the imports of aircraft and parts which fell from \$4.3 billion in 2002 to \$1.6 billion in 2005 (*Table 4*). These products are now sourced more from elsewhere, in particular the European Union. The imports of computers and parts from the United States also declined significantly during this period.

Australia's imports from the United States grew by 4 per cent to \$27.9 billion in 2005 (the first year of the AUSFTA). Merchandise imports rose by 4.2 per cent to \$21.4 billion, driven largely by increases in civil engineering equipment and medicinal and pharmaceutical products. Services imports grew by 3.1 per cent to \$6.5 billion, driven by strong increases in travel services (up 11 per cent) and royalties and licence fees (up 11 per cent).

A large part of the growth in imports from the United States in 2005 appears to be related to items that were unaffected by AUSFTA. As shown in *Table 4*, imports of organo-inorganic compounds rose from A\$230 million in 2004 to A\$601 million in 2005. *Table 6* lists selected

import items where imports have increased following tariff reductions under the AUSFTA.

In 2005-06, Australia's merchandise imports from the United States rose by 7 per cent, reflecting strong increases in gold, civil engineering equipment, transport equipment and medicinal and pharmaceutical products.

Conclusion

Australia's exports to the United States continued to decline, albeit at a slower pace, in 2005 (the first year of implementation of the AUSFTA), but there are signs that the trend is turning around. Some positive signs are already emerging in some sectors, especially the dairy and sheep meat sectors. Merchandise exports to the United States increased by 3 per cent in 2005-06 despite the continued impact of factors unrelated to the FTA. Import values have also picked up.

An increasing number of Australian exporters are now showing interest in the US market. The 2005 Sensis Business Index has found that the number of Australia's exporting small and medium sized enterprises (SMEs) nominating the United States as a major export destination rose by 5 per cent in the first six months of the AUSFTA implementation. Opportunities in services trade and government procurement will have longer lead times.

Table 2: Australia's trade with the United States (a)
(A\$ million)

| | 2000 | 2001 | 2002 | 2003 | 2004 | 2005 | % growth | |
|--------------------------------------|----------------|----------------|----------------|----------------|----------------|----------------|--------------|--------------|
| | | | | | | | 2004 to 2005 | 5 year trend |
| Merchandise exports | | | | | | | | |
| - Agricultural | 2,450 | 3,163 | 3,235 | 2,977 | 3,106 | 3,020 | -2.8 | 2.6 |
| - Minerals | 176 | 172 | 92 | 65 | 71 | 82 | 15.5 | -17.7 |
| - Fuels | 1,249 | 949 | 1,059 | 612 | 608 | 309 | -49.2 | -22.4 |
| - Manufactures | 4,914 | 5,750 | 5,607 | 4,351 | 4,264 | 4,332 | 1.6 | -5.0 |
| - STM | 1,033 | 1,046 | 1,022 | 747 | 797 | 723 | -9.3 | -8.0 |
| - ETM | 3,881 | 4,704 | 4,585 | 3,604 | 3,467 | 3,609 | 4.1 | -4.2 |
| - Other goods (including gold) | 2,192 | 1,880 | 1,554 | 1,452 | 1,495 | 1,521 | 1.7 | -7.1 |
| Total merchandise exports | 10,980 | 11,914 | 11,546 | 9,456 | 9,545 | 9,264 | -2.9 | -4.8 |
| Total merchandise imports | 23,122 | 21,399 | 23,147 | 20,529 | 20,526 | 21,398 | 4.2 | -1.8 |
| Balance on merchandise trade | -12,142 | -9,485 | -11,601 | -11,073 | -10,981 | -12,134 | 10.5 | |
| Total services exports | 5,756 | 4,714 | 4,784 | 4,655 | 4,279 | 4,431 | 3.6 | -4.5 |
| Total services imports | 6,821 | 6,275 | 6,190 | 6,200 | 6,294 | 6,489 | 3.1 | -0.7 |
| Balance on services trade | -1,065 | -1,561 | -1,406 | -1,545 | -2,015 | -2,058 | 2.1 | |
| Total exports | 16,736 | 16,628 | 16,330 | 14,111 | 13,824 | 13,695 | -0.9 | -4.7 |
| Total imports | 29,943 | 27,674 | 29,337 | 26,729 | 26,820 | 27,887 | 4.0 | -1.5 |
| Balance on goods and services | -13,207 | -11,046 | -13,007 | -12,618 | -12,996 | -14,192 | 9.2 | |
| Exchange rate (average) | 0.58 | 0.52 | 0.55 | 0.65 | 0.73 | 0.76 | 4.1 | 7.5 |

(a) Merchandise on recorded trade basis, services on balance of payments basis.

Source: DFAT STARS database & ABS regional services data.

Table 3: Top 20 merchandise exports to the United States
(A\$ million)

| Rank (a) | 2000 | 2001 | 2002 | 2003 | 2004 | 2005 | % growth | | | |
|----------|------|--|-------|-------|-------|-------|--------------|--------------|-------|-------|
| | | | | | | | 2004 to 2005 | 5 year trend | | |
| 1 | 011 | Bovine meat f.c.f. | 1,208 | 1,715 | 1,599 | 1,357 | 1,411 | 1,208 | -14.4 | -2.1 |
| 2 | 112 | Alcoholic beverages | 422 | 552 | 768 | 838 | 897 | 907 | 1.2 | 16.6 |
| 3 | 012 | Meat (excl. bovine) f.c.f. | 241 | 324 | 322 | 377 | 350 | 421 | 20.1 | 9.5 |
| 4 | 781 | Passenger motor vehicles | 371 | 592 | 538 | 251 | 485 | 368 | -24.2 | -3.9 |
| 5 | 333 | Crude petroleum | 1,166 | 791 | 967 | 583 | 526 | 285 | -45.8 | -22.2 |
| 6 | 872 | Medical instruments | 104 | 144 | 226 | 180 | 184 | 285 | 54.8 | 17.3 |
| 7 | 792 | Aircraft & parts | 297 | 312 | 600 | 342 | 250 | 267 | 6.7 | -4.9 |
| 8 | 542 | Medicaments (incl. veterinary) | 165 | 509 | 206 | 245 | 188 | 213 | 13.4 | -4.2 |
| 9 | 784 | Motor vehicle parts | 322 | 290 | 311 | 286 | 242 | 168 | -30.3 | -10.5 |
| 10 | 684 | Aluminium | 87 | 350 | 217 | 135 | 175 | 161 | -8.1 | 1.4 |
| 11 | 673 | Uncoated flat-rolled steel | 114 | 27 | 117 | 104 | 156 | 156 | -0.1 | 21.1 |
| 12 | 894 | Toys, games & sporting goods | 40 | 33 | 53 | 79 | 99 | 154 | 54.8 | 34.6 |
| 13 | 874 | Measuring and controlling instruments | 176 | 174 | 171 | 125 | 108 | 131 | 21.3 | -8.8 |
| 14 | 899 | Miscellaneous manufactures | 45 | 73 | 77 | 86 | 86 | 95 | 11.0 | 13.4 |
| 15 | 713 | Internal combustion piston engines | 68 | 57 | 75 | 59 | 79 | 94 | 18.7 | 7.0 |
| 16 | 592 | Starches, inulin & wheat gluten | 122 | 119 | 127 | 143 | 110 | 91 | -17.5 | -4.4 |
| 17 | 036 | Crustaceans | 103 | 84 | 97 | 106 | 109 | 90 | -17.3 | 0.6 |
| 18 | 793 | Ships, boats & floating structures | 67 | 81 | 127 | 117 | 58 | 85 | 46.7 | 0.1 |
| 19 | 057 | Fruit and nuts, fresh or dried | 78 | 71 | 66 | 61 | 84 | 79 | -6.6 | 1.5 |
| 20 | 764 | Telecommunications equipment | 123 | 131 | 132 | 138 | 94 | 74 | -21.2 | -9.4 |
| | 988 | Confidential items (b) | 1,880 | 1,728 | 1,453 | 1,327 | 1,275 | 1,285 | 0.8 | -8.0 |
| | | Goods re-exported after processing (c) | 249 | 98 | 28 | 48 | 82 | 125 | 52.8 | -9.4 |

(a) Rank based on 2005. (b) Mainly Alumina, Nickel alloys and Titanium ores. (c) Mainly Gold re-exported after industrial processing.

Source: DFAT STARS database.

**Table 4: Top 20 merchandise imports from the United States
(A\$ million)**

| Rank (a) | 2000 | 2001 | 2002 | 2003 | 2004 | 2005 | % growth | | |
|----------|---|-------|-------|-------|-------|-------|--------------|--------------|-------|
| | | | | | | | 2004 to 2005 | 5 year trend | |
| 1 | 792 Aircraft & parts | 2,390 | 1,670 | 4,311 | 3,270 | 1,845 | 1,572 | -14.8 | -5.8 |
| 2 | 874 Measuring and controlling instruments | 807 | 865 | 753 | 714 | 836 | 806 | -3.6 | -0.5 |
| 3 | 542 Medicaments (incl. veterinary) | 578 | 711 | 612 | 644 | 779 | 773 | -0.8 | 5.2 |
| 4 | 764 Telecommunications equipment | 1,510 | 1,096 | 899 | 616 | 704 | 729 | 3.4 | -14.2 |
| 5 | 723 Civil engineering equipment | 381 | 430 | 442 | 472 | 598 | 669 | 12.0 | 11.7 |
| 6 | 752 Computers | 978 | 798 | 708 | 630 | 594 | 628 | 5.7 | -8.8 |
| 7 | 515 Organo-inorganic compounds | 634 | 405 | 202 | 163 | 230 | 601 | 161.5 | -6.0 |
| 8 | 713 Internal combustion piston engines | 775 | 759 | 738 | 693 | 659 | 587 | -10.9 | -5.2 |
| 9 | 782 Motor vehicles for transporting goods | 187 | 287 | 327 | 268 | 532 | 534 | 0.3 | 21.8 |
| 10 | 872 Medical instruments | 418 | 480 | 482 | 433 | 478 | 522 | 9.1 | 2.9 |
| 11 | 784 Motor vehicle parts | 606 | 542 | 582 | 524 | 526 | 503 | -4.3 | -3.2 |
| 12 | 781 Passenger motor vehicles | 322 | 352 | 471 | 420 | 430 | 422 | -1.8 | 5.4 |
| 13 | 721 Agricultural machinery (excl. tractors) | 356 | 250 | 336 | 266 | 406 | 372 | -8.3 | 4.2 |
| 14 | 562 Fertilizers (excl. crude) | 293 | 333 | 323 | 327 | 350 | 371 | 6.0 | 3.9 |
| 15 | 743 Pumps for gas | 303 | 314 | 344 | 289 | 317 | 359 | 13.4 | 2.0 |
| 16 | 541 Medicinal & pharmaceutical products | 200 | 253 | 238 | 273 | 267 | 358 | 34.3 | 9.6 |
| 17 | 899 Miscellaneous manufactures | 229 | 257 | 268 | 256 | 306 | 350 | 14.5 | 7.7 |
| 18 | 778 Other electrical machinery | 364 | 358 | 347 | 337 | 318 | 326 | 2.6 | -2.7 |
| 19 | 553 Perfumery & cosmetics | 226 | 285 | 266 | 253 | 273 | 312 | 14.4 | 4.1 |
| 20 | 744 Mechanical handling equipment | 177 | 177 | 173 | 163 | 206 | 300 | 45.4 | 9.1 |
| | 988 Confidential items | 538 | 483 | 313 | 229 | 287 | 347 | 21.1 | -10.9 |

(a) Rank based on 2005.

Source: DFAT STARS database.

Table 5: Selected export items benefiting from the AUSFTA

| Items | AUSFTA related market access gains | 2004 \$m | 2005 \$m | 2004-05 \$m | 2005-06 \$m |
|---|--|----------|----------|-------------|-------------|
| Unprocessed cheese | Up to 25% tariff reduced and quota increased upon entry into force of the AUSFTA | 29 | 53 | 37 | 48 |
| Sheep meat cuts (incl. lamb), fresh or chilled | Up to 2.8 cents/kg tariffs immediately eliminated | 190 | 212 | 197 | 220 |
| Boneless sheep meat cuts (incl. lamb), fresh or chilled | Up to 2.8 cents/kg tariffs immediately eliminated | 29 | 44 | 38 | 37 |
| Fresh or dried oranges | 1.9 cents/kg tariffs immediately eliminated | 38 | 43 | 38 | 47 |
| Unwrought aluminium | Free for some items and 2.6% tariffs on others immediately eliminated | 18 | 30 | 31 | 42 |
| Silicon | Up to 5.5% tariffs immediately eliminated | 11 | 19 | 17 | 24 |
| Motorboats (excl. outboard) | 1.5% tariff immediately eliminated | 42 | 71 | 54 | 73 |
| Parts for spark-ignition internal combustion piston engines | Free for some items and 2.5% tariffs on others immediately eliminated | 11 | 21 | 16 | 21 |
| Gas turbines exceeding 5,000 KW | 2.5% tariffs immediately eliminated | 6 | 10 | 7 | 16 |
| Space navigation instruments | Up to 3.3% tariffs immediately eliminated | 3 | 11 | 5 | 16 |

Source: DFAT STARS database.

Table 6: Selected import items benefiting from the AUSFTA

| Items | AUSFTA related market access gains | 2004 \$m | 2005 \$m | 2004-05 \$m | 2005-06 \$m |
|---|--|-------------|-------------|----------------|----------------|
| Sailboats for pleasure and sports | Some items already free and 5% tariff on others immediately eliminated | 10 | 9 | 11 | 12 |
| Books, brochures and similar printed material | Free for some items, 5% tariffs on others immediately eliminated | 155 | 161 | 162 | 165 |
| Machines for lifting, handling, loading and unloading | 5% tariffs immediately eliminated | 106 | 150 | 131 | 162 |
| Parts for boring and sinking machinery | 5% tariffs immediately eliminated | 14 | 24 | 18 | 39 |
| Self propelled scrapers | Free for some items, 5% tariffs on others immediately eliminated | 19 | 35 | 32 | 33 |
| Machines and mechanical appliances | 5% tariffs immediately eliminated | 97 | 126 | 114 | 123 |
| Whiskies | 5% tariffs immediately eliminated | 99 | 111 | 105 | 114 |
| Articles of plastics | Up to 15% tariffs immediately eliminated | 104 | 111 | 112 | 110 |
| Beauty or make-up products | 5% tariffs immediately eliminated | 91 | 108 | 103 | 111 |
| Orthopaedic footwear | Up to 15% tariffs immediately eliminated | 60 | 73 | 70 | 76 |
| Parts for internal combustion piston engines | Up to 15% tariffs immediately eliminated | 101 | 80 | 70 | 81 |

Source: DFAT STARS database.

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TRADE TOPICS

A Quarterly Review of
Australia's International Trade

Summer 2006

Australia's trade with Thailand

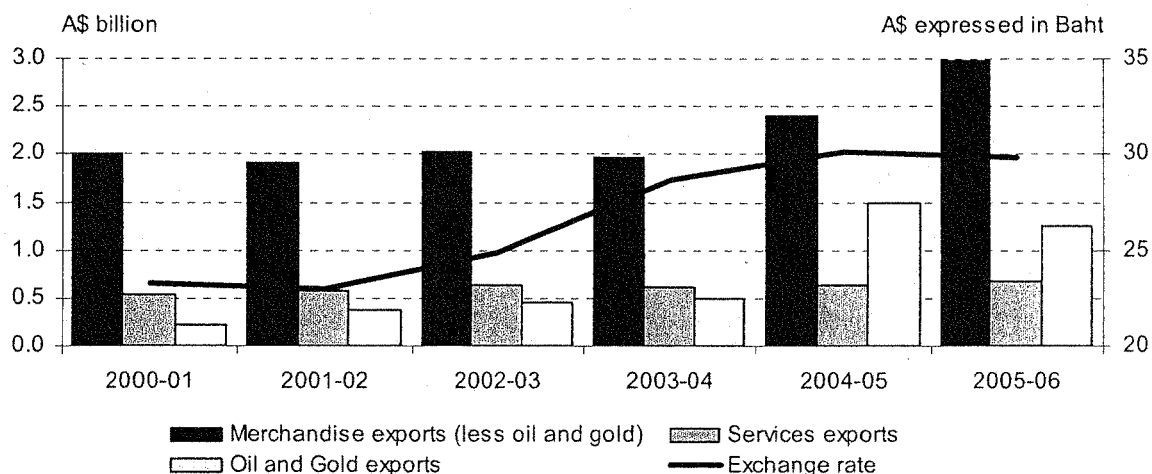
In 2005-06, Thailand was Australia's equal 9th largest two-way trading partner, accounting for 2.5 per cent of our exports and 3.1 per cent of our imports. The Thailand-Australia Free Trade Agreement (TAFTA) has been important in underpinning growth in trade since its entry into force in January 2005. Solid economic growth in both economies, exchange rate movements and developments in the oil and gold sectors have also had an impact on trade flows.

Australia's exports to Thailand have grown strongly over the last five years, with export growth averaging 13 per cent per annum over this period. This has been achieved despite a significant appreciation of the Australian dollar against the Baht. Import growth from Thailand has also averaged 13 per cent per annum over the last five years.

There has been healthy growth in two-way trade across a wide range of key products since the entry into force of TAFTA. Australian companies have benefited from the Agreement in many respects, particularly through the substantial tariff elimination and improved market access arrangements across goods and services. The Agreement has also been valuable in securing a more predictable and transparent business environment.

TAFTA will continue to provide impetus for further expansion of trade as phased tariff reductions on industrial and agricultural products are implemented and as the built-in agenda moves forward.

Figure 1: Australia's exports to Thailand



Source: DFAT STARS database and ABS catalogue no. 5368.0.

Exports¹

Australia's exports to Thailand increased from \$2.8 billion in 2000-01 to \$4.9 billion in 2005-06, an average annual rate of increase of 13 per cent over this period. The Thai economy has recorded steady growth over this period, with strong demand for raw materials for the Thai electronics sector (**Box 1**). This growth in exports was

¹ Because of the volatility and prominence of gold and petroleum in our trade with Thailand, particularly on the export side, it is useful to disaggregate exports and imports into three components – gold and petroleum, all other merchandise exports (excluding gold and petroleum) and services – in examining our trade relationship with Thailand.

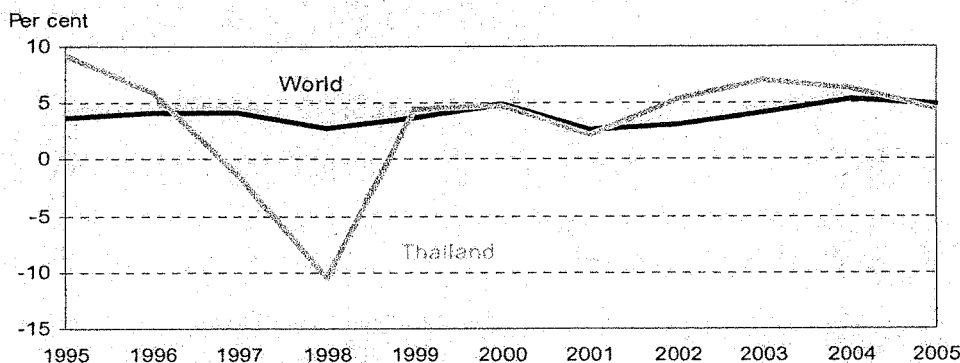
achieved despite a substantial rise in the value of the Australian dollar, which rose in value from 23.2 Baht in 2000-01 to 29.83 Baht in 2005-06. Notwithstanding the stronger currency, Australian exports to Thailand have expanded significantly in the last two years, increasing by 47 per cent in 2004-05, and a further 8.2 per cent in 2005-06.

Exports of gold and crude oil increased substantially in 2004-05 (**Figure 1**). Thai companies sourced their gold direct from Australia, rather than through intermediaries as in the past. Australia's crude oil exports have risen, reflecting growing energy demand in Thailand.

Box 1: Recent economic trends in Thailand

Thailand was significantly affected by the Asian financial crisis of 1997-98, but by 1999 growth had resumed. High rates of growth were achieved from 2002 to 2004. A number of factors, including the Asian tsunami, led to a slowdown in activity at the beginning of 2005. However, the economy recovered to achieve 4.5 per cent growth in 2005. Economic expansion is supported by a diverse base of consumption, manufacturing and sustained growth in electronic and auto exports. The IMF forecasts growth of 4.5 per cent in 2006, rising to 5 per cent in 2007.

Figure 2: World and Thailand GDP growth, 1995 to 2005



Source: International Monetary Fund, World Economic Outlook Database, September 2006.

Merchandise exports (excluding oil and gold) were steady from 2000-01 to 2003-04, before rising by 22 per cent in 2004-05 and by a further 24 per cent in 2005-06. Major export items such as aluminium, copper, medicaments, milk and dairy and cereal preparations all grew significantly over this period. All Australian exports to Thailand have benefited from the extensive tariff elimination commitments that are contained in TAFTA. In addition, the value of commodity exports, particularly aluminium and copper, have benefited from commodity price rises².

Services exports to Thailand (predominantly education services) grew on average by 3.9 per cent per annum between 2000-01 and 2005-06. Education services have increased in value from \$236 million in 2000-01 to \$408 million in 2005-06. There were over 16,400 Thai students enrolled in Australian education institutions in 2005, a 1.4 per cent increase from 2004.

Imports

Australia's imports from Thailand grew on average by 13 per cent per annum between 2000-01 and 2005-06 (Figure 3).

Imports of non-monetary gold and oil amounted to \$502 million in 2005-06. Imports of non-monetary gold now account for the bulk of this, having

increased from zero in 2000-01 to \$388 million in 2005-06. This reflects gold mine production and scrap being sent from Thailand to Australia for smelting and re-export. Imports of crude petroleum have been volatile over the last five years.

Merchandise imports (excluding oil and non-monetary gold) grew on average by 14 per cent per annum during the last five years, driven by strong growth in motor vehicles and parts, telecommunications equipment, heating and cooling equipment and household equipment. Services imports grew on average by 7.7 per cent per annum.

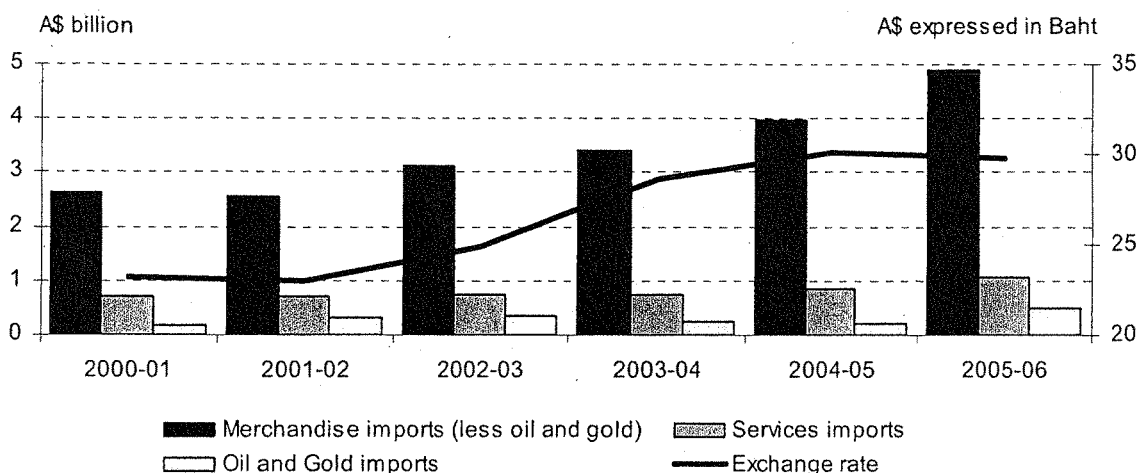
Merchandise imports rose by 28 per cent in 2005-06. Services imports also rose by 23 per cent in 2005-06 compared with 2004-05, driven by a strong growth in business travel and transport services.

Thailand-Australia Free Trade Agreement (TAFTA)

The entry into force of TAFTA on 1 January 2005 resulted in the elimination of more than half of Thailand's 5,000 tariffs items. This delivered an immediate benefit for nearly 80 per cent of Australia's exports to Thailand. The remaining tariffs are being phased out in annual increments, with virtually all to be eliminated by 2010. As a result, Australian exporters are enjoying significantly more favourable treatment than many of their competitors from non-ASEAN countries.

² The volume of aluminium exports to Thailand rose by 31 per cent in the two years 2003-04 to 2005-06, while the volume of copper exports rose by 25 per cent over this period.

Figure 3: Australia's imports from Thailand



Source: DFAT STARS database and ABS catalogue no. 5368.0.

The first year of the Agreement was accompanied by a strong pick-up in Australia's exports to Thailand³. Major export gains from the Agreement were recorded for a wide range of products, including aluminium, copper, medicaments, dairy products and cereal preparations. The elimination and phased reduction of tariffs on all automotive parts and components, including reciprocating piston engines, brakes and brake parts and gears and

³ Total exports to Thailand rose by 30 per cent in the first year of implementation of TAFTA, underpinned by a 35 per cent rise in merchandise exports and a 3 per cent rise in services exports. When gold and crude petroleum are excluded, total exports increased by 15 per cent.

gearing boxes, contributed to substantial increase in exports of these products (*Table 5*).

Data available for the first 9 months of 2006 show these positive trends in our exports to Thailand are continuing. Merchandise exports (excluding gold and crude petroleum) increased by 28 per cent in the 9 months to September 2006 compared with the same period in 2005. Items such as refined copper, aluminium and zinc ores and concentrates grew strongly by 73 per cent, 56 per cent and 181 per cent respectively. Milk powder, alloy steel waste and scrap and tractor brakes and parts also grew very strongly.

Table 1: Australia's merchandise exports to Thailand (A\$ million)

| | 9 months to Sep 2005 | 9 months to Sep 2006 | % change |
|--|----------------------|----------------------|-------------|
| Merchandise exports | | | |
| - Agricultural | 328 | 385 | 17.4 |
| - Minerals | 53 | 107 | 102.5 |
| - Fuels | 510 | 516 | 1.1 |
| - Manufactures | 1,072 | 1,464 | 36.5 |
| - STM | 663 | 997 | 50.5 |
| - ETMs | 410 | 466 | 13.9 |
| - Other goods (including gold) | 1,274 | 872 | -31.5 |
| Total merchandise exports | 3,237 | 3,343 | 3.3 |
| Gold and crude petroleum | 1,343 | 919 | -31.6 |
| Merchandise exports excluding gold and crude petroleum | 1,894 | 2,424 | 28.0 |
| Total merchandise imports | 3,453 | 4,406 | 27.6 |

Source: DFAT STARS database.

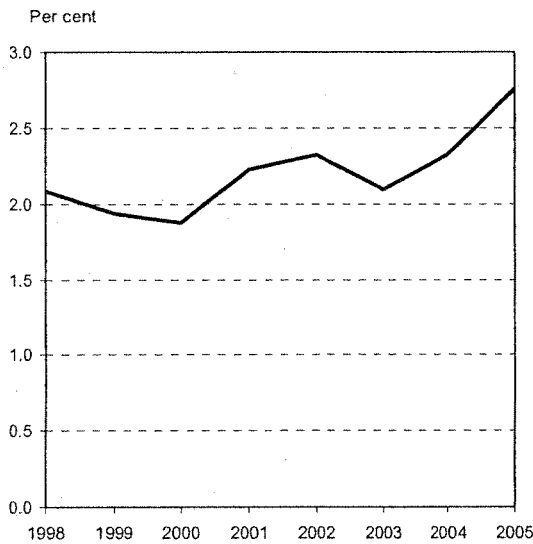
Services exports to date have been mainly driven by exports of education services. TAFTA is

expected to substantially broaden opportunities for services trade. In particular, under the FTA,

Thailand is relaxing its foreign ownership rules for Australian investors in a number of Thailand's sectors including management consulting services, certain construction services, mining operations, major restaurants and hotels, maritime cargo services and tertiary education institutions specialising in science and technology. Australia's exports of business services are expected to gain from these changes in the medium to longer term.

As a result of TAFTA, we are seeing increased economic integration with the Thai economy. Australia's market share of Thailand's merchandise imports rose appreciably in 2005 following the implementation of TAFTA (**Figure 4**). Australian businesses are also finding TAFTA is making it easier for them to do business in Thailand, as well as lowering tariff barriers (**Box 2**).

Figure 4: Australia's share of Thailand's total merchandise imports 1998 to 2005



Source: World Trade Atlas.

Thai companies have also benefited from the implementation of TAFTA with merchandise imports from Thailand rising substantially in the first year of the Agreement⁴. More recently, merchandise imports from Thailand grew by 28 per cent in the 9 months to September 2006 compared to the same period in 2005 (**Table 1**). **Table 6** lists selected import items where imports

⁴ Merchandise imports from Thailand rose 28 per cent in 2005 compared to 2004, while services imports rose by 6 per cent.

from Thailand have increased following tariff reductions under TAFTA.

Box 2: Some TAFTA related success stories

Tri-Med International in Western Australia develops innovative diagnostic products, including a non-invasive 14C urea breath test. Tri-Med's medical director is Dr. Barry Marshall, who last year won the Nobel Prize for his work in proving that bacteria cause ulcers. Tri-Med's General Manager Mark Jones says that TAFTA "has been brilliant" for his company, not so much in sales, but in ease of doing business. "You have no idea how much easier it was for us in Thailand after the trade agreement came into place." He says that "the difference after TAFTA is like night and day".

West Coast Suspensions in Western Australia exports automotive suspensions and shock absorbers that are used in Toyota Hilux, Mitsubishi Triton and Mazda Bravo in Thailand. The company has had very considerable success, particularly after TAFTA. According to Managing Director Jim McCully, TAFTA has made things easier for the company with the duty on its suspensions products being cut from 40 to 10 per cent. Other gains associated with TAFTA include the reduction of paperwork for business. "Australian goods are becoming more attractive, accessible and affordable in Thailand".

Conclusion

TAFTA will continue to provide impetus for further expansion of trade as phased tariff reductions on industrial and agricultural products are implemented and as the built-in agenda for TAFTA moves forward in important areas such as services and government procurement.

There is clear evidence that Australian exporters are becoming more engaged in the Thai market following the entry into force of TAFTA which has made entry into the Thai market easier as well as reducing tariff barriers. Over 650 Australian companies have been registered as exporters under TAFTA with the Australian Chamber of Commerce and Industry. Over 9,000 certificates of origin for shipments to Thailand were issued from January 2005 to September 2006. Two-way trade is set to strengthen further in coming years as more Australian companies identify opportunities in Thailand.

**Table 2: Australia's trade with Thailand
(A\$ million)**

| | 2000-01 | 2001-02 | 2002-03 | 2003-04 | 2004-05 | 2005-06 | % growth | |
|--|--------------|--------------|---------------|---------------|--------------|---------------|-----------------------|-----------------|
| | | | | | | | 2004-05 to 2005-06 | 5 year trend |
| Merchandise exports | | | | | | | | |
| - Agricultural | 632 | 553 | 488 | 417 | 423 | 503 | 18.9 | -5.8 |
| - Minerals | 106 | 79 | 76 | 75 | 130 | 122 | -5.7 | 6.5 |
| - Fuels | 141 | 207 | 78 | 260 | 529 | 604 | 14.3 | 38.1 |
| - Manufactures | 1,029 | 991 | 1,028 | 1,083 | 1,332 | 1,750 | 31.3 | 10.8 |
| - STMs | 514 | 564 | 580 | 604 | 766 | 1,162 | 51.6 | 15.5 |
| - ETMs | 515 | 427 | 449 | 480 | 566 | 588 | 3.9 | 4.6 |
| - Other goods (including gold) | 314 | 465 | 809 | 627 | 1,487 | 1,250 | -15.9 | 33.6 |
| Total merchandise exports | 2,222 | 2,296 | 2,479 | 2,463 | 3,900 | 4,229 | 8.4 | 14.7 |
| Merchandise exports less gold and crude oil | 2,002 | 1,917 | 2,029 | 1,970 | 2,401 | 2,974 | 23.9 | 7.8 |
| Total merchandise imports | 2,780 | 2,886 | 3,471 | 3,669 | 4,202 | 5,389 | 28.2 | 13.7 |
| Merchandise imports less gold and crude oil | 2,620 | 2,564 | 3,119 | 3,415 | 3,982 | 4,886 | 22.7 | 13.8 |
| Balance on merchandise trade | -558 | -590 | -992 | -1,206 | -302 | -1,160 | | |
| Total services exports | 544 | 580 | 641 | 617 | 635 | 678 | 6.8 | 3.9 |
| Total services imports | 700 | 724 | 732 | 757 | 860 | 1,055 | 22.7 | 7.7 |
| Balance on services trade | -156 | -144 | -91 | -140 | -225 | -377 | | |
| Total exports | 2,766 | 2,876 | 3,120 | 3,080 | 4,535 | 4,907 | 8.2 | 12.8 |
| Total exports less gold and crude oil | 2,546 | 2,497 | 2,670 | 2,587 | 3,036 | 3,652 | 20.3 | 7.0 |
| Total imports | 3,480 | 3,610 | 4,203 | 4,426 | 5,062 | 6,443 | 27.3 | 12.6 |
| Total imports less gold and crude oil | 3,320 | 3,288 | 3,851 | 4,172 | 4,842 | 5,941 | 22.7 | 12.6 |
| Balance on goods and services | -714 | -734 | -1,083 | -1,346 | -527 | -1,536 | | |
| A\$-Baht exchange rate (average) | 23.23 | 23.01 | 24.90 | 28.62 | 30.14 | 29.83 | -1.0 | |

Source: DFAT STARS database and ABS catalogue no. 5368.0.

**Table 3: Top 20 merchandise exports to Thailand
(A\$ million)**

| Rank (a) | 2000-01 | 2001-02 | 2002-03 | 2003-04 | 2004-05 | 2005-06 | % growth | |
|--|---------|---------|---------|---------|---------|---------|-----------------------|-----------------|
| | | | | | | | 2004-05 to 2005-06 | 5 year trend |
| 1 Non-monetary gold | 86 | 179 | 391 | 235 | 978 | 704 | -28.0 | 53.9 |
| 2 Aluminium | 306 | 365 | 359 | 363 | 455 | 632 | 38.9 | 13.1 |
| 3 Crude petroleum | 134 | 200 | 59 | 258 | 521 | 551 | 5.8 | 38.6 |
| 4 Copper | 112 | 99 | 110 | 164 | 213 | 425 | 99.5 | 30.7 |
| 5 Medicaments (incl. veterinary) | 102 | 85 | 85 | 132 | 153 | 166 | 8.5 | 14.2 |
| 6 Cotton | 271 | 190 | 168 | 125 | 110 | 158 | 43.6 | -12.4 |
| 7 Milk and cream | 111 | 118 | 81 | 57 | 56 | 110 | 96.4 | -7.2 |
| 8 Ferrous waste & scrap | 6 | 4 | 31 | 47 | 79 | 55 | -30.4 | 79.3 |
| 9 Coal | 0 | 0 | 0 | 0 | 0 | 51 | .. | .. |
| 10 Wool | 73 | 75 | 100 | 80 | 63 | 45 | -28.6 | -8.6 |
| 11 Cereal preparations | 34 | 37 | 34 | 31 | 28 | 44 | 57.1 | 1.0 |
| 12 Lead | 12 | 12 | 19 | 15 | 24 | 41 | 70.8 | 25.6 |
| 13 Pigments, paints, varnishes | 38 | 45 | 39 | 40 | 37 | 39 | 5.4 | -1.2 |
| 14 Other ores | 96 | 70 | 41 | 18 | 9 | 38 | 322.2 | -28.2 |
| 15 Motor vehicle parts | 12 | 11 | 16 | 17 | 10 | 31 | 210.0 | 13.8 |
| 16 Internal combustion piston engines | 4 | 1 | 6 | 17 | 23 | 30 | 30.4 | 79.7 |
| 17 Uncoated flat-rolled steel | 3 | 11 | 18 | 31 | 48 | 27 | -43.8 | 57.7 |
| 18 Animal feed | 20 | 11 | 16 | 17 | 22 | 16 | -27.3 | 3.0 |
| 19 Raw hides & skins (except furskins) | 19 | 9 | 0 | 22 | 36 | 15 | -58.3 | .. |
| 20 Inorganic chemical elements | 11 | 10 | 9 | 15 | 10 | 15 | 50.0 | 6.1 |
| Confidential items (b) | 215 | 191 | 306 | 312 | 400 | 303 | -24.3 | 12.0 |
| Goods re-exported after processing (c) | 13 | 96 | 111 | 80 | 108 | 243 | 125.0 | 52.1 |

(a) Rank based on 2005-06. (b) Mainly Wheat & Niobium, tantalum & vanadium ores.

(c) Mainly Gold re-exports after industrial processing.

Source: DFAT STARS database.

**Table 4: Top 20 merchandise imports from Thailand
(A\$ million)**

| Rank (a) | | 2000-01 | 2001-02 | 2002-03 | 2003-04 | 2004-05 | 2005-06 | % growth | |
|----------|--|---------|---------|---------|---------|---------|---------|-----------------------|-----------------|
| | | | | | | | | 2004-05 to 2005-06 | 5 year trend |
| 1 | Motor vehicles for transporting goods | 623 | 528 | 620 | 832 | 1,178 | 1,441 | 22.3 | 21.8 |
| 2 | Non-monetary gold | 0 | 48 | 149 | 145 | 144 | 388 | 169.4 | .. |
| 3 | Heating & cooling equipment | 192 | 229 | 268 | 309 | 354 | 387 | 9.3 | 15.2 |
| 4 | Passenger motor vehicles | 80 | 81 | 110 | 162 | 206 | 361 | 75.2 | 35.8 |
| 5 | Prepared seafood | 140 | 154 | 169 | 151 | 167 | 194 | 16.2 | 5.2 |
| 6 | Telecommunications equipment | 63 | 60 | 109 | 151 | 149 | 154 | 3.4 | 24.0 |
| 7 | Computers | 91 | 90 | 130 | 111 | 153 | 151 | -1.3 | 12.0 |
| 8 | Crude petroleum | 160 | 274 | 203 | 109 | 76 | 114 | 50.0 | -16.1 |
| 9 | Pumps for gas | 14 | 19 | 45 | 46 | 42 | 104 | 147.6 | 42.6 |
| 10 | Household type equipment | 14 | 15 | 27 | 55 | 63 | 88 | 39.7 | 50.1 |
| 11 | Jewellery | 38 | 46 | 52 | 60 | 71 | 84 | 18.3 | 16.7 |
| 12 | Motor vehicle parts | 18 | 21 | 63 | 66 | 62 | 81 | 30.6 | 36.2 |
| 13 | Rubber tyres | 30 | 39 | 53 | 45 | 51 | 68 | 33.3 | 14.5 |
| 14 | Structures of iron, steel or aluminium | 1 | 1 | 4 | 7 | 17 | 65 | 282.4 | 135.2 |
| 15 | Crustaceans | 91 | 71 | 64 | 61 | 59 | 64 | 8.5 | -6.5 |
| 16 | Other articles of plastics | 39 | 41 | 43 | 46 | 59 | 58 | -1.7 | 9.4 |
| 17 | Furniture | 69 | 70 | 67 | 48 | 60 | 57 | -5.0 | -4.9 |
| 18 | Televisions | 73 | 45 | 42 | 40 | 38 | 49 | 28.9 | -7.0 |
| 19 | Animal feed | 35 | 38 | 40 | 37 | 37 | 49 | 32.4 | 4.5 |
| 20 | Rice | 31 | 28 | 32 | 36 | 42 | 48 | 14.3 | 10.6 |
| | Confidential items | 92 | 104 | 69 | 29 | 49 | 134 | 173.5 | -3.5 |

(a) Rank based on 2005-06.

Source: DFAT STARS database.

Table 5: Selected export items benefiting from TAFTA

| Items | TAFTA Related Market Access Gains | 2005 \$m | % change from 2004 | 2005-06 \$m | % change from 2004-05 | 9 mths to Sept 2006 \$m | % change from prev. yr |
|------------------------------|--|----------|--------------------|-------------|-----------------------|-------------------------|------------------------|
| Unwrought aluminium | 1% tariff immediately eliminated | 317 | 69 | 415 | 64 | 358 | 56 |
| Unwrought refined copper | Tariffs rate under the ASEAN FTA to apply | 313 | 68 | 423 | 103 | 352 | 73 |
| Unwrought aluminium alloy | 1% tariff immediately eliminated | 163 | 20 | 172 | 15 | 138 | 14 |
| Unroasted malt | 2.75 Baht/kg tariffs immediately eliminated | 37 | 67 | 42 | 58 | 34 | 14 |
| Unwrought refined lead | 1% tariff immediately eliminated | 32 | 107 | 41 | 77 | 27 | 18 |
| Reciprocating piston engines | Up to 30% tariffs halved on entry into force | 30 | 73 | 28 | 40 | 20.5 | 14 |
| Bottled wine | 60% tariffs reduced to 40% on entry into force | 7.4 | 10 | 7.5 | -5 | 5 | 2 |
| Brakes and brake parts | Up to 42% tariffs reduced to 20% on entry into force and to gradually phase down in 2010 | 7 | 965 | 17 | 869 | 15 | 408 |
| Gears and gearing boxes | 10% tariffs halved on entry into force and to be eliminated in 2009 | 7 | 475 | 7 | 41 | 5 | -2 |
| Articles of iron or steel | 0-15% tariffs, phased to 0 by 2015 | 17 | 89 | 16 | 23 | 11 | -8 |
| Milk and cream | In quota tariff of 20%, phased to 0 by 2025 | 83 | 63 | 97 | 102 | 60 | 62 |

Source: DFAT STARS database.

Table 6: Selected import items benefiting from TAFTA

| Items | TAFTA Related Market Access Gains | 2005 \$m | % change from 2004 | 2005-06 \$m | % change from 2004-05 | 9 mths to Sept 2006 \$m | % change from prev. yr |
|--|---|----------|--------------------|-------------|-----------------------|-------------------------|------------------------|
| Motor vehicles for transport of goods | Up to 5% tariffs immediately eliminated | 1,518 | 72 | 1,441 | 22 | 1,034 | -10 |
| Passenger motor vehicles | Up to 15% tariffs immediately eliminated | 262 | 115 | 361 | 55 | 334 | 80 |
| Prepared or preserved tunas, skipjack and bonito | 5% tariffs immediately halved and to be eliminated in 2007 | 119 | 18 | 133 | 30 | 98 | 17 |
| Iron or steel structures and parts | 4% tariffs immediately eliminated | 52 | 3,884 | 53 | 402 | 26 | -9 |
| Articles and parts of jewellery | 5% tariffs immediately eliminated | 46 | 22 | 52 | 38 | 34 | 31 |
| Automatic washing machines | 5% tariffs immediately eliminated | 32 | 150 | 42 | 105 | 36 | 69 |
| Paper and paperboard | 5% tariffs immediately eliminated | 21 | 53 | 21 | 24 | 16 | -2 |
| Filtering and purifying machines | 4% tariffs immediately eliminated | 17 | 26 | 20 | 14,626 | 9 | -29 |
| Passenger motor vehicle parts and accessories | 15% tariffs reduced to 5% on entry into force of TAFTA and to be eliminated in 2010 | 17 | 37 | 19 | 42 | 20 | 77 |
| Transformer with capacity exceeding 500KVA | 5% tariffs immediately eliminated | 12 | 134 | 12 | 55 | 5 | -16 |

Source: DFAT STARS database.

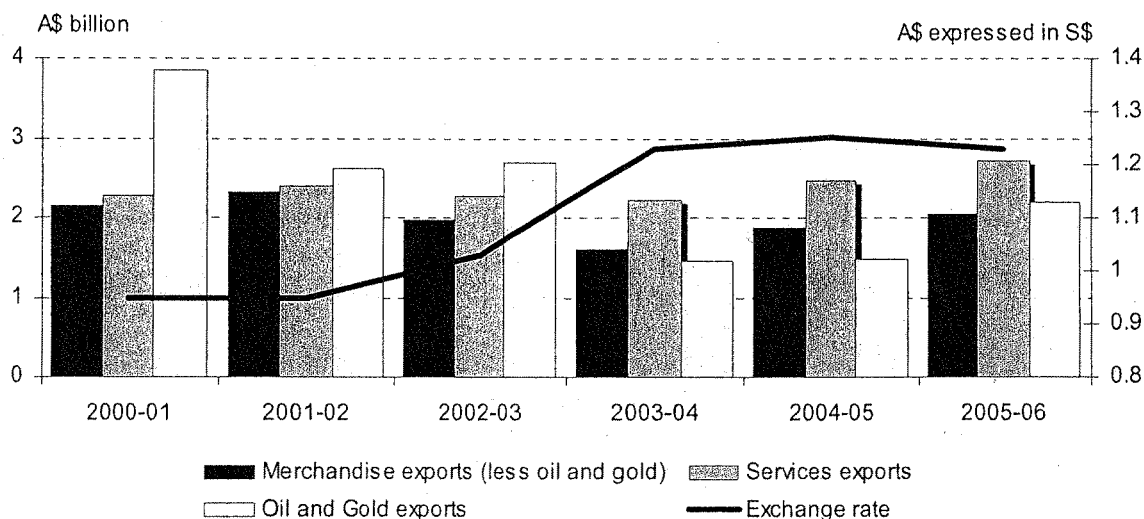
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Australia's trade with Singapore

In 2005-06, Singapore was Australia's 5th largest two-way trading partner in merchandise and 3rd largest in services. Key factors that have influenced two-way trade with Singapore in recent years have included the strength of domestic demand in the two economies, exchange rate movements, developments in the oil and gold sectors and the entry into force of the Singapore-Australia Free Trade Agreement (SAFTA) in July 2003.

As a result of changes in the pattern of gold and oil exports in the last five years, as well as a sharp rise in the value of the Australian dollar in 2002-03, merchandise exports to Singapore fell back from 2000-01 to 2003-04, before recovering in 2004-05 and 2005-06. Our services exports have proved more resilient, and have shown steady growth since SAFTA commenced. Australia's imports from Singapore have grown strongly over the last five years, in large part due to higher volumes and increased prices for refined petroleum. Singaporean exporters have also benefited from improved market access under SAFTA.

Figure 1: Australia's exports to Singapore



Source: DFAT STARS database and ABS catalogue no. 5368.0.

Exports¹

Australia's goods and services exports to Singapore fell from \$8.3 billion in 2000-01 to \$5.8 billion in 2004-05, but then recovered to \$6.9 billion in 2005-06.

In 2000-01, exports of gold and oil (crude and refined) dominated our exports to Singapore, comprising 46.6 per cent of total exports. From 2000-01 to 2004-05, exports of these commodities

fell back from \$3.9 billion to \$1.5 billion, before rising in 2005-06 as a result of increased crude oil exports (**Figure 1**). The main factors behind the changes in the gold and petroleum trade with Singapore in recent years are outlined in **Box 1**.

Australia's merchandise exports (excluding gold and petroleum) to Singapore declined in 2001-02 and 2002-03 due to sluggish growth in the Singaporean economy. The marked appreciation of the Australian dollar against the Singaporean dollar over this period was also a factor (**Figure 1**). With the strong recovery in Singapore's economy since mid-2003 (**Box 2**), our merchandise exports (excluding oil and gold) have also grown steadily.

¹ Because of the volatility and prominence of two-way trade in gold and petroleum with Singapore, it is useful to disaggregate exports and imports into three components – gold and petroleum, all other merchandise (excluding gold and petroleum) and services – in examining our trade relationship with Singapore.

Box 1: Gold and petroleum exports

Australia's gold exports to Singapore declined from \$1.7 billion in 2000-01 to \$308 million in 2005-06. Throughout the 1990s and in the early years of this decade, Singapore was the main gold trading centre for the region. The removal of taxes in India, Thailand and elsewhere in South East Asia has facilitated the purchase of gold directly from Australia. On the import side, the trade in non-monetary gold reflects the import of alloys with low concentrations of gold, for example, jewellery, being sent to Australia for smelting and re-export. In 2005-06, imports of non-monetary gold rose significantly to \$1.1 billion.

Australia's crude petroleum exports to Singapore have been highly volatile in recent years. However, in the long run, the trend is likely to be down, reflecting lower domestic production².

The sharp increase in the price of crude oil, combined with Australia's greater oil import dependency and sourcing from Singapore of a greater proportion of Australia's refined petroleum, has resulted in a turnaround in our trade in crude and refined petroleum with Singapore from surplus to deficit. In 2000-01, total exports of crude and refined petroleum to Singapore were \$2.2 billion and over three times the total imports from Singapore of \$742 million. By 2005-06, imports of crude and refined petroleum from Singapore had increased around eightfold to \$5.7 billion and were around three times the level of exports of \$1.9 billion.

² The volume of Australia's crude oil exports to Singapore declined by 51 per cent between 2000-01 and 2005-06, somewhat above the 39 per cent reduction in Australia's crude oil production during this period.

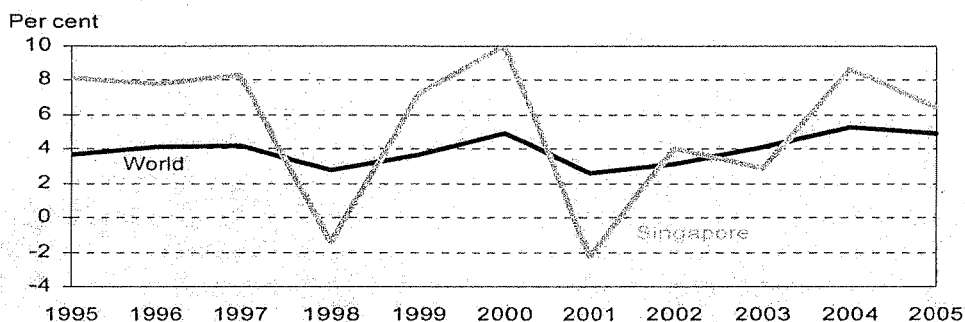
Services exports (which comprised 39 per cent of total exports in 2005-06) have proved resilient. They grew on average by 2.9 per cent per annum between 2000-01 and 2005-06 despite the higher Australian dollar and the onset of SARS in 2003, which resulted in a sharp fall in travel and transportation services in 2002-03. The impact of

these negative influences has since dissipated and the entry into force of the Singapore-Australia Free Trade Agreement in July 2003 has also provided a favourable business environment for services exports. Services exports grew by 10.4 per cent in 2004-05 and 10.1 per cent in 2005-06.

Box 2: Recent economic trends in Singapore

Singapore has an open economy, with a high trade-to-GDP ratio. As a result, changes in world economic growth impact significantly on Singapore's economic performance (*Figure 2*).

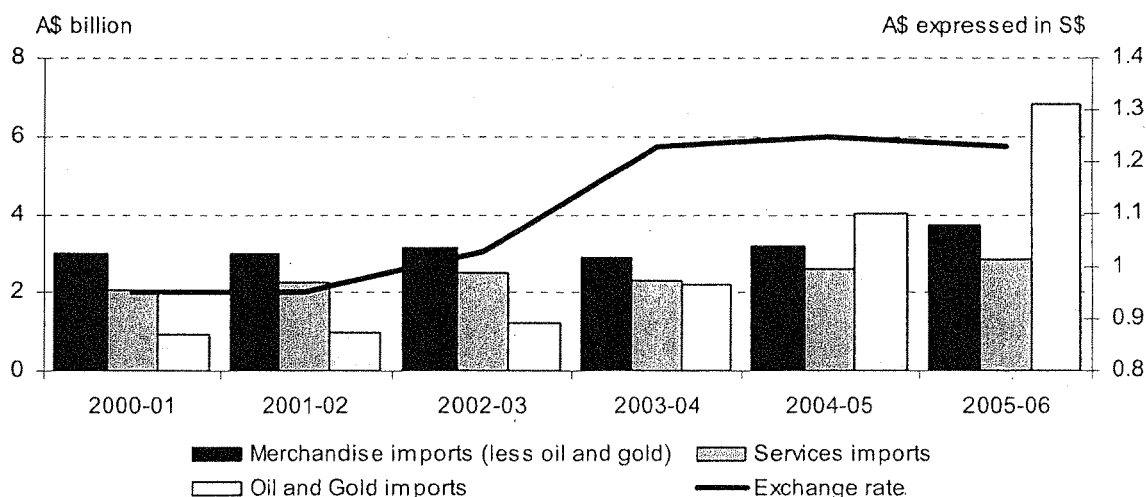
Figure 2: World and Singapore GDP growth, 1995 to 2005



Source: International Monetary Fund, World Economic Outlook Database, September 2006.

Singapore's economy has recovered rapidly since mid-2003, in line with a strong upturn in the world economy. Growth has been robust in the manufacturing sector, including biomedical and electronics. More recently, there are signs the IT sector is beginning to slow, which would have a significant impact on Singapore's exports. The IMF forecasts growth of 6.9 per cent in 2006, before easing to 4.5 per cent in 2007.

Figure 3: Australia's imports from Singapore



Source: DFAT STARS database and ABS catalogue no. 5368.0.

Imports

Australia's imports from Singapore have grown on average by 18.7 per cent per annum since 2000-01 (*Figure 3*).

Merchandise imports excluding gold and oil were steady between 2000-01 and 2004-05, but rose by 17 per cent in 2005-06, driven by a strong

increase in elaborately transformed manufactures imports.

Australia's services imports have been growing by an average rate of 12.3 per cent per annum since 2000-01. They grew by 20.6 per cent in 2005-06 driven by a 24.3 per cent rise in transportation services and a 9.8 per cent increase in travel services.

Singapore-Australia Free Trade Agreement (SAFTA)

The Singapore-Australia Free Trade Agreement (SAFTA) entered into force on 28 July 2003. SAFTA resulted in tariff elimination across the board and the liberalisation of two-way trade in services. The agreement also contains rules to promote a more transparent and predictable business climate.

As Singapore had virtually no tariffs prior to SAFTA, the market access gains to Australia are concentrated heavily in the services sector.

Australia's services exports to Singapore were flat in the first year after entry into force of SAFTA, partly due to the outbreak of SARS in 2003. However, exports grew by 10.4 per cent in

2004-05, driven by a 22 per cent increase in transportation services and a 15 per cent increase in other business services. Communication services and computer and information services exports to Singapore also grew strongly in 2004-05.

In 2005-06, Australia's services exports to Singapore grew by 10.1 per cent underpinned by a 21 per cent increase in transport services and an 8.4 per cent increase in other business services. Although from a low base, communication services, computer and information services, and personal, cultural and recreational services also grew strongly (*Table 2*).

One factor contributing to the growth of services exports has been improved access to the government procurement market under SAFTA. For instance, four out of seven Continuing Education and Training consultancy projects awarded by the Singapore Workforce Development Agency have been awarded to Australian service providers. SAFTA has also provided a framework for agreement between the two countries for mutual recognition of qualifications. Australian architects' qualifications are now recognised in Singapore and residency requirements have been liberalised. In addition, Singapore has recognised a wide range of qualifications from Australian educational institutions. An Australian architectural and design consultancy has won a major contract to design the interiors of the new Changi Airport Terminal 3, possibly opening the door to other major projects.

Box 3: Some SAFTA related success stories

TAFE Global in Sydney, NSW is the international arm of the New South Wales State Government's Department of Education and Training and is one of Australia's most successful exporters of vocational education services. It contracts, project manages and markets the delivery of TAFE NSW products and services internationally and recently completed a development training program for the Singapore Government's Workforce Development Agency.

Chief Executive Officer Adrian Renouf believes that working in Singapore is markedly easier now under the Singapore-Australia Free Trade Agreement (SAFTA). "The collaborative atmosphere that was brought about by SAFTA has smoothed the way for Australian companies doing business in Singapore.

SAFTA has also helped to establish an environment in which service providers such as TAFE NSW can confidentially work with the Singapore Government and Singapore industry."

Strategic Marine in Henderson, WA produces offshore service vessels, crewboats, patrol vessels, anchor handling vessels, high speed ferries and vessels for a number of industries, including offshore, military and para-military, commercial shipping and fishing. Strategic Marine have designed and constructed over 270 vessels, including 60 exported to Singapore and 15 to Malaysia. Sales have forced Strategic Marine to become a truly global organisation, having shipbuilding facilities in Australia, Singapore and Vietnam. Over 95 per cent of the organisation's production is exported.

Strategic Marine has had strong sales into Singapore recently. Managing Director International Business Ron Anderson notes that the Singapore-Australia Free Trade Agreement (SAFTA), which came into effect in July 2003, really opened up the government procurement market in Singapore. "It is all so much easier now after SAFTA."

Conclusion

Overall, the outlook for Australia's trade with Singapore is positive. SAFTA will continue to play an important role in providing a framework for strengthened commercial linkages across the board, especially for services exports, and in promoting a continued transparent and predictable investment environment. The in-built review mechanisms in our FTA with Singapore will, over time, serve to further enhance access by exporters to the prospective domestic markets and promote closer economic integration between our two economies.

There are also signs of increasing engagement by Australian exporters with the Singaporean market. Recent Austrade figures show a marked increase in new companies doing business in Singapore. In 2005-06, Austrade assisted 450 Australian companies with exports into Singapore. Of these, 137 companies were new exporters. The total export value was \$410 million. Trade is expected to further strengthen as more Australian companies identify opportunities in Singapore.

**Table 1: Australia's trade with Singapore
(A\$ million)**

| | 2000-01 | 2001-02 | 2002-03 | 2003-04 | 2004-05 | 2005-06 | % growth | |
|--|--------------|--------------|--------------|---------------|---------------|---------------|-----------------------|------------------|
| | | | | | | | 2004-05 to 2005-06 | 5 year growth |
| Merchandise exports | | | | | | | | |
| - Agricultural | 623 | 701 | 619 | 526 | 550 | 630 | 14.5 | -2.4 |
| - Minerals | 13 | 5 | 4 | 4 | 11 | 12 | 14.2 | 5.9 |
| - Fuels | 2,179 | 1,709 | 2,054 | 1,158 | 1,249 | 1,890 | 51.3 | -6.2 |
| - Manufactures | 1,284 | 1,227 | 1,088 | 890 | 986 | 1,092 | 10.8 | -4.6 |
| - STMs | 178 | 143 | 88 | 73 | 142 | 202 | 42.3 | 1.3 |
| - ETMs | 1,106 | 1,084 | 1,000 | 817 | 844 | 890 | 5.4 | -5.7 |
| - Other goods (including gold) | 1,911 | 1,296 | 894 | 483 | 565 | 610 | 8.0 | -22.3 |
| Total merchandise exports | 6,009 | 4,938 | 4,658 | 3,061 | 3,361 | 4,234 | 26.0 | -9.1 |
| Total merchandise exports less oil and gold | 2,155 | 2,328 | 1,973 | 1,602 | 1,878 | 2,042 | 8.7 | -3.2 |
| Total merchandise imports | 3,899 | 3,972 | 4,370 | 5,112 | 7,245 | 10,565 | 45.8 | 21.9 |
| Total merchandise imports less oil and gold | 2,982 | 2,982 | 3,132 | 2,886 | 3,198 | 3,746 | 17.1 | 3.7 |
| Balance on merchandise trade | 2,110 | 965 | 289 | -2,051 | -3,884 | -6,331 | | |
| Total services exports | 2,261 | 2,383 | 2,283 | 2,231 | 2,464 | 2,713 | 10.1 | 2.9 |
| Total services imports | 2,230 | 2,319 | 2,407 | 2,888 | 3,269 | 3,942 | 20.6 | 12.3 |
| Balance on services trade | 31 | 64 | -124 | -657 | -805 | -1,229 | | |
| Total exports | 8,270 | 7,321 | 6,941 | 5,292 | 5,825 | 6,947 | 19.3 | -5.1 |
| <i>Total exports less oil and gold</i> | <i>4,416</i> | <i>4,711</i> | <i>4,256</i> | <i>3,833</i> | <i>4,342</i> | <i>4,755</i> | <i>9.5</i> | <i>0.1</i> |
| Total imports | 6,129 | 6,291 | 6,777 | 8,000 | 10,514 | 14,507 | 38.0 | 18.7 |
| <i>Total imports less oil and gold</i> | <i>5,212</i> | <i>5,301</i> | <i>5,539</i> | <i>5,774</i> | <i>6,467</i> | <i>7,688</i> | <i>18.9</i> | <i>7.7</i> |
| Balance on goods and services | 2,141 | 1,029 | 165 | -2,708 | -4,689 | -7,560 | | |
| Average exchange rate (A\$ expressed in S\$) | 0.95 | 0.95 | 1.03 | 1.23 | 1.25 | 1.23 | -1.9 | |

Source: DFAT STARS database and ABS catalogue no. 5368.0.

**Table 2: Australia's services trade with Singapore
(A\$ million)**

| | 2000-01 | 2001-02 | 2002-03 | 2003-04 | 2004-05 | 2005-06 | % growth |
|--|--------------|--------------|--------------|--------------|--------------|--------------|-------------|
| | | | | | | | 5 yr trend |
| Services exports | 2,261 | 2,383 | 2,283 | 2,231 | 2,464 | 2,713 | 2.9 |
| Transportation services | 881 | 910 | 745 | 765 | 933 | 1,129 | 3.9 |
| Travel services | 920 | 940 | 867 | 833 | 810 | 802 | -3.3 |
| Communication services | 59 | np | 57 | 11 | 32 | 41 | .. |
| Construction services | np | np | - | - | - | - | .. |
| Insurance services | 34 | np | 32 | 33 | 33 | 33 | .. |
| Financial services | 75 | 78 | 81 | 81 | 85 | 85 | 2.6 |
| Computer & information services | 18 | 20 | 13 | 13 | 18 | 19 | -0.1 |
| Royalties & license fees | np | 9 | 5 | 4 | 3 | 6 | .. |
| Other business services | 227 | 263 | 404 | 424 | 488 | 529 | 19.2 |
| Personal, cultural & recreational services | 35 | 65 | 62 | 46 | 42 | 48 | -0.1 |
| Government services | 7 | 13 | 17 | 20 | 21 | 21 | 22.5 |
| Service Imports | 2,230 | 2,319 | 2,407 | 2,888 | 3,269 | 3,942 | 12.3 |
| Transportation services | 1,630 | 1,770 | 1,943 | 2,227 | 2,578 | 3,204 | 14.2 |
| Travel services | 353 | 360 | 260 | 320 | 377 | 414 | 3.3 |
| Communication services | 51 | 26 | 24 | np | np | 17 | .. |
| Construction services | - | - | - | - | - | - | .. |
| Insurance services | 29 | 28 | 28 | 29 | 29 | 29 | 0.4 |
| Financial services | 9 | 10 | 17 | 16 | 15 | 17 | 13.2 |
| Computer & information services | 24 | 16 | 16 | 20 | 28 | 16 | -0.4 |
| Royalties & license fees | 4 | 4 | 5 | np | np | 36 | .. |
| Other business services | 106 | 78 | 83 | 156 | 186 | 169 | 17.3 |
| Personal, cultural & recreational services | 16 | 21 | 25 | 26 | 34 | 33 | 15.7 |
| Government services | 8 | 6 | 6 | 7 | 7 | 7 | -0.1 |

Source: ABS catalogue no. 5368.0.

**Table 3: Top 20 merchandise exports to Singapore
(A\$ million)**

| Rank (a) | 2000-01 | 2001-02 | 2002-03 | 2003-04 | 2004-05 | 2005-06 | % growth | | |
|----------|--|---------|---------|---------|---------|---------|-----------------------|-----------------|------|
| | | | | | | | 2004-05 to 2005-06 | 5 year trend | |
| 1 | 1,779 | 1,458 | 1,818 | 981 | 996 | 1,304 | 30.9 | -9.0 | |
| 2 | 392 | 220 | 231 | 175 | 252 | 580 | 130.2 | 6.1 | |
| 3 | 1,683 | 932 | 636 | 303 | 235 | 308 | 31.1 | -31.7 | |
| 4 | 120 | 125 | 106 | 99 | 132 | 144 | 9.1 | 2.9 | |
| 5 | 134 | 157 | 148 | 118 | 101 | 115 | 13.9 | -6.4 | |
| 6 | 54 | 57 | 29 | 18 | 22 | 84 | 281.8 | -3.2 | |
| 7 | 3 | 33 | 25 | 29 | 35 | 78 | 122.9 | 60.8 | |
| 8 | 34 | 33 | 29 | 26 | 59 | 74 | 25.4 | 17.1 | |
| 9 | 65 | 50 | 50 | 52 | 58 | 59 | 1.7 | 0.0 | |
| 10 | 24 | 27 | 27 | 36 | 39 | 43 | 10.3 | 13.1 | |
| 11 | 8 | 14 | 13 | 6 | 13 | 38 | 192.3 | 21.4 | |
| 12 | 64 | 70 | 57 | 37 | 37 | 37 | 0.0 | -13.5 | |
| 13 | 150 | 108 | 60 | 61 | 39 | 36 | -7.7 | -25.2 | |
| 14 | 31 | 32 | 21 | 12 | 28 | 36 | 28.6 | -0.6 | |
| 15 | 31 | 39 | 30 | 47 | 45 | 34 | -24.4 | 3.9 | |
| 16 | 25 | 32 | 28 | 6 | 12 | 33 | 175.0 | -8.5 | |
| 17 | 26 | 40 | 37 | 19 | 26 | 32 | 23.1 | -2.6 | |
| 18 | 44 | 39 | 40 | 51 | 36 | 31 | -13.9 | -4.9 | |
| 19 | 3 | 2 | 1 | 8 | 13 | 31 | 138.5 | 73.9 | |
| 20 | 46 | 41 | 29 | 25 | 29 | 26 | -10.3 | -10.9 | |
| | Confidential items | 151 | 93 | 87 | 61 | 152 | 92 | -39.5 | -3.8 |
| | Goods re-exported after processing (b) | 73 | 270 | 169 | 116 | 176 | 210 | 19.3 | 10.9 |

(a) Rank based on 2005-06. (b) Mainly Gold re-exported after industrial processing.

Source: DFAT STARS database.

**Table 4: Top 20 merchandise imports from Singapore
(A\$ million)**

| Rank (a) | 2000-01 | 2001-02 | 2002-03 | 2003-04 | 2004-05 | 2005-06 | % growth | | |
|----------|--------------------|---------|---------|---------|---------|---------|-----------------------|-----------------|------|
| | | | | | | | 2004-05 to 2005-06 | 5 year trend | |
| 1 | 742 | 795 | 1,159 | 2,073 | 3,569 | 5,648 | 58.3 | 54.5 | |
| 2 | 175 | 178 | 62 | 134 | 458 | 1,078 | 135.4 | 43.7 | |
| 3 | 257 | 115 | 87 | 99 | 274 | 367 | 33.9 | 13.8 | |
| 4 | 694 | 814 | 666 | 505 | 405 | 345 | -14.8 | -15.4 | |
| 5 | 34 | 29 | 32 | 24 | 80 | 285 | 256.3 | 46.6 | |
| 6 | 192 | 212 | 226 | 212 | 232 | 211 | -9.1 | 2.0 | |
| 7 | 314 | 326 | 231 | 251 | 189 | 182 | -3.7 | -11.5 | |
| 8 | 10 | 14 | 29 | 69 | 131 | 179 | 36.6 | 87.5 | |
| 9 | 174 | 104 | 134 | 122 | 134 | 142 | 6.0 | -1.0 | |
| 10 | 0 | 17 | 17 | 19 | 20 | 93 | 365.0 | .. | |
| 11 | 17 | 2 | 64 | 9 | 15 | 81 | 440.0 | 40.5 | |
| 12 | 61 | 63 | 68 | 77 | 75 | 71 | -5.3 | 4.1 | |
| 13 | 9 | 10 | 16 | 12 | 35 | 64 | 82.9 | 46.1 | |
| 14 | 23 | 28 | 32 | 48 | 67 | 58 | -13.4 | 24.4 | |
| 15 | 50 | 61 | 68 | 91 | 55 | 53 | -3.6 | 0.8 | |
| 16 | 64 | 68 | 73 | 61 | 47 | 50 | 6.4 | -7.0 | |
| 17 | 40 | 48 | 59 | 60 | 54 | 44 | -18.5 | 2.4 | |
| 18 | 8 | 9 | 32 | 10 | 15 | 44 | 193.3 | 28.9 | |
| 19 | 19 | 23 | 124 | 156 | 100 | 44 | -56.0 | 28.7 | |
| 20 | 10 | 13 | 18 | 22 | 93 | 43 | -53.8 | 46.6 | |
| | Confidential items | 157 | 181 | 297 | 259 | 298 | 476 | 59.7 | 21.8 |

(a) Rank based on 2005-06.

Source: DFAT STARS database.

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