



# **PRODUCTIVITY COMMISSION STUDY INTO THE EFFECTIVENESS OF FREE TRADE AGREEMENTS**

**SUBMISSION BY  
THE AUSTRALIAN INDUSTRY GROUP  
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## EXECUTIVE SUMMARY

International trade is fundamental to the on-going growth of the Australian economy. All levels of government have a critical role to play in supporting an internationally competitive and sustainable Australian export sector.

Supporting the growth of Australian exports can be achieved by several mechanisms, but most importantly through improved market access conditions through multilateral, regional, plurilateral and bilateral trade agreements.

The Australian Industry Group remains a strong advocate for both multilateral trade negotiations and free trade agreements which deliver real benefits to Australian industry. Ai Group supports the principles of expanding free trade and recognises the many potential benefits for companies including the reduction of import duties, reduced barriers to investment, improved market opportunities and increased labour mobility.

However, the existence of trade agreements in, and of, themselves is not sufficient to fully realise the potential of Australia's export growth. Further, while acknowledging that FTAs cannot alone resolve all the barriers which confront Australian companies in the international trading environment, the potential benefits of FTAs are not being fully realised by Australian exporters.

How the Government can strengthen the linkages between market access negotiations, trade and investment facilitation and market development, strategic consultation and resources for Australian companies to better realise these opportunities needs further development and resources.

It would be difficult to simply conclude that the free trade agreements which Australia has implemented to date are highly effective, if one of their key objectives is to deliver frameworks which increase the amount of Australian exports through facilitating freer and cheaper trade with our major trading partners.

It is Australian industry's ability to capitalise on the agreements' provisions which is key to making FTAs effective in delivering their objectives.

## INTRODUCTION

The Australian Industry Group (Ai Group) welcomes the opportunity to provide comment to the study being undertaken by the Productivity Commission on the effectiveness of bilateral and regional trade agreements.

Ai Group, with over 10,000 members, is a leading national industry body representing various sectors including manufacturing, engineering, construction, automotive, food, transport, information and communication technology, call centres, labour hire, printing, defence and aerospace, mining equipment and supplies, and other related service industries.

Ai Group has national, regional and local profiles with offices located in Adelaide, Brisbane, Canberra, Sydney and Melbourne, as well as regional centres and an affiliated office in Perth. Ai Group is closely associated with more than 50 other employer groups and has long standing links with over 80 international organisations. Together, Ai Group and its affiliates represent the interests of approximately 60,000 businesses which employ in excess of 1.2 million staff across Australia and the world.

In its role as representative of Australian industry, Ai Group fully appreciates the importance of open world markets for Australia's development and prosperity. International trade is fundamental to the on-going growth of the Australian economy. In this regard, all levels of government have a critical role to play in fostering an environment that supports an internationally competitive and sustainable Australian export sector.

## AUSTRALIA AND INTERNATIONAL TRADE

Exports are a critical component of the Australian economy. Beyond furthering Australia's economic development through growth and paying for imports, exporting assists Australian companies to increase their competitiveness and helps them to access global innovation and technology as well as new management and marketing techniques.

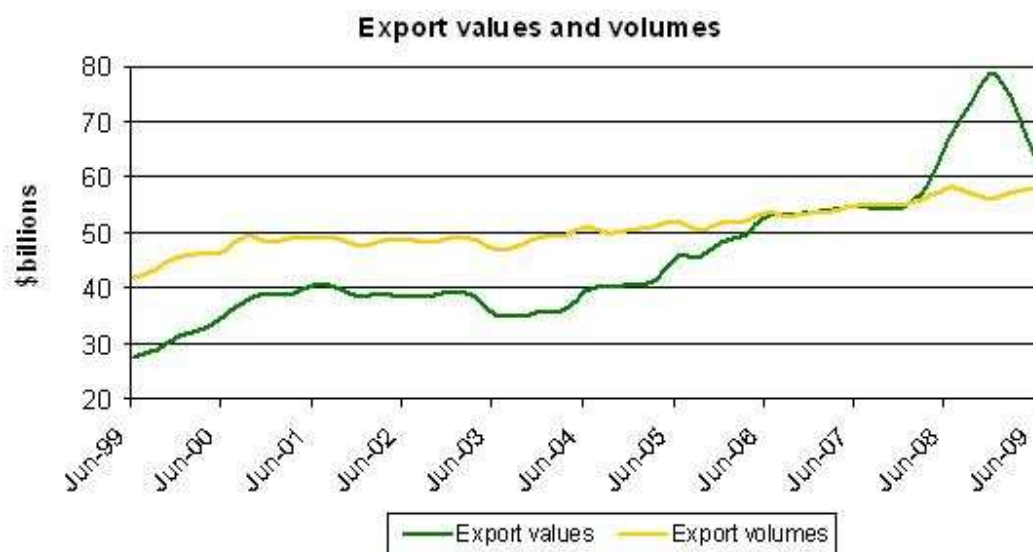
The 2008 Mortimer Review of Export Policies and Programs ("Mortimer Review") concluded that a nation's export performance is a measure of the capacity of its industries to successfully compete internationally. The Mortimer Review concluded that "...export industries and successful exporters within industries have higher productivity levels than those focused only on the domestic market".

However, as few as one in twenty Australian businesses export, a figure lower than in comparable industrialised economies. Substantially increasing the number of exporters, as well as the volume of exports, remains a fundamental goal for Australian industry.

To create an export growth environment, Australian industry relies upon appropriate domestic and foreign policy settings to promote an internationally competitive economy. Supporting the growth of Australian exports can be achieved by several mechanisms, but most importantly through improved market access conditions through multilateral, regional, plurilateral and bilateral trade agreements and complementary programs which support the development of markets to which access has been expanded.

Australian industry is facing increased pressure from global competition at home and abroad. Through the last two decades of unilateral trade liberalisation, Australia has become one of the most open economies in the world with average tariffs at less than 3.9 per cent. This domestic structural change has contributed to the liberalisation of the Australian economy, providing increased market access to importers and an almost free flow of imported goods and services.

Australian export income for the 2009 calendar year was valued at \$27.4 billion, being 10 per cent lower than in 2008. This demonstrates that Australian exporters are experiencing a slowing of overseas orders due to flat demand in international markets, as well as lower export prices in some (non-mining and energy) sectors and a fall in business investment.



Source: DIISR based on ABSCat.No.5302.0

The above figure indicates that there has been a modest increase in export volumes since January 2003. There have been four new free trade agreements come into effect (Singapore, Thailand, the United States and Chile) during this period.

The Mortimer Review characterised Australia's export performance as disappointing and found "...the growth of export volumes has been markedly slower in this decade than in the previous two decades. Australia has lost global market share in

manufactures, services, agriculture and resource exports. After rising rapidly in the 1980s and 1990s, the share of exports in our GDP has declined.”

In this increasingly competitive global environment Australian exporters are also carrying the burden of a relatively high Australian dollar. Domestically these pressures have been compounded by the tightening of business credit, making it more difficult for companies to fund their own export development opportunities. Given global economic settings and expected continued high commodity prices this situation is not expected to change in the near future.

With the continued stalling of the World Trade Organization’s Doha Round it is important that Australia seeks to broaden its market access to as many of our key trading partners as possible. For Australia’s trade policy to be most effective in terms of fostering an environment that supports an internationally competitive and sustainable Australian export sector (through market access gains and removing distortions in the global economy), progress will need to be made across all trade policy environments: multilaterally in the WTO; regionally through existing and future fora; and bilaterally through comprehensive free trade agreements.

It is critical in this context, that industry gains reciprocal and unimpeded access to export markets and, furthermore, that this access provides Australia with competitive positioning in the complex web of international trade agreements. This objective is imperative when viewed in light of the recent global trend towards a return to protectionism.

The World Bank reported, disappointingly, that 17 out of the G20 economies had implemented new trade-restrictive measures at the height of the global financial crisis, in the six months prior to April 2009. In the Asia Pacific region protectionism continues to pose a serious threat to trade and investment flows where some countries have taken deliberate trade policy positions which illustrate a return to protectionist practices of the past.

Despite US Congressional assurance that the Buy American provisions in the American Recovery and Reinvestment Act would be applied in a manner consistent with United States’ obligations under international agreements, Australian exporters have advised that they are being penalised for not being American.

Some protectionist measures faced by Australian companies, while legal under the current World Trade Organisation rules, can only serve as a backward step for global trade. This was demonstrated by the United States’ decision to reintroduce the Dairy Export Incentive Program which permits the US Department of Agriculture to pay cash to US dairy exporters as bonuses, allowing them to sell US dairy products at prices lower than the exporters’ costs to produce them.

Beyond new protectionist measures taken by some countries, Australian companies are facing a difficult global culture of offsets. Although previously seen mainly in the

Defence sector, offsets are also being used in infrastructure and construction activities to “balance” foreign contracting income with local content. Such restrictions diminish competition and efficiency in the contracting process, and ultimately prevent international trade from delivering its multiplier effect which in turn stimulates the world economy.

In this time of early economic recovery, it is imperative that international trade flows remain open and fair as Australia increasingly relies on exports to support growth as the world begins to emerge from the economic downturn. In this regard, comprehensive free trade agreements have an important role to play to open up opportunities for Australian exporters and investors to expand their business interests into key markets, especially those in Asia which have experienced continued growth during the last 18 months of the global recession.

## **FREE TRADE AGREEMENTS AND AUSTRALIA**

Ai Group supports the negotiation of free trade agreements (FTAs) that are comprehensive, both in scope and coverage, and which deliver clear benefits to Australian industry.

FTAs can promote stronger trade and commercial ties between nations which are party to the agreement and can, in light of setbacks in the current multilateral trade negotiations, also speed up trade liberalisation by delivering gains faster than through multilateral or broader regional processes.

It is expected that a comprehensive FTA would deliver outcomes which:

- are WTO consistent, meaning that among other principles that for merchandise trade the FTA must cover “substantially all trade”, and services trade must have “substantial sectoral coverage” and eliminate “substantially all discrimination”;
- are WTO-plus, or in other words, deliver liberalisation more rapidly and fully than could otherwise be achieved through the WTO; and
- the coverage and scope is as broad as practicable.

The benefits of FTAs go beyond market access and tariff reductions. Comprehensive FTA provisions can also open opportunities by addressing behind the border non-tariff barriers. This can include reducing business costs and time from streamlined regulatory arrangements such as licensing and reciprocal recognition of standards and qualifications.

When reviewing Australia’s FTAs with others around the world, Mortimer concluded that Australia’s FTAs are among some of the most comprehensive. Mortimer’s review

concluded that the tariff reductions achieved under Australia's FTAs are comparable to those achieved under other FTAs. Further, that services and investment disciplines are comparable to other FTAs examined and that the institutional architecture established under Australia's FTAs is also comparable to that established under most of the examined FTAs.

Thus, starting from the premise that Australia should only negotiate comprehensive agreements, and does, FTAs can improve market access and lead to a reduction in trade barriers. They can potentially lend support to multilateral and broader regional liberalisation processes. There is also the opportunity for agreements, when crafted carefully, to further evolve over time and deliver even more benefits to Australia in the future.

Mortimer recommended that when considering Australia's future FTA partners, that the importance of achieving ambitious levels of trade and investment liberalisation be emphasised while ensuring outcomes are delivered in a timely manner and that future agreements position Australia to play a role in the emerging Asia-Pacific economic architecture. This approach supports the comprehensive nature, with the strategic focus, desired by industry of free trade agreements in creating as level a playing field as possible for international trade activities.

There is an opportunity to build on Australia's FTAs, such as the most recent ASEAN-Australian-New Zealand FTA, to lay the groundwork for more integrated regional economies with our Asia-Pacific neighbours.

Efforts, including the study of a Comprehensive Economic Partnership in East Asia (CEPEA) and the decision by East-Asia Summit (EAS) economic ministers (consisting of all ten ASEAN countries plus China, India, Korea, Australia, Japan and New Zealand) to recommend to the EAS leaders a series of practical steps to deepen and strengthen East Asian economic integration, are welcome by industry.

However it is important to note that the existence of bilateral and regional trade agreements (FTAs) in, and of, themselves is not sufficient to fully realise the potential of Australia's export growth. This is supported by conclusions of the Mortimer Review and of business perceptions of the benefits of FTAs.

In practice, it is the experience of Ai Group members that FTAs are somewhat limited in their ability to actually deliver the objective of an enhanced trading environment. While acknowledging that some ground has been gained, FTAs have not been highly effective in practice in reducing barriers between Australia and its partner countries.

Exporters to markets with FTAs are still facing serious non-tariff barriers to trade, such as quarantine and other health, safety and environmental measures, and standards which are utilised at the border to protect domestic industries.

For example, fruit exporters have advised Ai Group that Thailand has recently increased its focus on quarantine issues. Unfortunately the Thai Government's scientific capacity to implement this new focus is limited. The Australian Quarantine and Inspection Service is now, presumably at the request of the Thai authorities, screening Australian produce for a very comprehensive Thai quarantine list and denying export of any fruit with issues present. However, it is possible that these quarantine issues are already present in Thailand and this is little more than a subtle form of protectionism.

Another issue is the premature increase of tariffs when approaching quotas limits for reduced tariff treatments on certain products. Despite quotas being volume based, the Thai Government has specified a date upon which the tariffs will be raised to post-quota allowance levels. How is this possible when it is not known by what date exactly the specific quota will be met? Further, allowing such provisions in an agreement seems counter-intuitive to the objective of creating a more open trading environment.

Australian exporters in some markets are negatively affected by administrative procedures which can be used to delay import shipments and discourage competition by increasing transaction costs.

For example, we have been advised by exporters that some customs officials use inconsequential administrative errors on certificates of origin to delay shipments. Once one administrative error has been detected and the shipment delayed, undue additional scrutiny can follow and create further delays which adds significantly to the transaction costs for the exporters.

In some cases FTA implementation has not been able to fully realise the liberalisation agreed between the parties because of subsequent behind-the-border measures that act as a barrier to trade.

For example, Thailand has instituted measures relating to passenger motor vehicles which significantly reduced the potential for Australian vehicle exporters to benefit from TAFTA. Thailand's restructuring of motor vehicle excise tax applies the new excise rates on a non-discriminatory basis to all exporters. However, the fact that the rates escalate according to engine size disadvantages Australia.

Australia exported around 300 vehicles to Thailand in both 2005 and 2006, worth \$3 - 4 million, up from 79 vehicles in 2003 and 14 in 2004. Vehicle exports fell by 40 per cent in 2007 to \$1.8 million. Approximately half the value of Australian vehicle exports to Thailand came from specialised vehicles such as fire fighting vehicles and large trucks, with passenger vehicles accounting for much of the rest.

There is evidence that some provisions in FTAs have increased barriers to trade, for example rules regarding the Change of Tariff Classification (CTC). Under the Australia-United States FTA (AUSFTA), the provisions of Chapter 52 on Cotton prescribed that:



- 5201-5207 A change to heading 52.01 through 52.07 from any other chapter, except from heading 54.01 through 54.05 or 55.01 through 55.07.
- 5208-5212 A change to heading 52.08 through 52.12 from any heading outside that group, except from heading 51.06 through 51.10, 52.05 through 52.06, 54.01 through 54.04 or 55.09 through 55.10.

In practice, the effect of these provisions is that you can only access the preferential tariff treatment under AUSFTA if you sew your fabric together using cotton yarn made in Australia, which we no longer produce.

The positioning of Australia through its FTAs is vitally important when considering the ever increasing complexity of the web of preferential international trade agreements. Australian businesses have been hampered by the introduction of FTAs between third party countries. For example, the Australian dairy industry has been affected as a consequence of the New Zealand-China FTA through the effects of trade diversion. However, we understand that New Zealand is reaping minimal benefit from the tariff reductions because Chinese authorities have been refusing the Certificates of Origin required to access the preferential tariff treatment under the agreement.

For merchandise trade, costs may vary depending on the nature of the rules of origin. In this regard, Australian businesses are largely satisfied and accustomed to provisions which prescribe 50 per cent Free-on-Board value to qualify for Australian origin. Although CTC provisions can assist some products to qualify more easily, Australia does not have an exporter community which is highly educated in Harmonised System codes or customs practices to a great degree. Although this could be off-set by a freight forwarding community which had advanced education in the methods and provisions of FTAs, but to date this has not been the case.

In light of the experiences of Australian exporters, it would be difficult to simply conclude that these agreements are highly effective if their objective is to deliver frameworks which increase the amount of Australian exports through facilitating freer and cheaper trade with our key trading partners.

Therefore the importance of maximising the effectiveness of FTAs cannot be underestimated. Now, more than ever before, government support programs such as the Export Market Development Grants Scheme, TradeStart and Enterprise Connect are crucial to assist Australian businesses explore the potential of entering new markets.

## **Ai GROUP FTA EFFECTIVENESS SURVEY**

In late 2009, on the eve of the fifth anniversary of AUSFTA coming into effect and in preparation for the Productivity Commission's review, Ai Group sought its members' overall perceptions regarding the effectiveness of Australia's existing bilateral free

trade agreements and the CER with New Zealand (see **Attachment** for survey questions).

Ai Group surveyed 50 members engaged in exporting activity across several sectors including manufacturing, construction, food and beverage, production of metals, chemicals and coal, machinery and equipment, printing and publishing and homewares. In addition, ICT and retail services sectors were also surveyed.

Contributing companies ranged from small (only 2 employees) to large (more than 1000 employees) with operations based in either New South Wales, Queensland, South Australia or Victoria and annual exports valued between \$40,000 and \$1 billion. Over three-quarters of the respondents were private Australian companies, 18 per cent were overseas owned and less than 5 per cent were listed Australian companies.

Companies reported their export destinations to markets with existing bilateral free trade agreements as: New Zealand 60 per cent; USA 44 per cent; Singapore 28 per cent; Thailand 20 per cent, and Chile 16 per cent. Companies were able to select multiple export destinations.

Companies exporting to those destinations were asked to report any benefit received from preferential treatment under the provisions of the respective agreements. On average, just over one-third of exporters reported they had received any benefit from exporting to destinations with existing free trade agreements.

#### REPORTED BENEFITS OF THE FREE TRADE AGREEMENTS IN ASSISTING COMPANIES' EXPORT ACTIVITIES

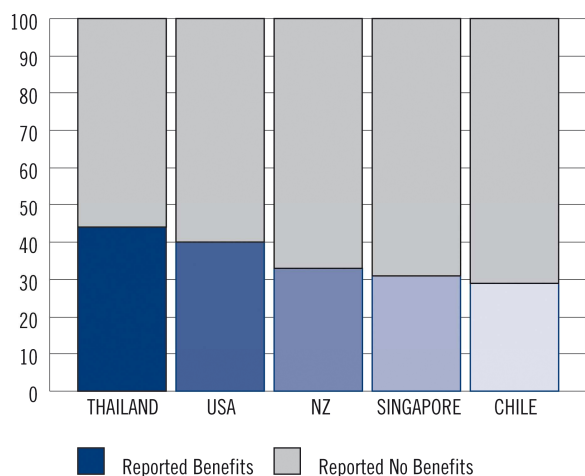


Figure reflects percentages of respondents.

Companies were then asked to rate the effectiveness of FTAs in assisting their export activities for each of the respective markets. Around two-thirds of exporters surveyed said that the FTAs had little or no effectiveness in assisting their export activities.

## Reported effectiveness of agreements in assisting export activities

Country	Moderate to Highly Effective	Low or Not Effective
USA	55 per cent	45 per cent
New Zealand	48 per cent	52 per cent
Thailand	25 per cent	75 per cent
Singapore	18 per cent	82 per cent
Chile	17 per cent	83 per cent

### Focus on AUSFTA

The Ai Group survey had a particular focus on businesses' perceptions of the effectiveness of AUSFTA. The companies surveyed export a range of products to the United States including semiconductor wafers, cables, gears and manifolds, mill heads and support rolls, printing foil, confectionary manufacturing equipment, pipe fittings, ceramic valve and bearing components, aluminium castings and machining, electrical transformers, agitators, milk and cheese products, shortbread and confectionary.

Only 40 per cent of companies exporting to the United States responded "yes" when asked if they benefited from preferential treatment under the bilateral Australia-US free trade agreement. However, when asked to rate the effectiveness of AUSFTA in supporting export activities, companies rated it the highest of all the existing agreements.

Companies were also asked to rate the effectiveness of AUSFTA in assisting with specific exporting activities.

### WHAT EXPORTERS SAID ABOUT THE AUSFTA

Activity	Moderate to Highly Effective	Low or Not Effective
Access to new export opportunities	22%	78%
Access to US domestic markets	59%	41%
Access to set up US operations/base	15%	85%
Access to US Government contracts	13%	87%
Access to US direct investment in Australia	0%	100%

Companies who are benefiting under AUSFTA reported various types of assistance, including:

- no import duties, which resulted in more competitive pricing;
- reduction in duties assisting with offsetting high logistics costs of exporting to the US;
- market opportunities for shipping direct to customers with “no extra charge” (duties);
- access to exporting component products to create value added opportunities;
- reduced costs of imported product components sourced from the US [the implication is that these components are then exported in a transformed product];
- improved access to US military contracts with no duty imposition;
- savings of time and duty reduction for US based distributors of Australian products;
- increased labour mobility with easier access to long term visas for Australian employees; and
- improved perception that Australian food products are safe, clean and green.

Companies also identified the following barriers that they see as needing remedy in terms of trading with the United States:

- government regulations and licensing of Australian products
- delays involved in US import (Customs) processing
- more assistance for export market development
- foreign ownership restrictions and defence technology export restrictions
- nomenclature (product description) issues
- imported content requirements on government contracts in the United States
- reciprocal (consistent) standards would be a great benefit
- excessive customs paperwork, the requirements of which continues to change

## Conclusions from the survey results

Ai Group appreciates that FTAs cannot alone resolve all the barriers which confront Australian companies in the international trading environment. However, the survey results suggest the potential benefits of FTAs are not being fully realised by Australian exporters.

There remains a serious disconnect when considering the level of government resources invested in negotiating FTAs, compared with the broad benefits that Australian companies are reporting from these arrangements. The survey results, which suggest that Australia's FTAs have produced little benefits for exporters, reflect the fact that companies are having difficulty in realising the complete potential that FTAs offer.

The survey results also suggest that the benefits of any free trade agreement did not specifically motivate companies to seek new export opportunities to those markets, but rather that exporters saw some moderate benefits from FTAs to their existing export markets.

Five years on from the implementation of AUSFTA, Australian exporters are still finding it tough to do business in the United States because of costs, excessive red tape, complex compliance regimes and subtle protectionism. Companies are experiencing similar problems with FTAs in other countries including Chile, Singapore and Thailand and the Closer Economic Agreement (CER) with New Zealand.

FTAs are extremely detailed, complex agreements which are crafted in legalistic language. This can make FTAs particularly difficult for SMEs to decipher and comprehend exactly "what's in it for them" and how to best capitalise on provisions delivered by the specific agreements. This highlights an opportunity for government, across all levels, to implement support programs and education to increase awareness of the benefits that FTAs can deliver.

## **FTA POST-IMPLEMENTATION SUPPORT AND MARKET DEVELOPMENT**

The implementation of comprehensive FTAs can go a long way to creating a more level playing field for Australian industry in the respective markets. However, the implementation of an agreement is not, in itself, a panacea for the challenges faced by Australian exporters in the global trading environment.

An FTA coming into effect is only part of the picture. It is Australian industry's ability to capitalise on the agreements' provisions which is key to making FTAs effective in delivering their objectives. Export market development support by governments can play a huge role in capitalising on market access gains delivered by FTAs.

The Mortimer Review reported that the Federal Government devotes a modest \$675 million per year to trade and investment programs and services. It is without doubt that the global financial crisis has been keenly felt by Australian exporters and while understanding the current fiscal pressures on the Government budget, it is imperative that support for exporters is not diminished.

Even during global economic prosperity, it can be difficult for Australian businesses to make inroads into international markets and the EMDG Scheme has, for over two decades, provided essential Government support for aspiring and current exporters.

The EMDG Scheme, administered by Austrade, is a highly effective and major support mechanism which provides financial assistance to small and medium Australian enterprises (SME) to develop new export markets. It provides critical funding to many SMEs during the costly and complex initial phases of identifying and establishing new export markets through the reimbursement of up to 50 per cent of their expenses incurred on eligible export promotion activities.

The Mortimer Review found that \$1 granted under the scheme generated between \$13.50 and \$27 in additional exports. The economic multiplier effect of the EMDG Scheme and its strong cost effectiveness as a trade development program justifies continued Government support for the scheme.

The national network of TradeStart Export Advisors is also essential in providing much needed assistance to help SMEs commence exporting, convert irregular exporters into sustainable export activity and provide assistance to established exporters to expand their markets.

TradeStart is a very modest program but has a huge impact and a great return on investment. Since 2002 it has assisted 2000 businesses to achieve more than \$750 million in exports with limited funding (funding from 2006-2010 was in total \$23.3 million). Continued funding for the TradeStart program, including delivery through Ai Group, is vital in supporting Australian exporters to maximise the potential offered by FTAs.

These two flag-ship export programs are further buttressed by funding for programs which also assist trade exposed Australian businesses. The Enterprise Connect program provides SMEs with better access to new knowledge and technologies, and enables them to be more innovative, efficient and competitive. Ai Group is seeking the current funding commitment of \$251 million over five years for Enterprise Connect to be maintained.

Ai Group warmly welcomed the Government's announcement in the May 2009 Budget of a one-off additional boost of \$50 million to the EMDG Scheme for 2008-09. This money bridged a previous funding shortfall and ensured that exporters received the full payout for eligible expenses incurred during the 2007-08 financial year, taking the total funding for that year to \$200 million.

Ultimately however, funding for the EMDG and TradeStart programs should be increased. Further improvements to EMDG processes would also be highly desirable. For example, increasing the certainty and flexibility of the EMDG Scheme will provide applicants with the confidence to invest more of their own money to support their export activities which will in turn further increase export sales and support Australian jobs.

To increase certainty for exporters under the EMDG Scheme, \$200 million per year is the minimum program funding necessary to provide the level of support needed. The stimulatory effect across the economy of a modest increase in funding of the EMDG Scheme will be far greater than the investment itself.

Under-funding of the export-oriented industry support programs, such as the EMDG Scheme, places jobs at risk and threatens the ability of exporters to undertake the activities which are so critical to the protection of market share. It also undermines Australian industry's ability to maximise the potential of the market access gains afforded by free trade agreements.

These programs facilitate exports which are vital to the Australian economy and an essential component to managing our way through the current global economic crisis. Any erosion to these schemes in the Federal Budget would result in great damage to their continued effectiveness. In light of their strong return on investment, Ai Group believes more can be done to support businesses in their export development activities to maximise the potential benefit to Australian industry from existing and future FTAs.

## **LOOKING FORWARD**

Ai Group remains a strong advocate for both multilateral trade negotiations and free trade agreements which deliver real benefits to Australian industry. Ai Group supports the principles of expanding free trade and recognises the many potential benefits for companies including the reduction of import duties, improved market opportunities, reduced barriers to investment and increased labour mobility. It is how the Government can assist companies to better access and realise these opportunities which needs further development and resources.

As Mortimer concluded, a nation's export performance is a measure of the capacity of its industries to successfully compete internationally. For Australia's trade policy to be most effective in terms of fostering an environment that supports an internationally competitive and sustainable Australian export sector, comprehensive progress will need to be made across all trade policy environments: multilaterally, regionally, plurilaterally and bilaterally.

The positioning of Australia through its FTAs is vitally important when considering the ever increasing complexity of the web of preferential international trade agreements. Mortimer recommended that when considering Australia's future FTA partners that the importance of achieving ambitious levels of trade and investment liberalisation be emphasised while ensuring outcomes are delivered in a timely manner and that future agreements position Australia to play a role in the emerging Asia-Pacific economic architecture.

There is an opportunity to build on Australia's FTAs, such as the most recent ASEAN-Australian-New Zealand FTA, to lay the groundwork for more integrated regional economies with our Asia-Pacific neighbours. It is also important that Government resources are well spent. FTA negotiations are an expensive and exhausting process, thus it is imperative to build on outcomes from previous FTAs in negotiating future regional and plurilateral agreements.

This approach supports the comprehensive nature, with the strategic focus, desired by industry of free trade agreements in creating as level a playing field as possible for international trade activities.

The Mortimer Review identified the need for Federal Government action to strengthen the linkages between market access negotiations, trade and investment promotion and facilitation and market development.

Mortimer's conclusion is supported by the findings of the Ai Group Survey on FTAs Effectiveness. While FTAs cannot alone resolve all the barriers which confront Australian companies in the international trading environment, the potential benefits of FTAs are not being fully realised by Australian exporters.

There remains a serious disconnect when considering the level of government resources invested in negotiating FTAs, compared with the benefits that Australian companies are reporting from these arrangements. The survey findings that Australia's FTAs have produced little benefits for exporters is a reflection of the fact that companies are having difficulty in realising the complete potential that FTAs offer.

All levels of government have an important role to play in fostering an environment that supports an internationally competitive and sustainable Australian export sector. Therefore, it is critical that there be increased coordination across, and within, Federal and State Government departments to maximise the realisation of the potential benefits which FTAs offer.

Specifically, Ai Group would suggest a larger role for the Department of Foreign Affairs and Trade, and Austrade in bridging the disconnect between negotiating and reaping the rewards of implementation.

The improvements in market access delivered through bilateral, regional and plurilateral free trade agreements are potentially a key driver of growth for Australian



industry. However, it is imperative that more resources are dedicated to strengthen the linkages between market access negotiations, trade and investment facilitation and market development to support Australian industry's ability to capitalise on the improvements in market access delivered by such agreements.

Ai Group would encourage the Government to provide greater resources that will assist industry's ability to maximising the effectiveness of FTAs. There is an important role to better educating industry about the opportunities arising from the negotiated outcomes and how to actually capitalise on those opportunities. This is vital because it is Australian industry's ability to capitalise on the agreements' provisions which is key to making FTAs effective in delivering their objectives.

Now, more than ever before, Government support programs such as the Export Market Development Grants Scheme, TradeStart and Enterprise Connect are crucial to assisting Australian businesses explore the potential of, and capitalising upon, new markets. In this regard it is vital that the Government continues to consult widely with industry for existing and future trade agreements, as well as the export support program arrangements.

Ai Group welcomes the opportunity to continue to work closely with the Federal and State Governments to improve Australia's export performance.

SURVEY QUESTIONS

How many people do you currently employ?

Is your company Australian or overseas owned?

In which state is your company based?

To which industry sector does your business mainly belong?

What is the total value of sales in 2008/9?

What is the total value of exports in 2008/9?

Do you sell in to any of these markets?

[Yes] [No] for [US] [Singapore] [Thailand] [New Zealand] [Chile]

Do you benefit from preferential treatment under bilateral free trade agreements?

[Yes] [No] for [US] [Singapore] [Thailand] [New Zealand] [Chile]

How would you rate the effectiveness of these agreements in assisting your export activities?

[High] [Moderate] [Low] [None] for [US] [Singapore] [Thailand] [New Zealand] [Chile]

For companies exporting to the US:

To what extent have the benefits of the free trade agreement assisted with access to the US domestic market?

[High] [Moderate] [Low] [None]

To what extent have the benefits of the free trade agreement assisted with access to US Government contracts?

[High] [Moderate] [Low] [None]

To what extent have the benefits of the free trade agreement assisted with access to new export opportunities?

[High] [Moderate] [Low] [None]

To what extent have the benefits of the free trade agreement assisted with access to US inward investment opportunities?

[High] [Moderate] [Low] [None]

To what extent have the benefits of the free trade agreement assisted with access to set up a US operation/base?

[High] [Moderate] [Low] [None]

If you have benefited from the free trade agreement with the US (answering High or Moderate to Q8), please specify how?

If exporting to the US since 2004, what were the three main products sold in 2004 compared to now?

Are there still any barriers that need remedying in terms of trade with the US?