

ACCI Survey:

Bilateral and Regional Trade Agreements (BRTAs)

Background

Following discussions between the Productivity Commission (PC) and ACCI in early May, ACCI agreed to send a comprehensive qualitative survey to its extended member network. It was thought that such a survey, given that it would be sent to more than 5,000 companies involved in international trade, would result in a large number of returns.

On 27 May, ACCI developed the survey and hosted the survey for three months on an external internet site (<http://www.acci.isecure-server.com/>) (see Attachment 1). State Chambers and bilateral business associations associated with ACCI promoted the survey to the business community. To encourage participation some State Chambers offered a number of incentives such as wine, hotel packages and other benefits for the early respondents. In ACCI's opinion, the survey was the largest and most ambitious project undertaken to date in seeking company information on the performance of BRTAs.

ACCI's State Chambers, Bilateral Business Councils, the Australian Federation of Employers and Industries and the Australian Institute of Export (AI Ex) promoted the survey to their respective members. Approximately six respondents were called directly to input into the survey to bring final numbers above 50.

Overall, the total number of respondents was disappointing. While more than 600 companies accessed the site (according to the back office analytics program) only **51 companies** (including two business councils) completed the survey. On the other hand, a number of significantly sized companies did participate in the survey including Rio Tinto, Toyota, Westpac, Pfizer, Rocla, and the ASEAN Business Council (representing companies such as Bluescope Steel and Ansell). In addition, a large number of SMEs participated in the survey, form a diverse range of sectors, and representing a diverse range of products and markets.

The survey was comprehensive, detailed and time consuming to complete. However, the results provide a snapshot of views on BRTAs. The fact that more than 5000 companies were targeted, more than 600 companies viewed the site, and only 51 companies responded does highlight that SMEs are time-poor and find it difficult to input into the BRTA process.

Almost all results include contact details in the companies that participated and are therefore verifiable. However, one of the conditions in participating in the survey was that such information would not be passed on to third parties. ACCI has included details in the survey data for completeness (see Attachment 2).

Results Summary

While the participation level was disappointing there were a number of interesting themes in the survey results. Unfortunately few were positive. The following appear to be the most significant:

- 1) SMEs are time poor and it is difficult for them to be involved in the BRTA process as much as they would like, or as much as is necessary to develop a comprehensive agenda truly reflecting business needs and desired outcomes;
- 2) That either government departments or big business or both are driving the BRTA agenda at the macro and micro level. This is was not necessarily intentional;
- 3) A small number of companies believed that FTAs had positively benefited their business, although a very large number still were sceptical and saw BRTAs as having little benefit to their business;
- 4) At best, FTAs are marginally beneficial to business. This is consistent with previous findings, the findings of other business surveys, and the views of a number of industry groups;
- 5) There appeared to be more benefit in the promotion of the bilateral FTA market as a good place to do business (rightly or wrongly), than actually benefitting firms in terms of access;
- 6) The current BRTA process is not transparent and for the BRTA agenda to have more benefit to business, both business and industry groups need to have greater input or need to be included directly in negotiations;
- 7) Significant behind-the-border issues (perhaps as important as tariff reductions) have not been adequately addressed in the BRTA process either prior to or post signing FTAs;
- 8) Practical trade facilitation measures through Austrade (such as the EMDG scheme) were of more benefit than signing an actual FTA;
- 9) Greater practical information sharing and practical information is required by business from government; and
- 10) The BRTA process may be seen as 'self-serving' (propping up government department budgets) and there may be more cost efficient processes available to government in delivering the current BRTA agenda.

General Categories

Types of Business: The Lack of Services

Most of the participants were SMEs (38/51). Two business councils and approximately 9 large corporates (representing more than 100 employees) participated in the survey.

The main discernable sector was manufacturing (11/51) though there was a wide diversity including:

- Agriculture
- Aged care
- Transport and logistics
- Wine production
- Corporate advisory
- Retail
- Mining
- Meat
- Freight forwarding
- Arts and entertainment
- Education.

Financial and legal services were under-represented in the survey, although corporate advisory services could serve as a proxy. To strengthen the services industry it may be possible to supplement findings of the survey with input from the Australian Services Roundtable (ASR).

According to the findings from a Policy Forum at the Crawford School in which the ASR participated, the following key themes were discernable (attached at Attachment 3 (as an 'in confidence' email)). However, ACCI is not a direct member of the ASR. Key themes (see Attachment 3):

- 1) Business Establishment issues are a key concern to the services industry. This is consistent with the findings of ACCI's survey in which behind the border (BTB) issues loomed large (see below);
- 2) Professional recognition, licensing and liability (other BTB issues) also are a key concern for the services industry in negotiation BRTAs and should be sought in the outcomes of any agreement;
- 3) The ASR supports carving out sensitive areas (which is consistent with ACCI's findings);
- 4) The ASR supports critical mass agreements.

All points are consistent with the findings of ACCI's survey as discussed below. However, Points 3) and 4) support one of the underlying findings of ACCI's survey which is that there is

growing frustration about the outcomes of BRTA negotiations, with companies believing there is currently little benefit for them in BRTAs and that new approaches should be adopted (see below).

- 5) The policy and bureaucratic space occupied by BRTAs has the potential to crowd out other options, including: multilateral (WTO); education and capacity building (transparency reporting, APEC, aid for trade; trade promotion and development (Austrade) and unilateral trade reform;
- 6) The heritage of negotiation within BRTAs was often not conducive to finding solutions to complex services issues which often go deep into a [bilateral] domestic reform agenda;
- 7) That BRTAs are possibly the cause of productivity stagnation, and BRTAs were mildly beneficial, though for most businesses BRTAs have little effect; and
- 8) There was a need to revitalise the reform agenda.

ACCI's survey findings were consistent with these points though the focus may be slightly different. For example, many companies, close to all suggested that trade promotion and trade development (through the Export Market Development (EMDG) Scheme) was more beneficial than FTAs. Further, other constructive solutions were needed to determine that the policy outcomes of BRTAs included businesses. For the most part, BRTAs have little effect for Australian business.

The issues of promoting a wider reform agenda were not canvassed in the ACCI survey but one key theme was that the current BRTA agenda urgently needs reform.

Findings

Overseas markets

Given the diversity of participants it was not surprising that there was a wide diversity in primary overseas markets. No discernable trends were apparent although the US, Singapore, China, India, Thailand and New Zealand featured fairly consistently in responses.

Impact of FTAs

Where a positive impact on business of an FTA was claimed, almost all FTAs were touched upon, although this may have been a mistaken interpretation of the question, and business was referring to the FTAs that they use in exports. For example, it is difficult to see at such an early stage how AANZFTA could be benefiting although this is possible. Balancing these responses was the claim by 27/51 that FTAs had no positive impact (left blank or explicitly stated). On balance, it may be possible to claim that BRTAs had little effect.

Negative impacts were not sufficiently touched upon, although there were a number of references in the commentary to the negative effect of TAFTA, and there were concerns (also in the commentary) of third markets accessing cheaper tariff preferences under Australia's BRTAs.

Reference was also made in the commentary and in other survey questions, to the negative impact that increased regulation had on business.

More concrete data was received on whether a new export market had resulted from a BRTA. Solidly the response was 'no' (29/51).

In the responses to detailed questions the US FTA appeared to receive the most positive factual data on benefits to business.

Detailed questions

Services exports under FTAs appeared to be limited, but nonetheless in some cases were significant. This is particularly the case with the earlier FTAs (US and Singapore).

Cheap imports were referenced in many of the FTAs but with little detail.

Solidly, no tangible benefits from easier FDI were apparent (42/51).

Regulation and performance of Government

13/51 respondents said that regulatory costs had been 'marginally reduced' through FTAs. On the other hand, 31/51 said that regulatory had not reduced and in some cases had in fact risen.

There was a slightly strong negative appraisal of the government's current approach in terms of whether:

- a) There was effective communication from government; and
- b) There were enough opportunities to input into FTAs.

In response to a), 18/48 (3 companies left blank), said that the government does effectively communicate the benefits of opportunities of FTAs.

30/48 said the government could do much more.

In response to b), 19/48 (3 companies left blank), said that there were enough opportunities to input into FTAs (but 7 said they were too busy to participate).

26/48 said the government does not provide enough opportunities.

Detailed commentary responses

From this point forward in the survey respondents were given less of a choice option in the survey and were asked to provide more detailed commentary on a range of issues (such as costs, performance, suggestions). Some of the real benefits of the survey does lie in this commentary.

Barriers not addressed

In response to this question, some of the following responses were received:

- 1) An outcome to the China FTA is eagerly anticipated (4 responses with 1 strongly opposed);
- 2) Non-tariff barriers not addressed (Thailand and Singapore and others).

Other benefits of BRTAs

One common theme coming through in the survey about the BRTAs was that rightly or wrongly, they appeared to create a different mentality about the FTA country or region. In particular, BRTAs appeared to encourage both sides that there was a feeling of closeness and positive engagement, as if the governments had 'ticked off' on a positive trading relationship.

This is an important finding, for if this is accepted as a dominant theme, then non-comprehensive FTAs would presumably achieve the same outcome. On the other hand, the last respondent suggested that once an FTA was signed many of the key issues (from this particular business perspective) tend to be forgotten (ie. Services access in Singapore). Further to this claim, one respondent suggested that DFAT and other government departments needed a benchmarking process in which outcomes were required of FTAs even after an agreement had been signed.

It should be mentioned that just as many companies suggested that there were no additional benefits.

Integration into the Asia-Pacific

24/47 said FTAs had not helped them integrate into the Asia-Pacific; 16/47 said it was unclear; and only 6/47 said that FTAs had helped them. This is a staggering outcome given that most of Australia's FTAs are with regional partners.

Costs

This was one of the least successful questions in the sense that companies did not usually input specific details of costs. However, for those that responded there were significant costs to participate in the FTA consultation processes.

a) Understanding

In respect to familiarity costs, responses were consistent with the above that there were costs in terms of understanding the agreements. One respondent suggested that there needs to be a bulletin sent out to all companies registered as being interested in that particular FTA, and one respondent suggested there needs to be greater coordination between departments.

b) Altered supply decisions

As to whether there were altered supply decisions, the response was mixed although one dominant theme was that an FTA promotes beneficial business perceptions. However, overall it is difficult to draw any conclusions about altered supply decisions. Some companies said no, some unclear, some said there were some costs. The cost responses were the most vocal. One company suggested that there had been a significant increase in shipping rates as a result of FTAs under a “peak trade adjustment”. This is an important comment worth investigating.

c) Origin of goods and standards

Administration costs in determining origin of goods claims and conforming to standards were listed as a significant cost to business.

d) Foreign Investment Rules

Costs in understanding foreign investment rules were claimed as costs, though many companies did claim that this did not apply to their business.

However, taken as a theme of practical trade facilitation benefits, of which the BRTA agenda does appear to be lacking (as seen below and touched upon above), perhaps greater thought and support from business could be achieved in this area.

e) Tender costs

Did not seem to have any consistent findings.

f) Increased competition

A number of companies claimed that this was a serious concern. In addition, the issue of ‘third countries’ accessing Australia’s bilateral FTAs was taken to be of concern. This issue was readdressed in h) negative impact.

g) Other costs

Did not seem to have any consistent findings. Although some companies did say there were some costs. One company mentioned the costs of certification and certificates of origin.

h) Negative impact

Some companies picked up on trade diversion and increased competition under the NAFTA agreement. Some companies mentioned cheaper imports from Malaysia which may mean increased competition from 'third countries' touched up in f). One company mentioned FTAs were a waste of time and money which is a theme that will be touched on below.

Improvements

i) How to get more benefits from BRTAs

Some of the consistent themes of the survey were reinforced in responses to this question. These themes were:

- 1) Greater consideration of the impact on SMEs was needed;
- 2) Much more money and time needs to be invested in helping business to understand and benefit from FTAs;
- 3) Greater consultation with the business sector;
- 4) Develop ways to simplify the regulatory costs;
- 5) Ensure that trade equity is achieved;
- 6) Adopt a more strategic approach based on actual trade flows and prioritise Australia's FTAs with countries that have signed FTAs leading to potential competition and trade diversion (eg. Korea and the U.S.);
- 7) Less focus on tariff issues and greater consideration of BTB issues;
- 8) Put the money involved in FTAs into the SME/ business sector.

j) How to get more out of consultation

The greater inclusion of industry bodies in the FTA process was cited as a means to get more out of consultative processes. One company suggested establishing a website that they could input into the process. Greater inclusion of business in the process appeared to be the dominant theme.

k) Improving transparency

Greater inclusion of business was a key theme here. One company claimed that there was a claim of transparency but in fact details of the FTA process were hidden. This is consistent with a key theme of the survey. That is, rightly or wrongly, there is a feeling of not being included in the FTA process from business and the belief that the process is not transparent.

One company suggested, in a later answer, that DFAT information sessions were a waste of time and that the information available was only marginally better than what can be found on the internet.

Some constructive solutions were suggested including that there is greater utilisation of industry body knowledge, that a centralised information process is established, and that an “expert” be established for major commodities and present the industry view to negotiators and also present finding to industry.

Current approaches and other government assistance programs

One of the key themes here was that government assistance in negotiating FTAs (ie. The costs) and the approach could be reviewed. It was widely accepted that the government should attempt to rationalise the rules of all Australia’s FTAs.

Secondly, other programs such as the EMDG scheme were seen to be more beneficial than FTAs in assisting business to gain access to overseas markets.

Finally, FTAs were seen to be either marginally significant or not significant to business.

Rationalising FTA Rules of Origin

30/40 respondents said that the government should seek to rationalise the rules of all of Australia’s FTAs.

10/40 said this was not possible and that all FTAs were different.

Similar findings resulted in harmonising the rules of origin across Australia’s FTAs.

Comprehensive FTAs

15/42 said FTAs should be more comprehensive.

17/42 said the current approach was fine.

10/42 said the FTAs should be less comprehensive.

In other words there was almost a rough balance of companies believing the current approach was fine, more comprehensive and less comprehensive. This unusual finding may be explained in a number of ways:

1. That more issues need to be included in FTAs (given that the government promotes comprehensive FTAs anyway);
2. That the current approach is fine; or

3. That it is now possible to consider alternatives to 'comprehensive FTAs' as understood in the sense of the government negotiating 'comprehensive FTA'. It is unlikely to mean that less 'issues' such as BTB issues should be included, although it may mean that sectoral carve outs are possible.

Highest priority to improve business

This response should be read in combination with the benefits of 'Austrade assistance' (below) and in combination with some of the previous themes raised.

There was such a diversity of response that it is hard to discern any key themes unless it is read in the way suggested above. Some of the key responses included:

- 1) Greater complementary work and cooperation by government with businesses and industry bodies;**
- 2) Address AQIS and biosecurity barriers;
- 3) Educate SMEs on how to benefit from FTAs;**
- 4) Reduce regulation, paperwork, and export taxes in FTAs;**
- 5) Provide business leads and greater practical information to business from FTAs, and provide more targeted information;**
- 6) BTB issues;**
- 7) More practical government assistance (in wine and education market for example);**
- 8) Negotiating other FTAs with key strategic markets such as China and South America;
- 9) Harmonise the Rules of Origin; and
- 10) Privatising the registration of veterinary medicines (?);

1), 3), 4), 5), 6) and 7) are very consistent with the survey findings. One positive suggestion by one company in relation to greater education of the business sector was that all 'pre-negotiation' information should be published as a general business guide to doing business in that market. They were of the belief that taxpayers should not be subsidising DFAT to have this knowledge about markets without passing it on to business.

In addition, the practical trade facilitation programs were highly rated as more significant to business than FTAs. A number of references to practical Austrade programs (such as EMDG) was referenced.

Moreover, consistent with the findings that FTAs provided an 'atmosphere' of positive trade relations only, one company mentioned a survey that is undertaken annually. That survey found:

- 1) In the 3 years prior to FTA introduction there were high expectations of positive benefits from certain FTAs (70% responding positively);
- 2) After the first year that positivity was reduced to less than 40%; and

3) The negative response rose dramatically to 60%.

This report is available on request.

Austrade and EMDG Support

Consistent with the findings above, EMDG was consistently rated as being of more benefit to business than FTAs. However, whether the trade promotion activities was of significant support was less clear.

18/42 of respondents said that Austrade support and FTAs are not of significant benefit to their business.

22/42 said that Austrade support was as good as or better than FTAs.

This is supported by the claim that 24/38 of businesses said that EMDG was as good as or better than signing FTAs.

Concluding Themes: ACCI Summary

A number of key themes come through the survey findings.

First, at best, the current BRTAs are seen as marginally significant to business. One of the key benefits however, appears to lie, rightly or wrongly with the perception that once an FTA is signed, doing business with that country or region has received the governments' imprimatur. This is interpreted by businesses as an acceptable place to do trade and do business. However, after an agreement has been signed, the benefits are reduced and behind-the-border (BTB) issues in that market become more significant. Timelines should be placed on achieving outcomes in relation to these BTB issues, or should be incorporated in the BRTAs before being signed. Further, a key question should be asked about whether it is the government's role to 'direct' and provide an imprimatur on which economies are best to do business with. This relates to the issue of greater strategic thought being required to which FTAs with which countries the Australian government should be targeting and greater inclusion of business in the process.

Second, the BRTA is not seen as transparent and greater inclusion of business is required. How this can be achieved is difficult to ascertain, although a number of interesting proposals were canvassed such as creating "expert" industry knowledge pre- and post-FTA negotiations so that business is able to access this knowledge; including industry bodies in the negotiation process; and providing a web interface so that business can continuously input into the process.

Third, the BRTA process could be seen as either 'self-serving' and/or has the capacity to crowd-out other options. For example, driving the trade liberalisation agenda on the basis of

comprehensive FTAs (largely dependent on partner approval) when other options may more appropriate such as focusing greater resources in negotiating FTAs that include greater access to in-market and non-tariff issues, or providing greater financing to business and other trade facilitation bodies. In other words, the FTA agenda is largely driven by a bureaucracy with little access to business plans despite its best efforts. Moreover, it may be possible to achieve comparable outcomes at less (or more effective) costs. There are two aspects to this, firstly, domestic and secondly, international.

It is consistent with the findings of the survey that government agencies' claims it is driving a trade agenda based on business priorities is untrue. Relatedly, such a justification can be used to prop up budgets and hide costs (in promoting outreach activities in bilateral markets) in an agenda that much of business does not feel it is a part of. It is important that all these points are addressed in the PC's BRTA review. It is in this respect that the BRTA process could be 'self-serving'.

Importantly, business claimed that greater emphasis needs to be placed on practical trade-facilitation, either within or without the BRTA process. Once again, significant costs savings could be achieved through reducing costs in federal government departments associated with the BRTA process and moving these costs into practical business facilitation programs, or into multilateral, education and capacity building programs.

More funding, and more appropriate means of communication are required to educate business on how they are able to 'tap-into' the supposed strategic benefits of BRTAs. Currently, particularly within the SME sector, Australian businesses are time poor and unable to attend meetings related to FTA negotiations and information sessions about the benefits. This is also worrying in terms of information-flows related to FTAs. Without business input it is hard to see who exactly is directing the BRTA agenda and for what purpose.

The survey highlights that a major reform of the BRTA agenda is required and the findings are consistent with the findings of the services sector and a recent survey completed by the Ai Group in which approximately 50 companies saw little to no benefit in the FTA process.